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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in A8 New Media Group Limited (“**Company**”), you should at once hand this circular and the enclosed form of proxy to the purchaser or transferee, or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for any securities of the Company.



A8 New Media Group Limited
A8新媒體集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 800)

**CONNECTED TRANSACTION –
ISSUE OF NEW SHARES UNDER SPECIFIC MANDATE;
APPLICATION FOR WHITEWASH WAIVER;
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

**Independent Financial Adviser to the Independent Board Committee
and Independent Shareholders**



Terms used in this cover shall have the same meaning as defined in this circular.

A letter from the Board is set out on pages 6 to 19 of this circular. A letter from the Independent Board Committee is set out on pages 20 to 21 of this circular. A letter from the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders, is set out on pages 22 to 44 of this circular.

A notice convening the EGM to be held on Monday, 13 February 2017 at 10:30 a.m. at Suites 903–905, 9th Floor, Shui On Centre, 6–8 Harbour Road, Wanchai, Hong Kong is set out on pages EGM-1 to EGM-3 of this circular.

A form of proxy for use at the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the office of the Company’s Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at 46th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting should you so wish.

25 January 2017

RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

This circular includes particulars given in compliance with the Takeovers Code for the purpose of giving information with regard to the Group. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular (other than information relating to the Subscriber and parties acting in concert with it) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed (other than those expressed by the Subscriber and parties acting in concert with it) in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

The information in relation to the Subscriber contained in this circular has been supplied by the Subscriber. The sole director of the Subscriber, namely Mr. Liu, accepts full responsibility for the accuracy of the information (other than information relating to the Group) contained in this circular and confirms, having made all reasonable enquiries, that to the best of his knowledge, opinions expressed (other than those expressed by the Directors and the Company) in this circular have been arrived at after due and careful consideration, and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

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DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions have the following meanings:

“acting in concert”	has the meaning as ascribed to it under the Takeovers Code
“Announcement”	the announcement of the Company dated 21 December 2016 regarding, among other things, the proposed Subscription under the Subscription Agreement and the application for the Whitewash Waiver
“associate”	has the meaning as ascribed to it under the Listing Rules
“Board”	the board of Directors
“Business Day”	a day (excluding a Saturday, Sunday or public holiday and any day on which a tropical cyclone warning signal no. 8 or above is hoisted or remains hoisted between 9:00 a.m. and 12:00 noon and is not lowered at or before 12:00 noon or on which a “black” rainstorm warning signal is hoisted or remains in effect between 9:00 a.m. and 12:00 noon and is not discontinued at or before 12:00 noon) on which licensed banks in Hong Kong are generally open for business throughout their normal business hours
“BVI”	the British Virgin Islands
“Company”	A8 New Media Group Limited, a company incorporated in the Cayman Islands with limited liability, the issued Shares of which are listed on the Main Board of the Stock Exchange (stock code: 800)
“Completion”	completion of the Subscription
“Completion Date”	the date on which the Completion shall take place, which shall be the fifth Business Day after the last outstanding condition precedent (other than those condition(s) precedent which can only be fulfilled upon Completion) as disclosed in the sub-paragraph headed “Conditions precedent to the Subscription” in the letter from the Board in this circular shall have been fulfilled (or such other date as may be agreed by the Company and the Subscriber in writing)

DEFINITIONS

“connected person”	has the meaning ascribed to it under the Listing Rules
“Director”	the director(s) of the Company
“EGM”	an extraordinary general meeting of the Company convened to be held on Monday, 13 February 2017 at 10:30 a.m. at Suites 903–905, 9th Floor, Shui On Centre, 6–8 Harbour Road, Wanchai, Hong Kong to consider and, if thought fit, approve, among other matters, the terms of the Subscription Agreement, the allotment and issue of the Subscription Shares by the Company under the Specific Mandate and the Whitewash Waiver
“Executive”	has the meaning as ascribed to it under the Takeovers Code
“Grand Idea”	Grand Idea Holdings Limited, a limited liability company incorporated in the BVI whose issued share capital is 100% beneficially owned by a family trust set up by Ms. Xie Yuanbi for the benefits of certain of her family members. Ms. Xie Yuanbi is the mother of Mr. Liu and Mr. Liu is not a beneficiary of such family trust
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent board committee, comprising all the independent non-executive Directors, which has been formed to advise the Independent Shareholders as to whether the terms and conditions of the Subscription, the Whitewash Waiver and the Specific Mandate are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole and as to voting at the EGM

DEFINITIONS

“Independent Financial Adviser”	Donvex Capital Limited, a licensed corporation to carry out business in Type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Subscription Agreement and the transactions contemplated thereunder and the Whitewash Waiver
“Independent Shareholders”	Shareholders other than (i) the Subscriber and parties acting in concert with it (including Mr. Liu, Prime Century, Grand Idea, Ms. Xie Yuanbi and Ms. Wang Gang); and (ii) those who are involved in or interested in the Subscription Agreement, the Subscription and/or the Whitewash Waiver, and their respective associates
“Last Trading Day”	19 December 2016, being the last day on which Shares were traded on the Stock Exchange prior to the release of the Announcement
“Latest Practicable Date”	20 January 2017, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	30 June 2017 (or such later date as the Company and the Subscriber may agree in writing)
“Mr. Liu”	Mr. Liu Xiaosong, the chairman of the Board and an executive Director, who founded a family trust which in turn controls the exercise of 100% of the voting power of the Subscriber
“PRC”	the People’s Republic of China, which for the purpose of this circular, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Prime Century”	Prime Century Technology Limited, a company incorporated in the BVI with limited liability and owned as to 80.20% by the Subscriber. The remaining 19.80% of its interest is held by Ms. Wang Gang, who is the cousin of Mr. Liu

DEFINITIONS

“Relevant Period”	the period commencing from 21 June 2016, being six months prior to the date of the Announcement (that is, 21 December 2016), and up to and including the Latest Practicable Date
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	share(s) of the Company of HK\$0.01 each
“Share Options”	the outstanding options to subscribe for an aggregate of 46,382,338 new Shares granted to the Directors and employees of the Group and eligible persons pursuant to the Share Option Scheme
“Share Option Scheme”	the share option scheme (other than the Pre-IPO share option scheme of the Company) adopted by the Company on 26 May 2008
“Shareholder(s)”	holder(s) of the Share(s)
“Specific Mandate”	the specific mandate to allot and issue the Subscription Shares to be sought from the Independent Shareholders at the EGM to satisfy the Subscription
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber”	Ever Novel Holdings Limited, a company incorporated in the BVI with limited liability whose issued share capital is 100% beneficially owned by a family trust set up by Mr. Liu for the benefit of his family members
“Subscription”	the subscription for the Subscription Shares by the Subscriber under the Subscription Agreement
“Subscription Agreement”	the subscription agreement dated 19 December 2016 entered into between the Company and the Subscriber in relation to the Subscription
“Subscription Price”	a subscription price of HK\$0.41 per Share

DEFINITIONS

“Subscription Shares”	931,800,000 new Shares to be allotted and issued by the Company to the Subscriber at the Subscription Price pursuant to the Subscription Agreement
“Takeovers Code”	the Code on Takeovers and Mergers
“US\$”	United States dollars, the lawful currency of The United States of America
“Whitewash Waiver”	waiver from the Executive in favour of the Subscriber in respect of its obligations to extend a general offer for the securities of the Company (excluding those which are owned or agreed to be acquired by the Subscriber and parties acting in concert with it) in accordance with the Takeovers Code as a result of the Completion

In this circular, amounts denominated in RMB have been converted into HK\$ at the rate of RMB0.89 = HK\$1 for the purpose of illustration. Such exchange rate is for illustration purpose only and does not constitute representations that any amount in RMB or HK\$ have been, could have been or may be converted at such rate.

LETTER FROM THE BOARD



A8 New Media Group Limited **A8新媒體集團有限公司**

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 800)

Executive Directors:

Mr. Liu Xiaosong
(Chairman & Chief Executive Officer)
Mr. Liu Pun Leung

Registered office:

Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

Independent Non-executive Directors:

Mr. Chan Yiu Kwong
Ms. Wu Shihong
Mr. Li Feng

Head office:

23/F, A8 Music Building
No.1002 Keyuan Road, Hi-tech Park
Nanshan District, Shenzhen
Guangdong Province
The People's Republic of China

Principal place of business in Hong Kong:

Suites 06–12, 33/F.
Shui On Centre
6–8 Harbour Road, Wanchai
Hong Kong

25 January 2017

To the Shareholders

Dear Sir or Madam,

**CONNECTED TRANSACTION –
ISSUE OF NEW SHARES UNDER SPECIFIC MANDATE;
AND
APPLICATION FOR WHITEWASH WAIVER**

INTRODUCTION

Reference is made to the Announcement in which it was announced that the Company on 19 December 2016 entered into the Subscription Agreement pursuant to which the Subscriber had agreed to subscribe for in cash, and the Company agreed to allot and issue 931,800,000 Subscription Shares at the Subscription Price of HK\$0.41 per Subscription Share, subject to and upon the terms and conditions of the Subscription Agreement.

LETTER FROM THE BOARD

The primary purpose of this circular is to provide you with, among other matters, (i) further details of the Subscription contemplated under the Subscription Agreement, the grant of the Specific Mandate and the Whitewash Waiver; (ii) the recommendations of the Independent Board Committee to the Independent Shareholders in relation to the Subscription and the Whitewash Waiver; (iii) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the terms of the Subscription and the Whitewash Waiver; and (iv) the notice of the EGM.

THE SUBSCRIPTION

Major terms of the Subscription Agreement are set out below.

Date:

19 December 2016

Parties:

- (1) the Subscriber, as subscriber; and
- (2) the Company, as issuer.

Subscription Shares

Pursuant to the Subscription Agreement, the Company has conditionally agreed to allot and issue, and the Subscriber has conditionally agreed to subscribe for, the Subscription Shares at the Subscription Price of HK\$0.41 per Share.

The Subscription Shares, being 931,800,000 new Shares, represented (i) approximately 50.77% of the issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 33.68% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares (assuming there is no other change in the issued share capital of the Company from the Latest Practicable Date to the Completion Date).

Subscription Price

The Subscription Price is HK\$0.41 per Share, representing:

- (i) a discount of approximately 12.77% to the closing price of HK\$0.47 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a discount of approximately 13.14% to the average closing price of HK\$0.472 per Share as quoted on the Stock Exchange for the five consecutive trading days immediately prior to the Last Trading Day;
- (iii) a discount of approximately 8.89% to the closing price of HK\$0.45 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

LETTER FROM THE BOARD

- (iv) a discount of approximately 37.4% to the unaudited consolidated net asset value of the Company as at 30 June 2016 (“NAV”) per Share (based on the number of the issued Shares as at 30 June 2016) of approximately RMB0.583 (equivalent to approximately HK\$0.655); and
- (v) a discount of approximately 55.1% to the adjusted unaudited consolidated net asset value of the Company as at 30 June 2016 (“Adjusted NAV”) per Share (taking into account the market value of the property interest held by the Group of approximately RMB906 million according to the property valuation report as set out in Appendix II to this circular and based on the number of issued Shares as at 30 June 2016) of approximately RMB0.813 (equivalent to approximately HK\$0.913).

The aggregate Subscription Price for the Subscription shall be paid by the Subscriber to the Company in cash upon Completion.

The Company proposed the Subscription when (i) the closing price of the Shares was at a relatively low level when compared to the past 12 months; and (ii) the Hang Seng Index was fluctuating during the last 12 months preceding the date of the Subscription Agreement. The Directors considered that it is uncertain when or whether the Share price performance will improve as the overall market sentiment in the stock market in Hong Kong in 2016 was rather conservative. In addition, even the online game, music, live performance and comics market in the PRC recorded significant growth, any investment opportunities (though not yet identified as at the Latest Practicable Date) may also be of a lower valuation as the economy in the PRC is experiencing a slowing trend. As such, the Directors considered that the current timing of the Subscription may provide the Company with sufficient reserve to make timely commitment in any investment opportunity which could create value for the Shareholders as discussed under the section headed “Reasons for the Subscription and use of proceeds” below.

The Subscription Price was arrived at after arm’s length negotiations between the Company and the Subscriber with reference to the liquidity and recent trading performance of the Shares, and the financial performance and the business outlook of the Group. The average daily trading volume of the Shares during the last 12 months preceding the date of the Subscription Agreement and up to the Latest Practicable Date was in the range of approximately 0.04% and 0.69% of the number of Shares in issue as at the Latest Practicable Date. The Directors considered that in light of the thin trading volume, investors may find the Shares to be less attractive due to the difficulties in realising any potential future capital gain from the open market. As set out in the paragraph headed “Market comparable analysis” in the sub-section headed “Principal terms of the Subscription Agreement” in the section headed “Principal Factors and Reasons Considered” in the Letter from Donvex Capital in this circular, the price-to-book ratio of (i) all 23 transactions involving issue of new shares under specific mandate by companies listed on the Stock Exchange during the period from 20 June 2016, being six months prior to the date of the Subscription Agreement, and up to the date of the Announcement (“Comparables”) ranged from 0.16 to 4.15; and (ii) for the Comparables with market capitalisation (based on the number of shares in issue and the closing price of the shares of the respective Comparables as at the date of the relevant announcement) of not less

LETTER FROM THE BOARD

than HK\$500 million but not more than HK\$1,000 million (“**Market Cap Comparables**”), ranged from 0.16 to 2.56. As such, the Company’s price-to-book ratio of 0.45 represented by the discount of approximately 55.1% to the Adjusted NAV per Share is within the range of all the Comparables and/or the Market Cap Comparables. As such, it is justifiable that the Subscription Price was set at a discount to the recent closing price of the Shares.

The Directors (including the independent non-executive Directors after taking into account the opinion of the Independent Financial Adviser) consider that the Subscription Price and the terms of the Subscription Agreement are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

Conditions precedent to the Subscription

Completion is conditional on:

- (1) the passing of an ordinary resolution by the Independent Shareholders at the EGM approving the Subscription Agreement and the allotment and issue of the Subscription Shares by the Company (including the Specific Mandate);
- (2) the passing of an ordinary resolution by the Independent Shareholders at the EGM approving the Whitewash Waiver;
- (3) the Executive having granted the Whitewash Waiver and the satisfaction of any condition attached to the Whitewash Waiver granted, and the Whitewash Waiver not being revoked;
- (4) the Stock Exchange having granted the approval for the listing of, and permission to deal in, the Subscription Shares, and such approval not being revoked;
- (5) the compliance with the applicable requirements under the Listing Rules by the Company; and
- (6) all necessary consents, approvals, authorisations, waivers, or grant in accordance with any applicable laws, regulations or the articles of association to be obtained on the part of the Subscriber and its shareholders or on the part of the Company in respect of the Subscription and the transactions contemplated hereunder having been obtained and such consents, approvals, authorisations, waivers, and grant not having been revoked prior to Completion.

It is confirmed that in relation to condition (6) above, no such consents, approvals, authorisations, waivers or grant other than the Whitewash Waiver were contemplated at the Latest Practicable Date.

None of the above conditions are capable of being waived by any party to the Subscription Agreement.

LETTER FROM THE BOARD

If any of the above conditions shall not have been satisfied at or before 4:00 p.m. on the Long Stop Date, the Subscription Agreement shall cease and terminate, save and except for certain provisions relating to confidentiality, notice, costs and expenses, governing laws and certain miscellaneous matters which provisions shall continue to have full force and effect, and save for any antecedent breach thereof by any party to the Subscription Agreement.

The date of the Long Stop Date was determined by the parties to the Subscription Agreement in order to allow more flexibility by such parties in satisfying the conditions precedent to the Subscription Agreement. However, the parties to the Subscription Agreement intend to proceed to Completion as soon as practicable subject to the fulfilment of the conditions precedent to the Subscription Agreement. Any extension of the Long Stop Date will be subject to the Shareholders' approval.

As at the Latest Practicable Date, none of the above conditions had been fulfilled.

Completion

Completion shall take place on the Completion Date.

Ranking of the Subscription Shares

The Subscription Shares, when allotted and issued, will rank equally in all respects with the Shares in issue on the date of allotment and issue of the Subscription Shares including the right to any dividends or distributions made or declared on or after the date of allotment and issue of the Subscription Shares.

Mandate to allot and issue the Subscription Shares

The Subscription Shares will be allotted and issued under the Specific Mandate and is subject to the Independent Shareholders' approval.

Application for listing

Application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares.

INFORMATION OF THE PARTIES TO THE SUBSCRIPTION AGREEMENT

The Group is principally engaged in the provision of digital entertainment services, including game publishing services and music-based entertainment services as well as property investment in the PRC.

The Subscriber is a company incorporated in the BVI with limited liability whose issued share capital is 100% beneficially owned by a family trust set up by Mr. Liu, the chairman of the Board and an executive Director, for the benefit of his family members. The Subscriber is principally engaged in investment holding. As at the Latest Practicable Date, Mr. Liu was the sole director of the Subscriber.

LETTER FROM THE BOARD

REASONS FOR THE SUBSCRIPTION AND USE OF PROCEEDS

The Group is principally engaged in the provision of digital entertainment services, including game publishing services and music-based entertainment services as well as property investment in the PRC. Subject to the successful completion of the Subscription, the Group intends to acquire upstream and downstream mobile game industry chain company(ies) in 2017, accelerating the Group's pace of development in the mobile games sector.

The gross proceeds and the net proceeds from the Subscription will be approximately HK\$382.0 million and approximately HK\$380.5 million respectively. On such basis, the net price of each Subscription Share is approximately HK\$0.408. It is intended that the net proceeds from the Subscription will be utilised as further investment of the Group as and when opportunities arise, with a focus on mobile game industry chain. The Company intends to use the entirety of the proceeds from the Subscription for the future acquisition of upstream and downstream mobile game industry chain company(ies). The Board is of the opinion that mobile games sector is a relatively strong performer in the internet industry. In 2016, the Group acquired 35% of the equity interest in 北京掌文信息技术有限公司 (Beijing Jiangwen Information Technology Co., Ltd.*) ("**Jiangwen Acquisition**"), an online literature platform, fulfilling Group's layout for copyrights in respect of upstream mobile games. The Group intends to acquire upstream and downstream mobile game industry chain company(ies) through merger and acquisition, accelerating the pace of development in the mobile games sector in addition to complementing and assisting the Group's existing mobile games business.

As disclosed in the interim report of the Company for the six months ended 30 June 2016, the Group's cash and cash equivalents were approximately RMB493.0 million as at 30 June 2016, of which RMB192.5 million was/will be used for the settlement of the consideration of the Jiangwen Acquisition. Although the Group, as at the Latest Practicable Date, has not yet identified any investment target, based on the Group's internal investment criteria, the Group would prioritise the consideration of investments in PRC mobile game companies with (i) a valuation ranging from HK\$600 million to HK\$1 billion; (ii) an annual net profit in the range of approximately RMB40 million to RMB80 million; and (iii) a P/E ratio in the range of 6.1x to 18.9x. The Group's internal investment criteria in relation to the range of valuation and net profit of potential target companies were based on the Group's preference to invest in a company with a value and net profit of such range which would neither be too small to have any financial impact nor too large to be too costly for investment by the Group taking into account the financial conditions of the Group. As regards the Group's investment criteria for P/E ratio, the value of such criteria was made with reference to the acquisition activities of PRC mobile game developers by other listed companies (mainly listed A-shares companies). The Company has used its best endeavours to obtain information on the P/E ratios of such acquisition activities through the respective websites of the Shanghai Stock Exchange, the Shenzhen Stock Exchange and the Stock Exchange. 48 distinctive acquisition activities of PRC mobile game developers by other listed companies during the period of 2015 to 2016 which contain information on their acquisition activity's P/E ratio was referenced by the Company. Based on the Group's investment criteria, the Group's internal cash resources may not be sufficient for the acquisition of all appropriate investments that may be identified by the

LETTER FROM THE BOARD

Company in the future. In the event that the Group identifies suitable business or investment opportunities (though not yet identified as at the Latest Practicable Date), and does not have sufficient cash and cash equivalents on hand, the Group may lose its opportunity in an otherwise favourable development/investment. In view of the market valuation of the companies in the PRC mobile game industry as discussed above, the Company intended to raise HK\$380.5 million through the Subscription.

The proceeds of the Subscription will not be used to settle the consideration for the Jiangwen Acquisition. As at the Latest Practicable Date, RMB87.5 million was paid by the Group for the partial settlement of the aggregate consideration of RMB192.5 million for the Jiangwen Acquisition and the remaining balance of such consideration will be payable by the Group in accordance with the terms and conditions of the sale and purchase agreement for the Jiangwen Acquisition.

As at the Latest Practicable Date, the Company had not entered into any agreement, arrangement or undertaking (whether formal or informal and whether express or implied) with the Subscriber or any other party in relation to any potential acquisition of new business or assets.

Save for and subject to the successful completion of the Subscription, the Company currently has no intention for further equity fund raising in the coming 12 months from the date of this circular.

The Board has considered other alternative means of fund raising before resolving to the Subscription, including but not limited to rights issue or open offer and debt financing.

Among the possible fund raising alternatives to the Subscription available to the Company, the Board considers that the Subscription is the most appropriate fund raising method and beneficial to the Company as:

- (a) debt financing, bank borrowings and issuance of bonds would increase the finance cost of the Group and more professional fees would also be expected to be incurred due to interest expense incurred at the prevailing lending interest rates. As set out under the paragraph headed “Debt financing” in the sub-section headed “Financial alternatives of the Group” in the section headed “Principal Factors and Reasons Considered” in the Letter from Donvex Capital in this circular, the lending interest rate of The People’s Bank of China in the PRC at the Latest Practicable Date ranged from approximately 4.35% to 4.75% depending on the term of the loan. Assuming that an amount of HK\$382 million (equivalent to the estimated gross proceeds of the Subscription) was borrowed from such financial institution in the PRC, an interest expense of at least approximately RMB14.8 million would be incurred annually by the Group which would have an adverse impact to the profitability of the Group;
- (b) it would be difficult for the placing agent to seek independent third parties to subscribe for new Shares without a large discount as compared to the Subscriber due to the Shares appearing less attractive as a result of the thin trading volume of the

LETTER FROM THE BOARD

Shares during the last 12 months preceding the date of the Subscription Agreement and the difficulties for such independent third parties in realising any potential future capital gain from the open market due to the thin trading volume. As set out under the paragraph headed “Market comparable analysis” in the sub-section headed “Principal terms of the Subscription Agreement” in the section headed “Principal Factors and Reasons Considered” in the Letter from Donvex Capital in this circular, the average discount of the 23 transactions involving issue of new shares under specific mandate by companies listed on the Stock Exchange during the period from 20 June 2016, being six months prior to the date of the Subscription Agreement, to the relevant closing price of the shares was approximately 21.05%. As such, the discount of the Subscription Price of 12.77% to the closing price per Share on the Last Trading Day represented a lower discount than the average discount of such transactions; and

- (c) the Company does not wish to unnecessarily incur additional costs in the form of underwriting/placing commission for rights issue, open offer or placing (as the case may be) and certain Shareholders may not be interested in participating a rights issue or open offer.

Taking into account the above, the Directors are of the view that the equity financing by way of the Subscription is comparatively a more appropriate means of raising additional capital, and is in the interests of the Company and the Shareholders as a whole.

The Directors (including the independent non-executive Directors after taking into account the opinion of the Independent Financial Adviser) consider that the Subscription can strengthen the financial position of the Group and provide working capital to the Group to meet any future development and obligations, which is in the interest of the Company and the Shareholders as a whole.

FURTHER INTENTION OF THE SUBSCRIBER REGARDING THE GROUP

Following the Completion, the Subscriber intends to continue the existing business of the Group. The Subscriber will provide such resources within its means to support the development of the existing business of the Group. The Subscriber has no intention to introduce any change to the existing business of the Group including any redeployment of the fixed assets of the Group or terminate the continued employment of the employees of the Group.

FUND RAISING ACTIVITIES OF THE COMPANY IN THE LAST TWELVE MONTHS

The Company had not carried out any fund raising exercises during the 12 months immediately preceding the Latest Practicable Date.

LETTER FROM THE BOARD

EFFECTS ON SHAREHOLDING STRUCTURE OF THE COMPANY

The following table sets out the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately upon Completion (assuming there is no other change to the issued share capital of the Company from the Latest Practicable Date and up to the Completion Date); and (iii) for illustration purpose only, immediately upon Completion and upon the exercise in full of all outstanding share options of the Company:

	As at the Latest Practicable Date		Upon Completion (assuming that there is no other change to the issued share capital of the Company from the Latest Practicable Date and up to the Completion Date)		Upon Completion (assuming that all the outstanding share options of the Company are exercised in full and Shares have been issued pursuant thereto immediately after Completion)	
	No. of Shares	Approximate %	No. of Shares	Approximate %	No. of Shares	Approximate %
The Subscriber and parties acting in concert with it (Note 1)	617,713,398	33.66	1,549,513,398	56.00	1,571,428,308	55.86
Subscriber (Note 1)	144,571,095	7.88	1,076,371,095	38.90	1,076,371,095	38.26
Prime Century Technology Limited (Note 1)	379,496,303	20.68	379,496,303	13.72	379,496,303	13.49
Grand Idea Holdings Limited (Note 1)	87,880,000	4.79	87,880,000	3.18	87,880,000	3.12
Mr. Liu (Note 1)	5,766,000	0.31	5,766,000	0.21	27,680,910	0.98
Mr. Chan Yiu Kwong ("Mr. Chan") (Note 2)	105,000	0.01	105,000	(Note 3)	420,000	0.01
Mr. Liu Pun Leung (Note 4)	-	-	-	-	1,250,000	0.04
Ms. Wu Shihong (Note 5)	-	-	-	-	420,000	0.01
Public Shareholders	1,217,374,230	66.33	1,217,374,230	44.00	1,239,856,658	44.07
	<u>1,835,192,628</u>	<u>100.00</u>	<u>2,766,992,628</u>	<u>100.00</u>	<u>2,813,374,966</u>	<u>100.00</u>

Notes:

- Mr. Liu, the chairman of the Board and an executive Director, is the founder of a family trust which is owned by HSBC International Trustee Limited as trustee of such discretionary trust. These 617,713,398 Shares (representing approximately 33.66% of the issued share capital of the Company as at the Latest

LETTER FROM THE BOARD

Practicable Date) comprised (i) 524,067,398 Shares (representing approximately 28.56% of the issued share capital of the Company as at the Latest Practicable Date) interested or deemed to be interested by the various companies controlled by such family trust, of which 379,496,303 Shares (representing approximately 20.68% of the issued share capital of the Company as at the Latest Practicable Date) and 144,571,095 Shares (representing approximately 7.88% of the issued share capital of the Company as at the Latest Practicable Date) were directly held by Prime Century and the Subscriber respectively; (ii) 5,766,000 Shares (representing approximately 0.31% of the issued share capital of the Company as at the Latest Practicable Date) directly held by Mr. Liu; and (iii) 87,880,000 Shares (representing approximately 4.79% of the issued share capital of the Company as at the Latest Practicable Date) directly held by Grand Idea which was interested or deemed to be interested by an associate of Mr. Liu. As at the Latest Practicable Date, Mr. Liu had share options to subscribe for an aggregate of 21,914,910 Shares (“**Mr. Liu’s Options**”) granted by the Company under the share option scheme of the Company.

2. Mr. Chan is an independent non-executive Director.
3. The Shares held by Mr. Chan will represent approximately 0.0038% of the issued share capital of the Company upon Completion (assuming that there is no other change to the issued share capital of the Company from the Latest Practicable Date and up to the Completion Date).
4. Mr. Liu Pun Leung is an executive Director.
5. Ms. Wu Shihong is an independent non-executive Director.
6. Certain percentage figures included in the above table have been subject to rounding adjustments. Accordingly, figures shown as totals may not be an arithmetic aggregation of the figures preceding them.

IMPLICATIONS UNDER THE LISTING RULES

As the Subscriber is a company whose issued share capital is 100% beneficially owned by a family trust set up by Mr. Liu (the chairman of the Board and an executive Director) for the benefit of his family members, the Subscriber is an associate of Mr. Liu, a connected person of the Company. Therefore, the Subscription shall constitute a connected transaction for the Company under Chapter 14A of the Listing Rules and the transactions contemplated under the Subscription Agreement, including the issue of the Subscription Shares under the Specific Mandate, are subject to the reporting, announcement and Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

As Mr. Liu is the director of the Subscriber whose issued share capital is 100% beneficially owned by a family trust set up by Mr. Liu for the benefit of his family members, he is considered having a material interest in the Subscription Agreement and the transactions contemplated thereunder, and he abstained from voting on the resolutions of the Board approving the Subscription Agreement and transactions contemplated thereunder.

TAKEOVERS CODE IMPLICATIONS

Dealings and interest held in the Company’s securities by the Subscriber and its concert parties

As at the Latest Practicable Date, the Subscriber had confirmed that:

- (i) neither the Subscriber nor parties acting in concert with it (including Mr. Liu, Prime Century, Grand Idea, Ms. Xie Yuanbi and Ms. Wang Gang) has received an irrevocable commitment from anyone to vote for or against the Subscription and/or the Whitewash Waiver;

LETTER FROM THE BOARD

- (ii) save for the Subscription and Mr. Liu's Options, neither the Subscriber nor parties acting in concert with it (including Mr. Liu, Prime Century, Grand Idea, Ms. Xie Yuanbi and Ms. Wang Gang) holds any convertible securities, warrants or options of the Company;
- (iii) neither the Subscriber nor parties acting in concert with it (including Mr. Liu, Prime Century, Grand Idea, Ms. Xie Yuanbi and Ms. Wang Gang) has entered into outstanding derivative in respect of securities in the Company;
- (iv) there are no arrangements (whether by way of option, indemnity or otherwise) in relation to the Shares and shares of the Subscriber and which might be material to the Subscription and/or the Whitewash Waiver;
- (v) there are no agreements or arrangements to which the Subscriber or any of parties acting in concert with it (including Mr. Liu, Prime Century, Grand Idea, Ms. Xie Yuanbi and Ms. Wang Gang) is a party which relate to the circumstances in which any of them may or may not invoke or seek to invoke a pre-condition or a condition to the Subscription and/or the Whitewash Waiver (save as the conditions precedent to the Subscription); and
- (vi) there are no relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company which the Subscriber or parties acting in concert with it (including Mr. Liu, Prime Century, Grand Idea, Ms. Xie Yuanbi and Ms. Wang Gang) has borrowed or lent, save for any borrowed shares which have been either on-lent or sold.

The Subscriber has confirmed that save for the Subscription Agreement entered into by the Subscriber, it or parties acting in concert with it (including Mr. Liu, Prime Century, Grand Idea, Ms. Xie Yuanbi and Ms. Wang Gang) had not acquired or disposed of or entered into any agreement or arrangement to acquire or dispose of, voting rights in the Company in the Relevant Period.

Application for Whitewash Waiver

As at the Latest Practicable Date, the Subscriber and parties acting in concert with it (including Mr. Liu, Prime Century, Grand Idea, Ms. Xie Yuanbi and Ms. Wang Gang), taken together, directly or indirectly, own, control and have directions over 617,713,398 Shares, representing approximately 33.66% of the existing issued share capital of the Company.

Upon Completion, a total of 931,800,000 Shares will be issued to the Subscriber. The Subscriber and parties acting in concert with it (including Mr. Liu, Prime Century, Grand Idea, Ms. Xie Yuanbi and Ms. Wang Gang) will in aggregate hold 1,549,513,398 Shares. Hence, upon Completion, the shareholding of the Subscriber and parties acting in concert with it (including Mr. Liu, Prime Century, Grand Idea, Ms. Xie Yuanbi and Ms. Wang Gang) in the Company will increase from approximately 33.66% as at the Latest Practicable Date to (i)

LETTER FROM THE BOARD

approximately 56.00% of the issued share capital of the Company as enlarged by issue of the Subscription Shares (assuming that there is no other change to the issued share capital of the Company from the Latest Practicable Date and up to the Completion Date), or (ii) approximately 55.86% of the issued share capital of the Company as enlarged by the issue of Subscription Shares (assuming that all the outstanding share options of the Company are exercised in full and Shares have been issued pursuant thereto immediately after the Completion), whereby triggering a mandatory general offer under Rule 26 of the Takeovers Code. Accordingly, the Subscriber, in the absence of the Whitewash Waiver, would be obliged to make a mandatory general offer under Rule 26 of the Takeovers Code for all the Shares and other securities of the Company not already owned or agreed to be acquired by the Subscriber and parties acting in concert with it (including Mr. Liu, Prime Century, Grand Idea, Ms. Xie Yuanbi and Ms. Wang Gang). The Subscriber has made an application to the Executive for the Whitewash Waiver. The Whitewash Waiver, if granted, would be subject to, among other things, the approval of the Independent Shareholders at the EGM by way of poll.

If the Whitewash Waiver is approved by the Independent Shareholders, the maximum potential holding of voting rights of the Company held by the Subscriber and parties acting in concert with it resulting from the Subscription will exceed 50% of the voting rights of the Company. The Subscriber may further increase its holdings of voting rights of the Company without incurring any further obligations under Rule 26 of the Takeovers Code to make a general offer.

As at the Latest Practicable Date, the Company does not believe that the Subscription and the transactions contemplated thereunder, the grant of the Specific Mandate and the Whitewash Waiver give rise to any concerns in relation to compliance with other applicable rules or regulations (including the Listing Rules). If a concern should arise after the Latest Practicable Date, the Company will endeavour to resolve the matter to the satisfaction of the relevant authority as soon as possible. The Company notes that the Executive may not grant the Whitewash Waiver if the Subscription and the transactions contemplated thereunder, the grant of the Specific Mandate and the Whitewash Waiver do not comply with other applicable rules and regulations.

EGM

A notice convening the EGM to be held on Monday, 13 February 2017 at 10:30 a.m. at Suites 903–905, 9th Floor, Shui On Centre, 6–8 Harbour Road, Wanchai, Hong Kong, at which ordinary resolutions will be proposed to the Independent Shareholders to consider and, if thought fit, approve the Subscription Agreement and the transactions contemplated thereunder (including the allotment and issue of the Subscription Shares by the Company under the Specific Mandate) and the Whitewash Waiver, is set out on pages EGM-1 to EGM-3 of this circular.

A form of proxy for use at the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the office of the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services

LETTER FROM THE BOARD

Limited, at 46th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting should you so wish.

The Subscriber and parties acting in concert with it (including Mr. Liu, Prime Century, Grand Idea, Ms. Xie Yuanbi and Ms. Wang Gang), directly or indirectly, held 617,713,398 Shares, representing approximately 33.66% of the existing issued share capital of the Company as at the Latest Practicable Date. The Subscriber and parties acting in concert with it (including Mr. Liu, Prime Century, Grand Idea, Ms. Xie Yuanbi and Ms. Wang Gang) are interested or involved in the Subscription and the Whitewash Waiver and shall abstain from voting on the relevant resolutions to be proposed at the EGM to approve the Subscription and the Whitewash Waiver.

Ordinary resolutions as set out in the notice of the EGM will be put to the vote of the Independent Shareholders by way of poll. An announcement will be made by the Company following the conclusion of the EGM to inform you of its results.

RECOMMENDATION

The Independent Board Committee has been established to advise the Independent Shareholders regarding the Subscription and the Whitewash Waiver. The Independent Board Committee comprises all the independent non-executive Directors (namely Mr. Chan Yiu Kwong, Ms. Wu Shihong and Mr. Li Feng), all of whom are not directly or indirectly interested or involved in the Subscription and the Whitewash Waiver.

Donvex Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders regarding the terms of the Subscription and the Whitewash Waiver. The Independent Board Committee has approved the appointment of the Independent Financial Adviser.

Your attention is drawn to (i) the letter from the Independent Board Committee which contains the recommendation of the Independent Board Committee to the Independent Shareholders regarding the resolutions to approve the Subscription and the Whitewash Waiver, and (ii) the letter from the Independent Financial Adviser which contains its advice to the Independent Board Committee and the Independent Shareholders regarding the terms of the Subscription and the Whitewash Waiver. The Board (including the Independent Board Committee after taking the advice of the Independent Financial Adviser) considers that (i) the Subscription contemplated under and pursuant to the terms and conditions of the Subscription Agreement; (ii) the grant of the Specific Mandate; and (iii) the Whitewash Waiver, are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and recommends the Independent Shareholders to vote in favour of the resolutions for approving the Subscription Agreement and the transactions contemplated thereunder (including the allotment and issue of the Subscription Shares by the Company under the Specific Mandate) and the Whitewash Waiver at the EGM.

LETTER FROM THE BOARD

ADDITIONAL INFORMATION

Your attention is also drawn to the information set out in the appendices to this circular.

Warning: Shareholders and potential investors should note that the Subscription is subject to the fulfilment of a number of conditions, and accordingly, the transactions contemplated thereunder may or may not proceed. Shareholders and potential investors should exercise extreme caution when dealing in the Shares.

On behalf of the Board
A8 New Media Group Limited
Liu Xiaosong
Chairman and Chief Executive Director

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the text of a letter of advice from the Independent Board Committee setting out its recommendation to the Independent Shareholders for the purpose of inclusion in this circular.



A8 New Media Group Limited **A8新媒體集團有限公司**

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 800)

25 January 2017

To the Independent Shareholders

Dear Sir or Madam,

**CONNECTED TRANSACTION –
ISSUE OF NEW SHARES UNDER SPECIFIC MANDATE;
AND
APPLICATION FOR WHITEWASH WAIVER**

We refer to the circular of the Company dated 25 January 2017 (the “**Circular**”) of which this letter forms part.

Capitalised terms used in the Circular shall have the same meanings in this letter unless the context otherwise requires.

We have been appointed to form the Independent Board Committee to advise you in connection with the Subscription and the Whitewash Waiver, details of which are set out in the letter from the Board in the Circular.

We wish to draw your attention to the letter from the Board, as set out on pages 6 to 19 of the Circular, and the letter of advice from the Independent Financial Adviser, as set out on pages 22 to 44 of the Circular. Having considered the terms of the Subscription Agreement, the Whitewash Waiver and the advice given by the Independent Financial Adviser and the principal factors and reasons taken into consideration by it in arriving at its advice, we are of the opinion that the Subscription and the Whitewash Waiver are fair and reasonable, on normal commercial terms and are in the interests of the Company and the Shareholders as a whole as far as the Independent Shareholders are concerned.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Accordingly, we recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Subscription and the Whitewash Waiver.

Your faithfully

Independent Board Committee

Mr. Chan Yiu Kwong

Ms. Wu Shihong

Mr. Li Feng

Independent non-executive Directors

LETTER FROM DONVEX CAPITAL

The following is the full text of the letter from Donvex Capital Limited setting out their advice to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.



Unit 1305, 13th Floor,
Carpo Commercial Building
18–20 Lyndhurst Terrace
Central
Hong Kong

25 January 2017

*The Independent Board Committee and the Independent Shareholders of
A8 New Media Group Limited*

Dear Sirs,

(1) CONNECTED TRANSACTION – ISSUE OF NEW SHARES UNDER SPECIFIC MANDATE; AND (2) APPLICATION FOR WHITEWASH WAIVER

INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect to the Subscription Agreement, the Specific Mandate and the Whitewash Waiver, details of which are set out in the Letter from the Board contained in the circular of the Company dated 25 January 2017 to the Shareholders (the “**Circular**”) of which this letter forms part. Capitalised terms used herein have the same meanings as defined elsewhere in the Circular unless the context requires otherwise.

Reference is made to the Company’s announcement dated 21 December 2016 in relation to, among other things, the Subscription Agreement, the Specific Mandate and the Whitewash Waiver.

On 19 December 2016, the Company and the Subscriber entered into the Subscription Agreement. Pursuant to the Subscription Agreement, the Subscriber conditionally agreed to subscribe for and the Company conditionally agreed to allot and issue the Subscription Shares at the Subscription Price of HK\$0.41 per Subscription Share. The Subscription is subject to the conditions set out in the Letter from the Board.

The Subscription Shares, being 931,800,000 new Shares, represent (i) approximately 50.77% of the issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 33.68% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares.

LETTER FROM DONVEX CAPITAL

As the Subscriber is a company whose issued share capital is 100% beneficially owned by a family trust set up by Mr. Liu (the chairman of the Board and an executive Director) for the benefit of his family members, the Subscriber is an associate of Mr. Liu, a connected person of the Company. Therefore, the Subscription shall constitute a connected transaction for the Company under Chapter 14A of the Listing Rules and the transactions contemplated under the Subscription Agreement, including the issue of the Subscription Shares under the Specific Mandate, are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As Mr. Liu is the director of the Subscriber whose issued share capital is 100% beneficially owned by a family trust set up by Mr. Liu for the benefit of his family members, he is considered having a material interest in the Subscription Agreement and the transactions contemplated thereunder, and he abstained from voting on the resolutions of the Board approving the Subscription Agreement and transactions contemplated thereunder.

As at the Latest Practicable Date, the Subscriber and parties acting in concert with it (including Mr. Liu, Prime Century, Grand Idea, Ms. Xie Yuanbi and Ms. Wang Gang), taken together, directly or indirectly, hold 617,713,398 Shares, representing approximately 33.66% of the existing issued share capital of the Company.

Upon Completion, a total of 931,800,000 Shares will be issued to the Subscriber. The Subscriber and parties acting in concert with it (including Mr. Liu, Prime Century, Grand Idea, Ms. Xie Yuanbi and Ms. Wang Gang) will in aggregate hold 1,549,513,398 Shares, representing approximately 56.00% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares (assuming that there is no other change to the issued share capital of the Company from the Latest Practicable Date and up to the Completion Date). Hence, upon Completion, the shareholding of the Subscriber and parties acting in concert with it (including Mr. Liu, Prime Century, Grand Idea, Ms. Xie Yuanbi and Ms. Wang Gang) in the Company will increase from approximately 33.66% as at the Latest Practicable Date to (i) approximately 56.00% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares (assuming that there is no other change to the issued share capital of the Company from the Latest Practicable Date and up to the Completion Date), or (ii) approximately 55.86% of the issued share capital of the Company as enlarged by the issue of Subscription Shares (assuming that all the outstanding share options of the Company are exercised in full and Shares have been issued pursuant thereto immediately after the Completion), whereby triggering a mandatory general offer under Rule 26 of the Takeovers Code. Accordingly, the Subscriber in the absence of the Whitewash Waiver, would be obliged to make a mandatory general offer under Rule 26 of the Takeovers Code for all the Shares and other securities of the Company not already owned or agreed to be acquired by the Subscriber and parties acting in concert with it. The Subscriber has made an application to the Executive for the Whitewash Waiver. The Executive has indicated that it would, subject to the approval by Independent Shareholders at the EGM by way of poll, grant the Whitewash waiver.

LETTER FROM DONVEX CAPITAL

In view of the foregoing, the Company will convene an EGM to seek the approval of the Independent Shareholders of the Company on the Subscription Agreement and Whitewash Waiver. Mr. Chan Yiu Kwong, Ms. Wu Shihong and Mr. Li Feng, the independent non-executive Directors, have been appointed as members of the Independent Board Committee to advise the Independent Shareholders on the terms and conditions of the Subscription and the transactions contemplated thereunder, the Specific Mandate and the Whitewash Waiver. Being the Independent Financial Adviser approved by the Independent Board Committee and appointed by the Board, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders in this regard.

We are independent from, and not connected with, the Company or any of its substantial shareholders, directors, chief executive, or any of their respective associates, and have sufficient expertise and resources to give an opinion on the transactions. As at the Latest Practicable Date, we did not have any relationship with or interest in the Company or any other parties that could reasonably be regarded as relevant to our independence. Apart from normal professional fees in connection with this appointment as the Independent Financial Adviser, no other arrangements exist whereby we had received or will receive any fees and/or benefits from the Company or any other parties that could reasonably be regarded as relevant to our independence.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Directors and management of the Company. We have no reason to believe that any information and representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the information provided and the representations made to us untrue, inaccurate or misleading. We have assumed that all statements, information, opinions and representations contained or referred to in the Circular, which have been provided by the Directors and management of the Company and for which they are solely and wholly responsible, were true and accurate at the time they were made and continue to be true up to the Latest Practicable Date. The Company will notify the Shareholders of any material changes during the offer period (as defined under the Takeovers Code) as soon as possible in accordance with Rule 9.1 of the Takeovers Code. The Independent Shareholders will also be notified of any material changes to such information provided and our opinion as soon as possible after the Latest Practicable Date and throughout the offer period (as defined under the Takeovers Code).

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

LETTER FROM DONVEX CAPITAL

This circular includes particulars given in compliance with the Takeovers Code for the purpose of giving information with regard to the Group. The Directors jointly and severally accept full responsibility for accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

We consider that we have reviewed sufficient information to reach an informed view, to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation. We have not, however, for the purpose of this exercise, conducted any form of independent in-depth investigation or audit into the businesses or affairs or future prospects of the Company, the Subscriber and their respective associates, nor have we carried out independent verification on the information supplied. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. The Independent Shareholders will be notified of any material changes to such information provided and our opinion as soon as possible after the Latest Practicable Date and throughout the offer period (as defined under the Takeovers Code). Nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

This letter is issued for the information for the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Subscription Agreement, the Specific Mandate and the Whitewash Waiver and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving our opinion in respect of the Subscription and the Whitewash waiver, we have taken into consideration the following principal factors and reasons:

1. Background information of the Group

The Group is principally engaged in the provision of digital entertainment services, including game publishing services and music-based entertainment services as well as property investment in the PRC.

As stated in the interim report for the six months ended 30 June 2016 (“**2016 Interim Report**”), the Company will continue to (i) build the music-based entertainment industry chain and prime game publishing platform; (ii) strengthen the layout of upstream and downstream in the copyrights industry chain; and (iii) seek the incubation and operations of copyrights.

LETTER FROM DONVEX CAPITAL

Set out below is a summary of the Group's operating results and financial position extracted from the Company's annual report for the year ended 31 December 2015 and the 2016 Interim Report.

	Six months ended		Year ended	
	30 June		31 December	
	2016	2015	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)	(audited)	(audited) (restated)
Revenue				
Game-related revenue	57,072	36,050	79,401	133,736
Music-based entertainment	7,920	8,832	16,583	71,881
Rental and management fee income	27,627	23,025	52,371	26,268
	<u>92,619</u>	<u>67,907</u>	<u>148,355</u>	<u>231,885</u>
Gross profit	39,388	24,361	45,737	64,373
Profit for the period/year	16,348	5,521	21,675	9,653
	As at 30 June		As at 31 December	
	2016		2015	
	<i>RMB'000</i>		<i>RMB'000</i>	
	(unaudited)		(audited)	
			(audited) (restated)	
Non-current assets	653,499		642,781	608,664
Current assets	566,031		635,053	367,262
– Cash and cash equivalents	492,980		429,745	316,458
Total assets	<u>1,219,530</u>		<u>1,277,834</u>	<u>975,926</u>
Non-current liabilities	67,575		64,585	55,022
Current liabilities	81,967		163,906	122,493
Total liabilities	<u>149,542</u>		<u>228,491</u>	<u>177,515</u>
Net assets	<u>1,069,988</u>		<u>1,049,343</u>	<u>798,411</u>

LETTER FROM DONVEX CAPITAL

For the six months ended 30 June 2016

The revenue of the Group increased by approximately 36.4% from approximately RMB67.9 million for the six months ended 30 June 2015 to approximately RMB92.6 million for the six months ended 30 June 2016. The increase was mainly attributable to (i) the increase in revenue from game related services of approximately RMB21.0 million; and (ii) the increase in revenue of rental and management fee of approximately RMB4.6 million as a result of increased occupancy rate and unit rental. As such, the net profit of the Group increased by approximately 196.1% from approximately RMB5.5 million for the six months ended 30 June 2015 to approximately RMB16.3 million for the six months ended 30 June 2016.

For the year ended 31 December 2015

The revenue of the Group decreased by approximately 36.0% from approximately RMB231.9 million for the year ended 31 December 2014 to approximately RMB148.4 million for the year ended 31 December 2015, which was mainly attributable to (i) the downward trend of the traditional wireless music-based entertainment services; and (ii) the delay in launching several mobile games which lowered the game-related revenue. Despite the decrease in revenue, the net profit of the Group increased by approximately 124.5% from approximately RMB9.7 million for the year ended 31 December 2014 to approximately RMB21.7 million for the year ended 31 December 2015 as a result of a decrease in income tax expenses of approximately RMB23.0 million.

2. Industry overview of mobile game industry

According to the data published by China Internet Network Information Center, a non-profit organization authorized by the PRC's state competent departments to organize relevant Internet entities to jointly carry out internet development survey since 1997, in August 2016, China's mobile Internet population has reached 656 million by the end of June 2016, representing an increase of 36.56 million as compared with the end of 2015 and reached 92.5% of the China's total Internet population. Along with the increasing mobile screen size and user experiences on mobile application, mobile phone has further consolidated its position as the major access channel to the Internet in the PRC and the mobile game market continued to grow rapidly.

LETTER FROM DONVEX CAPITAL

Set out below the data in relation to the Internet market in the PRC for the six months ended 30 June 2016 published by China Culture Daily, a newspaper operated by the Ministry of Culture of the PRC, on 10 August 2016.

	Online game market	Online music market	Online live performance market	Online comics market
Revenue (RMB' billion)	83.9	2.5	8.3	7.0
Growth rate as compared to the corresponding period in 2015 (%)	24.1	43.5	77.1	209.3

As illustrated above, the online game, music, live performance and comics market in the PRC recorded significant growth for the six months ended 30 June 2016. As such, we are of the view that growth in the upstream and downstream mobile game industry is positive.

3. Reasons for and benefits for entering into the Subscription Agreement

According to the section headed “Industry overview of mobile game industry” above, the upstream and downstream mobile game industry is expected to grow with the increase in the number of internet users through mobile phone in the PRC. Therefore, the Company can capture the increase in mobile game and music-based entertainment market demand by means of its strategic expansion in mobile game and music-based entertainment business. As such, the Directors are of the view and we concur that continuous growth in the upstream and downstream mobile game industry is positive.

As disclosed in the 2016 Interim Report, the Company will continue to (i) build the music-based entertainment industry chain and prime game publishing platform; (ii) strengthen the layout of upstream and downstream in the copyrights industry chain; and (iii) seek the incubation and operations of copyrights. With sufficient funding, the Directors consider the Company can strategically expand its upstream and downstream mobile game business through business cooperation with leading developers or equity investment in upstream and downstream mobile game related corporation.

As stated in the Letter from the Board, the Board considers that the Subscription can strengthen the financial position of the Group and provide working capital to the Group to meet any future development and obligations. The net proceeds of the Subscription will be approximately HK\$380.5 million (after deducting related expenses in connection with the Subscription from the gross proceeds from the Subscription of approximately HK\$382.0 million) and utilised as future investment of the Group as and when opportunities arise, with a focus on mobile games industry. The Group intends to acquire upstream and downstream mobile game industry chain company(ies) through merger and acquisition, accelerating the pace of development in the mobile games sector in addition to complementing and assisting the Group’s existing mobile games business.

LETTER FROM DONVEX CAPITAL

With reference to the circular of the Company dated 27 July 2016, the Group entered into a sale and purchase agreement dated 13 May 2016 to acquired 35% equity interest in 北京掌文信息技術有限公司 (Beijing Jiangwen Information Technology Co., Ltd.*) (“**Beijing Jiangwen**”) at a consideration of RMB192.5 million (the “**Acquisition Consideration**”). Beijing Jiangwen and its subsidiaries are principally engaged in incubation and operation of prime copy rights, licensing of authorisation to use and adaptation to cartoons, comics, audio works, mobile games, network drama, television drama and movies. The Acquisition Consideration of RMB192.5 million shall be payable by the Group after the fulfilment or waiver (as the case may be) of all conditions in the manner specified in the sale and purchase agreement.

As disclosed in the 2016 Interim Report, the Group’s cash and cash equivalents were approximately RMB493.0 million as at 30 June 2016, of which RMB192.5 million was/will be used for the settlement of the Acquisition Consideration. With reference to the Letter from the Board, although the Group, as at the Latest Practicable Date, has not yet identified any investment target, the valuation of the companies in the PRC mobile game industry such as mobile game developers are generally ranging from HK\$600 million to HK\$1 billion based on the Company’s past experience and the recent acquisition activities of other listed companies (mainly listed A-shares companies). As such, the Group’s internal cash resources may not be sufficient for the acquisition of all appropriate investments that may be identified by the Company in the future. In the event that the Group identifies suitable business or investment opportunities (though not yet identified as at the Latest Practicable Date), and does not have sufficient cash and cash equivalents on hand, the Group may lose its opportunity in an otherwise favourable development/investment. In view of the market valuation of the companies in the PRC mobile game industry as discussed above, the Company intended to raise HK\$380.5 million through the Subscription. The Directors are of the view that the Subscription can put the Company at a better position during the negotiation process and allow the Company to make timely commitment in any investment opportunity which could create value for the Shareholders.

As such, having considered that (i) the continuous growth in the mobile game industry can be maintained; and (ii) the expansion of mobile game business of the Company is being carried out by the Company, we consider that the reasons for the Subscription is justifiable and the Subscription is in the interests of the Company and the Shareholders as a whole.

* For identification purpose only

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4. Financing alternatives of the Group

Based on our discussion with the Company, other than the Subscription, the Board has also considered the feasibilities of various fund raising methods such as (i) debt financing; (ii) placement of new Shares to independent investors; and (iii) other form of equity financing with the following reasons.

(i) Debt financing

Debt financing methods may be favourable to the Company due to the facts that (a) bank and/or other borrowings could be designated and tailored to match the Company's needs in terms of timeline and size of fund, while (b) issue of bonds would not result in any dilution effect to the shareholding structure of the Company. However, increased borrowings and bond issuance would possibly result in significant interest expenses and adversely affect the profit and the gearing ratio of the Group. As such, debt financing proposals may not be favourable and suitable for the Company based on its current financial position.

In assessing potential impact derived from interest rate if the Company adopted debt financing, we have conducted a research on the lending interest rate with reference to the information from the People's Bank of China in the PRC where the principal business activities of the Group are conducted as at the Latest Practicable Date as tabulated below:

	Interest rate for bank borrowing with less than 1 year term as at the Latest Practicable Date	Interest rate for bank borrowing for a term over 1 but less than 5 years as at the Latest Practicable Date
The People's Bank of China	4.35%	4.75%

Source: Website of the People's Bank of China (www.pbc.gov.cn)

If the Group borrows HK\$382.0 million (equivalent to approximately to RMB340.0 million) from the financial institution in the PRC, interest expense of at least approximately RMB14.8 million will be incurred annually which would have adverse impact to the profitability of the Company.

(ii) Placement of new Shares to independent investors

Given the thin trading volume of the Shares during the Review Period as further discussed under the section under "Trading liquidity of the Shares" below, the independent investors may find the Shares less attractive due to the difficulties in realizing any potential future capital gain from the open market. As such, the Directors consider that it is difficult for the placing agent to seek independent third parties to subscribe new shares without a large discount as compared with the Subscriber.

(iii) Other form of equity financing

We are advised by the Directors that both open offer and rights issue would allow the Shareholders to participate in the subscription on new Shares to be issued by the Company and maintain their respective pro-rata shareholdings in the Company. Given the thin trade volume of the Shares as further discussed under the section headed “Trading liquidity of the Shares” below, the Company would have difficulties in sourcing underwriter with reasonable underwriting fee and subscription price of reasonable discount. Furthermore, due to the thin trading volume of the Shares, certain Shareholders may not be interested in participating a right issue or an open offer.

Taking into account the above, we concur with the Directors’ view that equity financing by way of the Subscription is comparatively a more appropriate and viable means of raising additional capital.

5. Principal terms of the Subscription Agreement

Pursuant to the Subscription Agreement, the Company has conditionally agreed to allot and issue, and the Subscriber has conditionally agreed to subscribe for, the 931,800,000 Subscriptions Shares at the Subscription Price of HK\$0.41 per Subscription Share.

The Subscription Shares represent (i) approximately 50.77% of the issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 33.68% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares, assuming that there will be no change in the issued share capital of the Company (other than the issue of the Subscription Shares) between the Latest Practicable Date and the Completion.

The Subscription Price

The Subscription Price of HK\$0.41 per Subscription Share represents:

- (i) a discount of approximately 8.89% to the closing price of HK\$0.45 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a discount of approximately 12.77% to the closing price of HK\$0.47 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (iii) a discount of approximately 13.14% to the average closing price of HK\$0.472 per Share as quoted on the Stock Exchange for the last five consecutive trading days prior to but excluding the Last Trading Day;
- (iv) a discount of approximately 37.4% to the unaudited consolidated net asset value of the Company as at 30 June 2016 per Share (based on the number of the issued Shares as at 30 June 2016) of approximately RMB0.583 (equivalent to approximately HK\$0.655); and

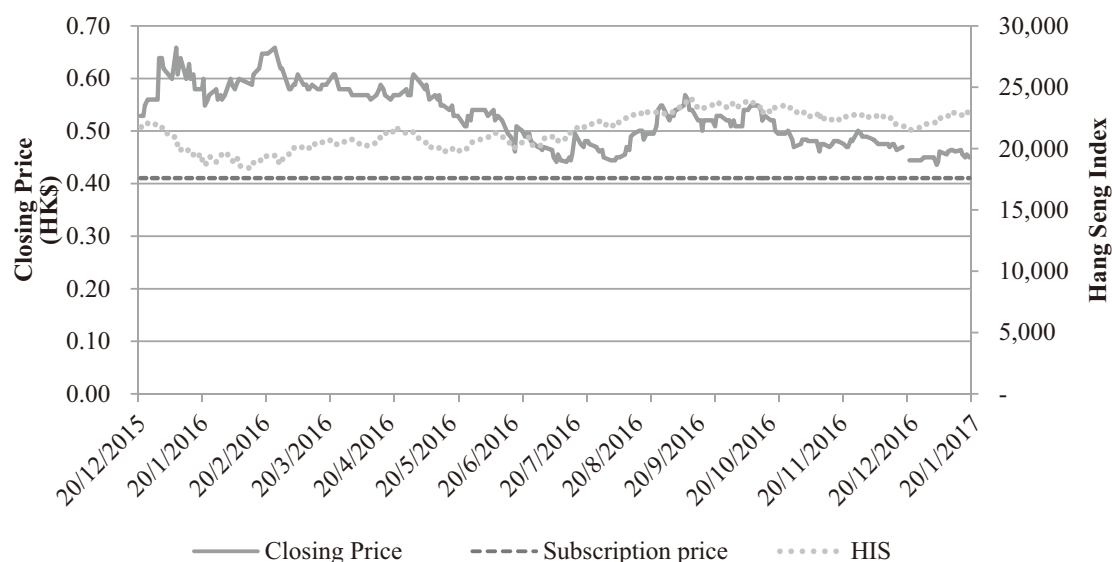
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- (v) a discount of approximately 55.1% to the adjusted unaudited consolidated net asset value of the Company per Share of approximately RMB0.813 (equivalent to approximately HK\$0.913) (the “**Adjusted NAV per Share**”) as at 30 June 2016 (after taking into account (i) the market value of the Property (as defined in the valuation report as set out in Appendix II to this circular) of RMB906 million as at 30 November 2016 and (ii) the net book value of approximately RMB358 million and RMB126 million recorded under investment properties and property, plant and equipment, respectively, as at 30 June 2016, representing a fair value gain of approximately RMB422 million on the unaudited consolidated net asset value of the Company as at 30 June 2016).

As stated in the Letter from the Board, the Subscription Price was arrived at after arm’s length negotiations between the Company and the Subscriber with reference to the liquidity and trading performance of the Shares, and the financial performance and the business outlook of the Group.

(a) Review on Share price performance

In order to assess the fairness and reasonableness of the Subscription Price, we have reviewed the daily closing prices of the Shares as quoted on the Stock Exchange during the last twelve months preceding the date of the Subscription Agreement and up to the Latest Practicable Date (the “**Review Period**”), for the purpose of illustrating the trend of the share price performance of the Shares. The chart below illustrates the daily closing price of the Shares versus the Subscription Price of HK\$0.41 during the Review Period.



Source: Website of the Stock Exchange

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As shown in the above chart, we noted that there was a general downward trend of closing price of the Shares since December 2015. During the Review Period, the lowest closing price was HK\$0.435 per share on 4 January 2017 and the highest closing price was HK\$0.66 per Share on 1 January 2016 and 12 February 2016, with an average closing price of approximately HK\$0.53 per Share. The Subscription Price of HK\$0.41 is lower than the average closing price of HK\$0.53 during the Review Period, representing a discount of approximately 22.6%.

We noted that (i) the Company proposed the Subscription when the closing price of the Shares was at a relatively low level when compared to the past twelve months; and (ii) the Hang Seng Index was fluctuating during the Review Period as illustrated in the above chart. As advised by the management of the Company, it is uncertain when or whether the Share price performance will improve as the overall market sentiment in the stock market in Hong Kong in 2016 was rather conservative. In addition, even the online game, music, live performance and comics market in the PRC recorded significant growth as discussed under the section headed “Industry overview of mobile game industry” above, any investment opportunities in these industries (though not yet identified as at the Latest Practicable Date) may be in lower valuation as the economy in the PRC is experiencing a slowing trend. As such, the Directors considered and we agreed that the current timing of the Subscription may provide the Company with sufficient reserve to make timely commitment in any investment opportunity which could create value for the Shareholders as discussed under the section headed “Reasons for and benefits of entering into the Subscription Agreement” above.

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(b) Trading liquidity of the Shares

The following table set out the trading volume of the Shares during the Review Period:

	Total trading volume for the month/ period (Shares)	Average daily trading volume for the month/ period (Shares) (Note 1)	Percentage of average daily trading volume to number of Shares in issue as at the end of relevant month/period (Note 2)	Percentage of average daily trading volume to number of Independent Shareholders as at the end of relevant month/period (Note 3)
2015				
December (beginning from 20 December 2015)	49,997,176	6,249,647	0.34%	0.51%
2016				
January	254,359,276	12,717,964	0.69%	1.04%
February	101,882,608	5,660,145	0.31%	0.46%
March	126,316,722	6,015,082	0.33%	0.49%
April	85,546,450	4,277,308	0.23%	0.35%
May	45,828,071	2,182,289	0.12%	0.18%
June	43,759,000	2,083,762	0.11%	0.17%
July	67,978,000	3,398,900	0.19%	0.28%
August	109,392,000	4,972,364	0.27%	0.41%
September	58,232,200	2,772,962	0.15%	0.23%
October	63,446,000	3,339,263	0.18%	0.27%
November	27,971,850	1,271,448	0.07%	0.10%
December	39,033,250	1,951,663	0.11%	0.16%
2017				
January (up to the Latest Practicable Date)	10,738,000	767,000	0.04%	0.06%

Source: Website of the Stock Exchange

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Notes:

1. Average daily trading volume is calculated by dividing the total trading volume for the month/period by the number of trading days during the month/period which exclude any trading day on which trading of the Shares on the Stock Exchange was suspended for the whole trading day.
2. Based on 1,835,192,628 Shares in issue as at the end of relevant month/period and up to the Latest Practicable Date.
3. Based on 1,835,192,628 Shares in issue and (i) 586,621,398 Shares held by the Subscriber and parties acting in concert with it as at 31 December 2015; (ii) 609,701,398 Shares held by the Subscriber and parties acting in concert with it as at the end of January to May 2016; and (iii) 617,713,398 Shares held by the Subscriber and parties acting in concert with it as at the end of June 2016 and up to the Latest Practicable Date.

As illustrated in the above table, the average daily trading volume during the Review Period was thin, with a range of approximately 1,271,448 Shares to 12,717,964 Shares, representing approximately 0.04% to 0.69% of the number of Shares in issue as at the Latest Practicable Date. In view of the above, we consider that the liquidity of the Shares was thin during the Review Period. In light of the thin trading volume, the investors may find the Shares less attractive due to the difficulties in realizing any potential future capital gain from the open market. As such, it is justifiable that the Subscription Price was set at a discount to the recent closing price of the Shares.

(c) Market comparable analysis

In assessing the fairness and reasonableness of the Subscription, we have identified an exhaustive list of 23 transactions involving issue of new shares under specific mandate (the “**Comparables**”) announced by companies listed on the Stock Exchange (excluding companies under prolonged suspension) during the period from 20 June 2016, being six months prior to the date of the Subscription Agreement, and up to the date of the Announcement (the “**Comparable Period**”), for comparison purpose.

With reference to the annual report of the Company for the year ended 31 December 2015, majority of the Group’s revenue was contributed from digital entertainment services, namely game-related revenue and music-based entertainment business, representing approximately 64.7% of the Group’s total gross revenue for the year ended 31 December 2015. We have attempted to compare the Subscription Price against the market valuation of other listed issuers in Hong Kong that are principally engaged in digital entertainment services, however we have not been able to identify comparable companies in similar industry.

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We have, at the best endeavor, identified the most recent transactions involving issue of shares under specific mandate announced to the public. It should be noted that all the subject companies involved in the Comparables may have different principal activities, market capitalization, profitability and financial position as compared with those of the Company. The circumstances leading to the subject companies to proceed with the subscription/placement may also be different from that of the Company. However, as (i) the terms of the Comparables were determined under similar market condition and sentiment and they might be able to reflect the recent trend of transactions involving issue of shares under specific mandate in the Hong Kong stock market; (ii) the price performance of the Shares was generally in line with the movements of Hang Seng Index during the Comparable Period; and (iii) the population of Comparables is adequate with sufficient number of samples for the purpose of comparison. As such, we consider that (i) the Comparables may provide general reference of the recent trend and terms of the transactions involving issue of shares under specific mandate under common market practice; and (ii) the comparison between the Subscription and the Comparables is an appropriate basis to assess the fairness of the Subscription Price. Details regarding the Comparables are set out below:

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Date of announcement	Company	Stock code	Fund raising method	Principal business/industry	Market capitalisation as at the date of relevant announcement (HK\$ million) <i>(Note 2)</i>	Gross proceed (HK\$ million)	Premium/ (discount) of the subscription price to the closing price of the shares for the last five consecutive trading days immediately prior to the last trading day before the relevant announcement or the date of the corresponding agreement (%) <i>(Note 3)</i>	Premium/ (discount) of the subscription price to the closing price of the shares for the last five consecutive trading days immediately prior to the last trading day before the relevant announcement or the date of the corresponding agreement (%) <i>(Note 3)</i>	Price-to-book ratio ("PB Ratio")
For comparables with market capitalisation of not less than HK\$500 million and not more than HK\$1,000 million (the "Market Cap Comparables")									
14/12/2016	Winshine Science Company Limited	209	Subscription	Manufacturing and trading of toys	602	122	(10.90)	(25.30)	1.39
28/10/2016	Kiu Hung International Holdings Limited	381	Placing	Manufacturing and trading of toys and gifts items	539	92	(13.39)	(18.52)	1.46
25/8/2016	Asian Citrus Holdings Limited	73	Placing	Planting and sale of agricultural produce and fruit juice products	775	305	(19.35)	(21.14)	0.16
18/7/2016	Luxey International (Holdings) Limited	8041	Subscription & placing	Manufacturing and trading of swimwear and related garment products	943	30	(45.95)	(45.53)	2.56
13/7/2016	Sino Golf Holdings Limited	361	Subscription	Manufacturing and trading of golf equipment	725	400	(63.23)	(59.86)	1.54

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Date of announcement	Company	Stock code	Fund raising method	Principal business/industry	Market capitalisation as at the date of relevant announcement (HK\$ million)	Gross proceed (HK\$ million)	Premium/ (discount) of the subscription price to the closing price of the shares for the last five consecutive trading days immediately prior to the last trading day before the relevant announcement or the date of the corresponding agreement (%)	Premium/ (discount) of the subscription price to the closing price of the shares for the last five consecutive trading days immediately prior to the last trading day before the relevant announcement or the date of the corresponding agreement (%)	Price-to-book ratio ("PB Ratio")
(Note 1)									
(Note 2)									
(Note 3)									
Other Comparables									
16/12/2016	Bank of Jinzhou Co., Ltd.	416	Placing	Banking	12,821	7,400	(11.20)	(9.00)	1.65
28/11/2016	Daitang International Power Generation Co., Ltd	991	Subscription	Utilities	6,897	5,925	1.92	2.51	0.56
25/11/2016	Beijing Capital Juda Limited	1329	Subscription	Property development	2,484	1,477	(23.91)	(23.91)	0.86
16/11/2016	Ozner Water International Holding Limited	2014	Subscription	Utilities	2,889	541	2.40	7.55	1.40
11/11/2016	Yue Da Mining Holdings Limited	629	Subscription	Coal and non-ferrous metal mining	266	95	31.03	35.23	0.88
28/10/2016	Vitop Group Limited	1178	Subscription	Manufacturing and trading of consumer goods	1,078	180	(17.43)	(16.59)	3.28
27/10/2016	Shanghai Dasheng Agriculture Finance Technology Co., Ltd	1103	Subscription & placing	Sale of agricultural and petrochemical products	3,699	975	(7.14)	(8.19)	1.00
24/10/2016	Sandmartin International Holdings Limited	482	Subscription	Satellite television service operator business	298	53	(47.14)	(46.67)	0.35
17/10/2016	DX.com Holdings Limited	8086	Placing	E-commerce	241	60	(5.88)	(1.39)	1.36
17/10/2016	Global Mastermind Capital Limited	905	Subscription	Investment in listed and unlisted companies	237	88	(4.26)	1.81	0.54
30/9/2016	Ngai Shun Holdings Limited	1246	Subscription	Foundation business and property development	1,211	520	6.95	5.82	4.15
26/9/2016	Sunac China Holdings Limited	1918	Subscription	Real estate developers	19,742	2,800	6.55	3.34	1.10

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Date of announcement	Company	Stock code	Fund raising method	Principal business/industry	Market capitalisation as at the date of announcement (HK\$ million)	Gross proceed (HK\$ million)	Premium/ (discount) of the subscription price to the closing price of the shares for the last five consecutive trading days immediately prior to the last trading day before the relevant announcement or the date of the corresponding agreement (%)	Premium/ (discount) of the subscription price to the closing price of the shares for the last five consecutive trading days immediately prior to the last trading day before the relevant announcement or the date of the corresponding agreement (%)	Price-to-book ratio ("PB Ratio")
21/9/2016	United Photovoltaics Group Limited	686	Subscription	Development, investment, operation of solar power plants	3,533	1,299	(20.36)	(18.80)	0.92
5/9/2016	Digital China Holdings Limited	861	Subscription	IT services	7,643	550	(16.59)	(18.99)	0.72
31/8/2016	China City Railway Transportation Technology	1522	Subscription	Civil engineering services	2,139	903	(9.40)	(8.54)	0.64
5/8/2016	Ground Properties Company Limited	989	Subscription	Provision of telecommunications retail sales and management services	1,466	170	(18.03)	(17.08)	0.48
13/7/2016	China Grand Pharmaceutical and Healthcare Holdings Limited	512	Subscription	Manufacturing and sales of pharmaceutical products	2,786	151	(1.41)	0.00	1.94
30/6/2016	Beijing Capital Juda Limited	1329	Placing	Property development	2,758	2,196	(5.44)	(6.08)	1.31
					All Comparables	Maximum Minimum Average discount	31.03 (63.23) (21.05)	35.23 (59.86) (21.18)	4.15 0.16 1.32
					Market Cap Comparables	Maximum Minimum Average discount	(10.90) (63.23) (30.56)	(18.52) (59.86) (34.07)	2.56 0.16 1.42

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Date of announcement	Company	Stock code	Fund raising method	Principal business/industry	Market capitalisation as at the date of relevant announcement (HK\$ million)	Gross proceed (HK\$ million)	Premium/ (discount) of the subscription price to the closing price of the shares for the last five consecutive trading days immediately prior to the last trading day before the relevant announcement or the date of the corresponding agreement (%)	Premium/ (discount) of the subscription price to the closing price of the shares on the last trading day before the relevant announcement or the date of the corresponding agreement (%)	Price-to-book ratio ("PB Ratio") (Note 3)
21/12/2016	The Company	800	Subscription	Provision of digital entertainment services and property investment (Note 1)	863 (Note 2)	382	(12.77)	(13.14)	0.45 (Note 5)

Source: Website of the Stock Exchange

Notes:

1. For illustrative purpose, the principal business/industry of the Comparables are based on (i) the information as disclosed in the relevant announcement; and/or (ii) the largest business segment by revenue as disclosed in the respective latest published annual reports of the Comparables.
2. Based on (i) the number of shares in issue and listed in the Stock Exchange; and (ii) the closing price of the shares of the respective Comparables as at the date of relevant announcement.
3. The PB Ratio of the Comparables were calculated based on their respective latest published annual report or interim report (as the case may be).
4. Excluding all Comparables with shares issued with premiums to the relevant closing price of the shares, the average discount is calculated based on the Comparables with shares issued at a discount to the relevant closing price of the shares.
5. The PB Ratio of the Company is calculated by dividing the Subscription Price by the Adjusted NAV per Share.

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Discount of the Subscription Price to market price comparison

As illustrated in the table above, the subscription/offer price of all the Comparable ranged from a premium of approximately 31.03% to a discount of 63.23%. The average discount of all Comparables with shares issued at a discount to the relevant closing price of the shares was approximately 21.05%. As such, the discount of the Subscription Price represented a lower discount than the average discount of the Comparables. In addition, the discount of the Subscription Price is lower than the average discount of approximately 30.56% of the Market Cap Comparables.

PB Ratio comparison

We have attempted to conduct the PB ratio comparison between the Group and the Comparables to illustrate the recent market trend as general reference. As illustrated in the table above, the subscription/offer price of (i) all the Comparables ranged from a premium of approximately 314.69% to a discount of approximately 84.00%; and (ii) the Market Cap Comparables ranged from a premium of approximately 156.41% to a discount of approximately 84.00%. As such, the discount of approximately 55.1% to the Adjusted NAV per Share is within the range of all the Comparables and/or the Market Cap Comparables.

However, the business model of the Group's game-related revenue and music-based entertainment business is of service-based and asset-light. The PB Ratio should only be applied for the evaluation of companies engaging in capital-intensive business. Being a service-based company, we consider the comparison on the PB ratio between the Group and other listed issuers may not be meaningful and indicative to the Subscription Price.

Taking into account (i) the discount of the Subscription Price is lower than the average discount of the Comparables; (ii) the discount to the Adjusted NAV per Share is within the range of all the Comparables and/or the Market Cap Comparables despite such comparison may not be meaningful and indicative to the Subscription Price; (iii) the downward trend of the closing price of the Shares since December 2015; and (iv) the Shares may not be attractive to investors due to the difficulties in realizing any potential future capital gain from the open market as a result of the thin trading volume of the Shares as discussed above, we consider that the Subscription Price is fair and reasonable so far as the Independent Shareholders are concerned.

6. Potential dilution effect on the interests of the Independent Shareholders

As depicted by the table under the section headed “Effects on shareholding structure of the Company” in the Letter from the Board, upon Completion, the shareholding interests of the existing public Shareholders would be diluted by (i) approximately 33.67% (assuming that there is no other change to the issued share capital of the Company from the Latest Practicable Date and up to the Completion Date); or (ii) approximately 33.45% (assuming that all the outstanding share options of the Company are exercised in full and Shares have been issued pursuant thereto immediately after the Completion).

Nonetheless, in view of (i) the reasons for and the possible benefits of the Subscription to support the expansion of mobile game and music-based entertainment business of the Company, details of which are set out under the section under “Reasons and benefits for entering into the Subscription Agreement” of this letter; and (ii) the terms of the Subscription Agreement being fair and reasonable, we are of the view that the aforementioned level of dilution to the shareholding interests of the existing public Shareholders is acceptable.

7. Financial effects of the Subscription to the Group

(i) Cashflow

As stated under the section headed “Background information of the Group” above, the Group had cash and cash equivalents of approximately RMB493.0 million as at 30 June 2016. Upon Completion, the liquidity and cash position of the Group will be improved as the Subscription will facilitate the Company to raise net proceeds to approximately HK\$380.5 million (equivalent to approximately RMB338.6 million). Accordingly, the cash position, net current assets and current ratio of the Company are expected to be improved upon Completion.

(ii) Earnings

Save for the expenses relating to the Subscription, the Completion will not have any immediate material impact to the earnings of the Company.

(iii) Net asset value

As stated under the section headed “Background information of the Group” above, the net asset value of the Group as at 30 June 2016 was approximately HK\$1,070.0 million. Upon the Completion, the net asset value of the company will be improved as the Subscription would increase the share capital of the Company. Accordingly, the Subscription will have a positive impact on the net asset value of the Group.

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As at the Latest Practicable Date, the number of Shares in issue was 1,835,192,628 Shares. The net asset value per Share based on the net asset value of the Group as at 30 June 2016 as disclosed in the 2016 Interim Report was approximately RMB0.58 per Share. Assuming no other changes to the issued share capital of the Company and Group's net asset value as at 30 June 2016 other than the Subscription, upon completion, the number of Shares in issue will be increased to 2,766,997,628 Share and the net asset value will be increased by approximately RMB338.6 million (equivalent to approximately HK\$380.5 million) from the proceeds of Subscription to approximately RMB1,408.6 million (equivalent to approximately HK\$1,582.7 million), representing a net asset value per Share of approximately RMB0.51 per Share. As such, the net asset value per Share may decrease by approximately RMB0.07 per Share or 12.1% upon the Completion.

Based on the above, the Subscription may have an overall positive effect on the Group's financial position. We consider that the Subscription is in the interests of the Company and the Shareholders as a whole.

8. Whitewash waiver

As at the Latest Practicable Date, the Subscriber and parties acting in concert with it (including Mr. Liu, Prime Century, Grand Idea, Ms. Xie Yuanbi and Ms. Wang Gang), taken together, directly or indirectly, hold 617,713,398 Shares, representing approximately 33.66% of the existing issued share capital of the Company.

Upon Completion, a total of 931,800,000 Shares will be issued to the Subscriber. The Subscriber and parties acting in concert with it (including Mr. Liu, Prime Century, Grand Idea, Ms. Xie Yuanbi and Ms. Wang Gang) will in aggregate hold 1,549,513,398 Shares, representing approximately 56.00% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares (assuming that there is no other change to the issued share capital of the Company from the Latest Practicable Date and up to the Completion Date). Hence, upon Completion, the shareholding of the Subscriber and parties acting in concert with it (including Mr. Liu, Prime Century, Grand Idea, Ms. Xie Yuanbi and Ms. Wang Gang) in the Company will increase from approximately 33.66% as at the Latest Practicable Date to (i) approximately 56.00% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares (assuming that there is no other change to the issued share capital of the Company from the Latest Practicable Date and up to the Completion Date), or (ii) approximately 55.86% of the issued share capital of the Company as enlarged by the issue of Subscription Shares (assuming that all the outstanding share options of the Company are exercised in full and Shares have been issued pursuant thereto immediately after the Completion), whereby triggering a mandatory general offer under Rule 26 of the Takeovers Code. Accordingly, the Subscriber in the absence of the Whitewash Waiver, would be obliged to make a mandatory general offer under Rule 26 of the Takeovers Code for all the Shares and other securities of the Company not already owned or agreed to be acquired by the Subscriber and parties acting concert with it. The Subscriber has made an application to the Executive for the Whitewash Waiver. The Executive has indicated that it would, subject to approval by Independent Shareholders at the EGM by way of poll, grant the Whitewash Waiver.

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As stated in the Letter from the Board, the condition precedent relating to the granting of the Whitewash Waiver and the approval of the Whitewash Waiver by the Independent Shareholders are not waivable by any party to the Subscription Agreement. If the Whitewash Waiver is not granted by the Executive or not approved by the Independent Shareholders at the EGM, the Subscription will not proceed.

Notwithstanding the dilution effect on the shareholdings of the existing Shareholders in the Company as a result of the Subscription, and the Subscription Price represents a discount to the market price of the Shares, having considered that:

- (a) (i) the continuous growth in the mobile game industry can be maintained; and (ii) the expansion of mobile game business of the Company is being carried out by the Company as discussed under the section headed “Reasons of and benefits of the Subscription” above; and
- (b) the fairness and reasonableness of the Subscription Price as stated in the section headed “Principal terms of the Subscription Agreement” above, we consider that the grant of the Whitewash Waiver (the granting of which being one of the conditions precedent to the Completion) is fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

If the Whitewash Waiver is approved by the Independent Shareholders, the maximum potential holding of voting rights of the Company held by the Subscriber and parties acting in concert with it resulting from the Subscription will exceed 50% of the voting rights of the Company. Subject to the relevant provisions of the Takeovers Code, the Subscriber may further increase their holdings of voting rights of the Company without incurring any further obligations under Rule 26 of the Takeovers Code to make a general offer.

RECOMMENDATION

Having considered the abovementioned principal factors and reasons, we are of the view that (i) the Whitewash Waiver and the terms of the Subscription Agreement are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Subscription and the Whitewash Waiver are in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders, and we also recommend the Independent Shareholders, to vote in favour of the ordinary resolution(s) to be proposed at the EGM to approve the Subscription Agreement, the Specific Mandate and the Whitewash waiver.

Yours faithfully,
For and on behalf of
Donvex Capital Limited
Doris Sy
President

1. SUMMARY OF FINANCIAL INFORMATION OF THE COMPANY

(a) Summary

The following is a summary of the audited consolidated financial information of the Group for the years ended 31 December 2013, 2014 and 2015 as extracted from the published annual financial statements of the Group for the relevant years and the unaudited consolidated financial information of the Group for the six months ended 30 June 2016 as extracted from the published interim financial statements of the Group for the six months ended 30 June 2016.

	For the six months ended 30 June 2016	For the year ended 31 December		
	(unaudited)	2015	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
RESULTS				
Revenue, net of business tax	91,645	145,578	229,738 <i>(restated)</i>	187,499
Profit/(loss) before tax	19,698	32,069	43,016	21,220
Income tax expense	(3,350)	(10,394)	(33,363)	(12,747)
Profit/(loss) for the year/period attributable to:				
Owners of the Company	16,350	22,006	10,758	9,820
Non-controlling interest	(2)	(331)	(1,105)	(1,347)
	<u>16,348</u>	<u>21,675</u>	<u>9,653</u>	<u>8,473</u>
Earnings/(loss) per share attributable to equity holders of the Company				
Basic (RMB per share)	0.9 cents	1.3 cents	0.8 cents	0.8 cents
Diluted (RMB per share)	<u>0.9 cents</u>	<u>1.3 cents</u>	<u>0.8 cents</u>	<u>0.8 cents</u>
Dividends	–	–	–	–
Dividends per share	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

The auditors of the Company did not issue any qualified opinion on the financial statements of the Group for the years ended 31 December 2013, 2014 and 2015, and the Company had no items which are exceptional or extraordinary because of size, nature or incidence for the same financial years and for the six months ended 30 June 2016.

(b) Audited consolidated financial statements

Set out below are the audited consolidated financial statements of the Group for the financial year ended 31 December 2015 extracted from the annual report of the Company for the year ended 31 December 2015.

Consolidated Statement of Profit or Loss

Year ended 31 December 2015

	<i>Notes</i>	2015 <i>RMB'000</i>	2014 <i>RMB'000</i> <i>(Restated)</i>
REVENUE, net of business tax	6	145,578	229,738
Cost of services provided		<u>(99,841)</u>	<u>(165,365)</u>
Gross profit		45,737	64,373
Other income and gains, net	6	125,592	109,090
Selling and marketing expenses		(55,939)	(32,955)
Administrative expenses		(40,352)	(46,096)
Other expenses, net		(16,024)	(10,008)
Share of losses of associates	17	(25,212)	(40,940)
Share of losses of joint ventures	18	<u>(1,733)</u>	<u>(448)</u>
PROFIT BEFORE TAX	7	32,069	43,016
Income tax expense	9	<u>(10,394)</u>	<u>(33,363)</u>
PROFIT FOR THE YEAR		<u>21,675</u>	<u>9,653</u>
Attributable to:			
Owners of the Company		22,006	10,758
Non-controlling interests		<u>(331)</u>	<u>(1,105)</u>
		<u>21,675</u>	<u>9,653</u>
EARNINGS PER SHARE			
ATTRIBUTABLE TO ORDINARY			
EQUITY HOLDERS OF THE			
COMPANY	11		
Basic (RMB per share)		<u>1.3 cents</u>	<u>0.8 cents</u>
Diluted (RMB per share)		<u>1.3 cents</u>	<u>0.8 cents</u>

Consolidated Statement of Comprehensive Income*Year ended 31 December 2015*

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
PROFIT FOR THE YEAR	21,675	9,653
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	<u>8,475</u>	<u>(1,655)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u><u>30,150</u></u>	<u><u>7,998</u></u>
Attributable to:		
Owners of the Company	30,481	9,103
Non-controlling interests	<u>(331)</u>	<u>(1,105)</u>
	<u><u>30,150</u></u>	<u><u>7,998</u></u>

Consolidated Statement of Financial Position*31 December 2015*

	<i>Notes</i>	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment	<i>12</i>	148,413	150,049
Investment properties	<i>13</i>	349,000	310,000
Prepaid land lease payments	<i>14</i>	13,516	13,839
Goodwill	<i>15</i>	–	1,515
Prepayment for acquisition of items of property, plant and equipment		–	1,904
Intangible assets	<i>16</i>	15,831	22,433
Investments in associates	<i>17</i>	27,229	–
Investments in joint ventures	<i>18</i>	31,353	26,208
Available-for-sale investments	<i>19</i>	46,994	6,000
Deferred tax assets	<i>26</i>	4,136	2,294
Conversion option embedded in preferred shares	<i>27</i>	6,309	9,242
Debt portion of convertible notes	<i>28</i>	–	30,004
Conversion option embedded in convertible notes	<i>28</i>	–	32,176
Deposit for acquisition of an investment		–	3,000
Total non-current assets		<u>642,781</u>	<u>608,664</u>
CURRENT ASSETS			
Trade receivables	<i>20</i>	23,121	32,216
Prepayments, deposits and other receivables	<i>21</i>	114,855	14,260
Financial assets at fair value through profit or loss	<i>22</i>	342	443
Restricted cash balances	<i>23</i>	66,990	3,885
Cash and cash equivalents	<i>23</i>	<u>429,745</u>	<u>316,458</u>
Total current assets		<u>635,053</u>	<u>367,262</u>

	<i>Notes</i>	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
CURRENT LIABILITIES			
Trade payables	24	29,305	35,391
Other payables and accruals	25	109,563	71,540
Tax payable		7,771	6,804
Deferred income		<u>17,267</u>	<u>8,758</u>
Total current liabilities		<u>163,906</u>	<u>122,493</u>
NET CURRENT ASSETS		<u>471,147</u>	<u>244,769</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		1,113,928	853,433
NON-CURRENT LIABILITIES			
Deferred tax liabilities	26	55,110	45,360
Deferred income		<u>9,475</u>	<u>9,662</u>
Total non-current liabilities		<u>64,585</u>	<u>55,022</u>
Net assets		<u><u>1,049,343</u></u>	<u><u>798,411</u></u>
EQUITY			
Equity attributable to owners of the Company			
Issued capital	29	15,123	11,914
Reserves	32	<u>1,034,917</u>	<u>786,863</u>
		1,050,040	798,777
Non-controlling interests		<u>(697)</u>	<u>(366)</u>
Total equity		<u><u>1,049,343</u></u>	<u><u>798,411</u></u>

Consolidated Statement of Changes in Equity

Year ended 31 December 2015

	Attributable to owners of the Company													Total equity
	Issued capital	Share premium account	Shares held under share award scheme	Merger reserve	Surplus contributions	Employee share-based compensation reserve	Exchange fluctuation reserve	Capital reserve	Statutory reserve funds	Reserve fund	Retained profits	Total	Non- controlling interests	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(note 29)	(note 29)	(note 31)	(note 32)	(note 32)				(note 32)	(note 32)				
At 1 January 2014	11,914	450,770	(5,806)	29,135	10,522	21,833	(5,733)	10,833	21,672	4,422	237,565	787,127	(1,241)	785,886
Profit for the year	-	-	-	-	-	-	-	-	-	-	10,758	10,758	(1,105)	9,653
Other comprehensive loss for the year:														
Exchange differences on translation of foreign operations	-	-	-	-	-	-	(1,655)	-	-	-	-	(1,655)	-	(1,655)
Total comprehensive income for the year	-	-	-	-	-	-	(1,655)	-	-	-	10,758	9,103	(1,105)	7,998
Capital contribution from non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	-	-	320	320
Acquisition of non-controlling interests	-	-	-	-	-	-	-	(1,660)	-	-	-	(1,660)	1,660	-
Equity-settled share-based payment arrangements	-	-	-	-	-	4,207	-	-	-	-	-	4,207	-	4,207
Transfer of reserve upon the forfeiture or expiry of share options	-	-	-	-	-	(1,143)	-	-	-	-	1,143	-	-	-
Employee share award scheme:														
- release of award shares	-	-	482	-	-	(482)	-	-	-	-	-	-	-	-
Transfer from retained profits	-	-	-	-	-	-	-	-	29	-	(29)	-	-	-
At 31 December 2014	11,914	450,770*	(5,324)*	29,135*	10,522*	24,415*	(7,388)*	9,173*	21,701*	4,422*	249,437*	798,777	(366)	798,411

Attributable to owners of the Company														
	Issued capital	Share premium account	Shares held under share award scheme	Merger reserve	Surplus contributions	Employee share-based compensation reserve	Exchange fluctuation reserve	Capital reserve	Statutory reserve funds	Reserve fund	Retained profits	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(note 29)	(note 29)	(note 31)	(note 32)	(note 32)				(note 32)	(note 32)				
At 1 January 2015	11,914	450,770	(5,324)	29,135	10,522	24,415	(7,388)	9,173	21,701	4,422	249,437	798,777	(366)	798,411
Profit for the year	-	-	-	-	-	-	-	-	-	-	22,006	22,006	(331)	21,675
Other comprehensive income for the year:														
Exchange differences on translation of foreign operations	-	-	-	-	-	-	8,475	-	-	-	-	8,475	-	8,475
Total comprehensive income for the year	-	-	-	-	-	-	8,475	-	-	-	22,006	30,481	(331)	30,150
Placement of new shares	3,204	215,555	-	-	-	-	-	-	-	-	-	218,759	-	218,759
Share issue expenses	-	(3,542)	-	-	-	-	-	-	-	-	-	(3,542)	-	(3,542)
Issue of shares in connection with the exercise of share options	5	425	-	-	-	(129)	-	-	-	-	-	301	-	301
Equity-settled share-based payment arrangements	-	-	-	-	-	4,421	-	-	-	-	-	4,421	-	4,421
Transfer of reserve upon the forfeiture or expiry of share options	-	-	-	-	-	(739)	-	-	-	-	739	-	-	-
Employee share award scheme:														
- release of award shares	-	-	382	-	-	(382)	-	-	-	-	-	-	-	-
Capital contribution from other shareholders of associates	-	-	-	-	-	-	-	843	-	-	-	843	-	843
At 31 December 2015	15,123	663,208*	(4,942)*	29,135*	10,522*	27,586*	1,087*	10,016*	21,701*	4,422*	272,182*	1,050,040	(697)	1,049,343

* These reserve accounts comprise the consolidated reserves of RMB1,034,917,000 (2014: RMB786,863,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows*Year ended 31 December 2015*

	<i>Notes</i>	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
CASH FLOWS FROM OPERATING			
ACTIVITIES			
Profit before tax		32,069	43,016
Adjustments for:			
Depreciation	7	6,969	3,159
Amortisation of prepaid land lease payments	7	322	318
Amortisation of intangible assets	7	9,592	9,288
Impairment of intangible assets	7	10,451	2,762
Write-off of an intangible asset	7	1,009	–
Loss on disposal of items of property, plant and equipment	7	45	13
Fair value loss/(gain) on financial assets at fair value through profit or loss	7	101	(127)
Fair value loss on conversion option embedded in preferred shares	7	2,933	3,773
Fair value loss/(gain) on conversion option embedded in convertible notes	7	11,751	(1,783)
Fair value gains on investment properties	6	(39,000)	(87,321)
Bank interest income	6	(9,178)	(9,110)
Imputed interest income	6	(19,606)	(10,718)
Share of losses of associates		25,212	40,940
Share of losses of joint ventures		1,733	448
Impairment of trade receivables	7	–	683
Impairment of prepayments	7	8,513	2,019
Write-back of impairment of trade receivables	7	(1,615)	–
Write-back of impairment of other receivables	7	–	(1,430)
Impairment of an investment in an associate	7	–	2,832
Impairment of an investment in a joint venture	7	1,265	3,371
Equity-settled share option expense	7	4,399	3,860
Equity-settled share award expense	7	22	347
Reversal of trade payables on game licences		(2,521)	–
Impairment of goodwill	7	1,515	–
Gain on deemed disposal of an investment in an associate	7	(275)	–
Gain on redemption of convertible notes		(53,705)	–

	<i>Notes</i>	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
		(7,999)	6,340
Decrease in trade receivables		10,710	18,242
(Increase)/decrease in prepayments, deposits and other receivables		(9,831)	3,434
(Decrease)/increase in trade payables		(4,887)	6,424
Decrease in other payables and accruals		(8,183)	(24,963)
Increase/(decrease) in deferred income		<u>8,322</u>	<u>(2,150)</u>
Cash (used in)/generated from operations		(11,868)	7,327
Tax paid		<u>(1,519)</u>	<u>(391)</u>
Net cash flows (used in)/from operating activities		<u>(13,387)</u>	<u>6,936</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of available-for-sale investments		(27,592)	(6,000)
Additions to investment properties	<i>13</i>	–	(11,879)
Additions to prepaid land lease payments	<i>14</i>	–	(309)
Purchases of items of property, plant and equipment		(30,836)	(16,853)
Deposit for acquisition of an investment		–	(3,000)
Proceeds from disposal of items of property, plant and equipment		568	302
Purchases of intangible assets		(11,732)	(15,462)
Proceeds from disposal of financial assets at fair value through profit or loss		–	10,000
Purchase of convertible notes		–	(89,927)
Purchase of shareholdings in joint ventures		(7,300)	(26,667)
Purchase of shareholdings in associates		(26,500)	–
Receipt of refundable collateral security		60,000	–
Interest received		9,178	9,110
(Increase)/decrease in restricted cash		<u>(63,105)</u>	<u>12,591</u>
Net cash flows used in investing activities		<u>(97,319)</u>	<u>(138,094)</u>

	<i>Notes</i>	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from placement of shares	<i>29(b), (c)</i>	218,759	–
Proceeds from issue of shares		301	–
Share issues expenses		(3,542)	–
Capital contribution from non-controlling shareholders		–	320
		<u> </u>	<u> </u>
Net cash flows from financing activities		<u>215,518</u>	<u>320</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS			
		104,812	(130,838)
Cash and cash equivalents at beginning of year		316,458	449,157
Effect of foreign exchange rate changes, net		<u>8,475</u>	<u>(1,861)</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR			
		<u>429,745</u>	<u>316,458</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		207,014	268,022
Time deposits with original maturity of less than three months when acquired	<i>23</i>	<u>222,731</u>	<u>48,436</u>
Cash and cash equivalents as stated in the consolidated statement of financial position and the consolidated statement of cash flows		<u>429,745</u>	<u>316,458</u>

Notes to Financial Statements

31 December 2015

1. CORPORATE AND GROUP INFORMATION

A8 New Media Group Limited (the “Company” or “A8 New Media”) is a limited liability company incorporated in the Cayman Islands. The registered office address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

During the year, the Company and its subsidiaries (collectively referred to as the “Group”) were involved in the following principal activities in the People’s Republic of China (the “PRC” or “Mainland China”):

- provision of digital entertainment services
- property investment

Property investment has been one of the businesses of the Group since 2014. During the year, the board of directors of the Company resolved that resources would continuously be deployed to such business and accordingly, property investment business is redesignated by the board of directors as one of the principal activities of the Group. Other than this change, there were no significant changes in the nature of the Group’s principal activities.

Information about subsidiaries

(a) Particulars of the Company’s principal subsidiaries are as follows:

Company name	Place of incorporation/ establishment	Issued ordinary/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
A8 Music Group Limited (“A8 Music”)	British Virgin Islands	Ordinary shares US\$64,500 Preferred shares US\$9,300	100	–	Investment holding
佳仕域信息科技(深圳)有限公司 Cash River Information Technology (Shenzhen) Co., Ltd. (“Cash River”)*#	PRC	HK\$40,000,000 Registered capital	–	100	Development of computer software and provision of technical and management consultancy services

Company name	Place of incorporation/ establishment	Issued ordinary/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
深圳市華動飛天網絡技術開發有限公司 Shenzhen Huadong Feitian Network Development Co., Ltd. (“Huadong Feitian”) (note (i))* [@]	PRC	RMB28,680,000 Registered capital	–	100	Provision of telecommunications instant messaging and value-added services and property investment
深圳市雲海情天文化傳播有限公司 Shenzhen Yunhai Qingtian Cultural Broadcasting Co., Ltd. (“Yunhai Qingtian”) (note (i))* [@]	PRC	RMB10,000,000 Registered capital	–	100	Provision of game publishing services
深圳市快通聯科技有限公司 Shenzhen Kuitonglian Technology Co., Ltd. (“Kuitonglian”) (note (i))* [@]	PRC	RMB10,000,000 Registered capital	–	100	Provision of mobile value-added services
北京創盟音樂文化發展有限公司 Beijing Chuangmeng Yinyue Culture Development Co., Ltd. (note (i))* [@]	PRC	RMB5,000,000 Registered capital	–	100	Provision of mobile value-added services
北京愛樂空間文化傳播有限公司 Beijing Aiyue Cultural Broadcasting Co., Ltd. (note (i))* [@]	PRC	RMB10,000,000 Registered capital	–	100	Provision of mobile value-added services

Company name	Place of incorporation/ establishment	Issued ordinary/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
北京樂聲飛揚音樂 文化傳播有限公司 Beijing Yuesheng Feiyang Music Culture Broadcasting Co., Ltd. (note (i))* [@]	PRC	RMB10,000,000 Registered capital	–	100	Provision of mobile value-added services
北京天籟印象文化 傳播有限公司 Beijing Tianlai Cultural Broadcasting Co., Ltd. (note (i))* [@]	PRC	RMB20,000,000 Registered capital	–	100	Provision of mobile value-added services
江蘇廣視科貿發展 有限公司 Jiangsu Guangshi Science and Trade Development Limited (note (i))* [@]	PRC	RMB10,070,000 Registered capital	–	100	Provision of mobile value-added services
北京樂音無限文化 傳播有限公司 Beijing Yueyin Wuxian Cultural Broadcasting Co., Ltd. (note (i))* [@]	PRC	RMB1,000,000 Registered capital	–	100	Provision of mobile value-added services
普好有限公司 Total Plus Limited	Hong Kong	HK\$97,045 Issued capital	–	100	Investment holding
北京布拉琪音樂文 化傳媒有限公司 Beijing Bulaqi Music Cultural Broadcasting Co., Ltd. (note (i))* [@]	PRC	RMB1,000,000 Registered capital	–	100	Holding of music patents and licences

Company name	Place of incorporation/ establishment	Issued ordinary/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
北京掌中地帶信息科技有限公司 Beijing Zhangzhong Didai Information Technology Ltd. (note (i))* [@]	PRC	RMB10,000,000 Registered capital	–	100	Provision of mobile value-added and game publishing services
深圳市掌翼天下有限公司 Shenzhen Zhangyi Tianxia Development Co., Ltd. (note (i))* [@]	PRC	RMB3,000,000 Registered capital	–	100	Dormant
茂禦有限公司 Phoenix Success Limited ("Phoenix Success")	Hong Kong	HK\$1 Issued capital	100	–	Investment holding
北京悅音經典網絡科技有限公司 Beijing Yueyin Jingdian Network Technology Co., Ltd. (note (i))* [@]	PRC	RMB1,000,000 Registered capital	–	100	Dormant
深圳市指遊方寸網絡科技有限公司 Shenzhen Finger Fun Network Technology Co., Ltd. ("Finger Fun") * [#]	PRC	HK\$300,000,000 Registered capital	–	100	Investment holding of game business
北京德木欣潤文化傳播有限公司 Beijing Demo Xinrun Cultural Broadcasting Co., Ltd. (note (i))* [@]	PRC	RMB100,000 Registered capital	–	80	Production of live music shows and music channels

* The English names of these companies are the direct translations of their Chinese names as no English names have been registered or are available.

Registered as a wholly-foreign-owned enterprise under PRC law.

@ Registered as domestic limited liability companies under PRC law.

Note:

(i) The current PRC laws and regulations limit the provision of telecommunications value-added services by companies with foreign ownership, which include activities and services operated by these companies. In order to enable the Company to make investments in the telecommunications value-added services in the PRC, the equity interests of these companies are held by individual nominees on behalf of the Group and certain structure contracts have been effectuated

(1) between Cash River and

(a) Huadong Feitian and its registered shareholders, and

(b) Kuaitonglian and its registered shareholders, respectively; and

(2) between Finger Fun, Yunhai Qingtian and its registered shareholder,

to the effect that the Company is exposed, or has rights, to variable returns from its involvement with these companies and has the ability to affect those returns through its power over these companies. As a result of the contractual agreements, these companies are accounted for as subsidiaries of the Company for accounting purposes.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

(b) Controlled special purpose entity

The Company has set up a trust, A8 New Media share award trust (the “Trust”), for the purpose of administering the share award scheme established by the Company (note 31). In accordance with IFRS 10 *Consolidated Financial Statements*, the Company is required to consolidate the Trust as the Company has control over the Trust and can derive benefits from the contributions of employees who have been awarded the shares through their employment with the Group.

Special purpose entity	Place of incorporation	Principal activities
Law Debenture (Asia) Trust Limited – A8 New Media	Hong Kong	Administration and holding of the Company’s shares for the share award scheme for the benefit of eligible employees

2. BASIS OF PREPARATION

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”), as issued by the International Accounting Standards Board (the “IASB”) and the disclosure requirements of the Hong Kong Companies Ordinance.

They have been prepared under the historical cost basis, except for investment properties, financial assets at fair value through profit or loss and conversion option embedded in preferred shares which have been measured at fair value. The financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand (RMB’000) except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2015. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

3.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised standards for the first time for the current year's financial statements.

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions
Annual Improvements to IFRSs 2010-2012 Cycle
Annual Improvements to IFRSs 2011-2013 Cycle

The adoption of the above revised standards has had no significant financial effect on these financial statements.

In addition, the Company has adopted the amendments to the Listing Rules issued by the Hong Kong Stock Exchange relating to the disclosure of financial information with reference to the Hong Kong Companies Ordinance (Cap. 622) during the current financial year. The main impact to the financial statements is on the presentation and disclosure of certain information in the financial statements.

3.2 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements.

IFRS 9	<i>Financial Instruments</i> ²
Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ⁴
Amendments to IFRS 10, IFRS 12 and IAS 28	<i>Investment Entities: Applying the Consolidation Exception</i> ¹
Amendments to IFRS 11	<i>Accounting for Acquisitions of Interests in Joint Operations</i> ¹
IFRS 14	<i>Regulatory Deferral Accounts</i> ³
IFRS 15	<i>Revenue from Contracts with Customers</i> ²
Amendments to IAS 1	<i>Disclosure Initiative</i> ¹
Amendments to IAS 16 and IAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i> ¹
Amendments to IAS 16 and IAS 41	<i>Agriculture: Bearer Plants</i> ¹
Amendments to IAS 27	<i>Equity Method in Separate Financial Statements</i> ¹
<i>Annual Improvements 2012-2014 Cycle</i>	Amendments to a number of IFRSs ¹
IFRS 16	<i>Leases</i> ⁶
Amendments to IAS 7	<i>Disclosure Initiative</i> ⁵
Amendments to IAS 12	<i>Recognition of Deferred Tax Assets for Unrealised Losses</i> ⁵

¹ Effective for annual periods beginning on or after 1 January 2016

² Effective for annual periods beginning on or after 1 January 2018

³ Effective for an entity that first adopts IFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group

⁴ No mandatory effective date is determined but is available for early adoption

⁵ Effective for annual periods beginning on or after 1 January 2017

⁶ Effective for annual periods beginning on or after 1 January 2019

Further information about those IFRSs that are expected to be applicable to the Group is as follows:

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018. The Group plans to adopt the new standard on the required effective date and is currently assessing the impact of the standard.

Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The Group is currently assessing the impact of these standards upon adoption.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under IFRSs. In July 2015, the IASB issued an amendment to IFRS 15 regarding a one-year deferral of the mandatory effective date of IFRS 15 to 1 January 2018. The Group expects to adopt IFRS 15 on 1 January 2018 and is currently assessing the impact of IFRS 15 upon adoption.

Amendments to IAS 1 Disclosure Initiative

Amendments to IAS 1 include narrow-focus improvements in respect of the presentation and disclosure in financial statements. The amendments clarify:

- (i) the materiality requirements in IAS 1;
- (ii) that specific line items in the statement of profit or loss and the statement of financial position may be disaggregated;
- (iii) that entities have flexibility as to the order in which they present the notes to financial statements; and
- (iv) that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss. The Group expects to adopt the amendments from 1 January 2016. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation

Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation Amendments to IAS 16 and IAS 38 clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are to be applied prospectively. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2016 as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

IFRS 16 Leases

IFRS 16, Leases, sets out the principles for the recognition, measurement, presentation and disclosure of leases. The standard introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types

of leases differently. The Group is yet to assess the full impact of the standard on its financial position and results of operations. The standard is mandatorily effective for annual periods beginning on or after 1 January 2019.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

An associate is an entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated statement of profit or loss and consolidated statement of other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Fair value measurement

The Group measures its investment properties, derivative financial instruments and equity investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
- Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than financial assets and investment properties), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;

- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose as follows:

Building	Over the lease terms
Computer equipment	3 to 5 years
Furniture, fixtures and office equipment	3 to 10 years
Motor vehicles	5 years
Leasehold improvements	Over the shorter of the lease terms and useful lives

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and

capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Investment properties

Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the year in which they arise. Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year of the retirement or disposal.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Trademarks, licences and software

Purchased trademarks, licences and software are stated at cost less accumulated amortisation and any impairment losses and are amortised on the straight-line basis over their estimated useful lives of two to ten years.

Music copyrights

Music copyrights are stated at cost less accumulated amortisation and any impairment losses and are amortised on the straight-line basis over their estimated useful lives of three years.

Mobile game licences

Mobile game licences represent upfront licence fees paid for exclusive mobile game development and publishing in a specified territory. They are stated at cost less accumulated amortisation and any impairment losses and are amortised on the straight-line basis over the estimated useful lives.

Research and development costs

All research costs are charged to profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less accumulated amortisation and any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding three years, commencing from the date when the products are put into commercial production.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases are charged to profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investments and other financial assets*Initial recognition and measurement*

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in IAS 39 are satisfied.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at

amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the statement of profit or loss. The loss arising from impairment is recognised in profit or loss in finance costs for loans and in other expenses for receivables.

Preferred shares and convertible notes held by the Group are separately presented as a debt portion and a conversion option embedded in preferred shares and convertible notes. On initial recognition, the debt portion represents the residual value between the fair value of the preferred shares and convertible notes and the fair value of the embedded conversion options. The debt portion is classified as loans and receivables and is subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the statement of profit or loss as other income in accordance with the policies set out for “Revenue recognition” below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to profit or loss.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a

measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in the statement of profit or loss.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is removed from other comprehensive income and recognised in profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss – is removed from other comprehensive income and recognised in profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities*Initial recognition and measurement*

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade payables, other payables and accruals.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss. The net fair value gain or loss recognised in profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in IAS 39 are satisfied.

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Treasury shares

Own equity instruments which are reacquired and held by the Company or the Group (treasury shares) are recognised directly in equity at cost. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the profit or loss by way of a reduced depreciation charge.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably. Revenue from the rendering of services is recognised when the related services are provided.

The Group principally derives revenue from the provision of digital entertainment services, including game publishing services and music-related services, as well as property investment in the PRC.

Game publishing services

The Group engages in the provision of mobile game publishing services. Pursuant to the exclusive game licensing agreements signed between the Group and the game developers, the Group is responsible for the publishing, promotion and distribution of the mobile games within a specified territory, collecting the payments made by players and providing customer services relating to game content and payments made by individual players. These agreements typically last for two to three years.

The Group then sub-licences the games to other mobile-based publishing platforms to publish the games, thereby broadening distribution. Game players made payments through sub-licencee mobile-based platforms' payment systems, which include various channels, such as online wire transfer through third-party online payment vendors, through mobile network carriers and by credit card. In all cases, payments made by players of the games under exclusive licences, regardless of which platform such players access the game, are paid to the game developers through the Group.

During the term of the sub-licence agreements, the Group has to share a percentage of the gross billings generated by the sale of the virtual currency within the games to the mobile-based publishing platforms. The percentage of gross billings the Group shared varies depending on the particular agreement. Payments from publishing platforms to the Group are usually settled on a monthly basis. Prior to the settlement date, the relevant publishing platform will send the record of gross in-game payments to the Group for verification. The Group's operations team maintains databases that connect to the game server maintained by the game developers, to track the virtual currency and premium features sold in the games. As a result, the Group can calculate the estimated gross in-game payments from the operations team's records and verify the gross in-game payments records provided by the publishing partners. The publishing partners then monthly withhold the pre-agreed portion and the portion is deducted from the gross in-game payments collected from the game players, with the net amounts remitted to the Group. The consideration received for the purchase of the virtual currency is non-refundable and the related contracts are non-cancellable. The Group does not track the marketing discounts offered by the publishing platforms as the latter bears the costs of such marketing discounts.

Revenue from the sale of virtual currency to be used for the purchase of in-game virtual items from mobile games is also shared between the Group and the game developers based on a predetermined ratio for each game monthly on a net basis after the deduction of game publishing charges paid to mobile-based platforms. The Group has evaluated and concluded that it has the primary roles and responsibilities in the delivery of game experience to the game players and in the rendering of service as the Group determined itself being primarily responsible for all the requests and comments from the mobile-based platforms as well as the game players. Accordingly, the Group is determined to be the primary obligor and reports revenue from the sale of virtual currency on a gross basis.

Given that the Group does not have sufficient data to analyse the characteristics of virtual items to reasonably estimate the delivery obligation period due to the system constraint, the Group has adopted a policy to recognise revenue relating to game publishing service over the estimated average user life of paying players with the Group on a game-by-game basis.

The estimated user life of paying players is based on data collected from those game players who have purchased the virtual currencies. To estimate the user life of paying players, the Group captures the following information for each paid player from its database: (a) the frequency that paying players log into each game via the mobile-based platforms; and (b) the amount and the timing of when the paying players purchased the virtual currencies. The Group estimates the user life of paying players for a

particular game to be the date a player purchases virtual currency through the date the Group estimates the user plays the game for the last time. This computation is completed on a player-by-player basis. Then, the results for all analysed paying players are averaged to determine an estimated user life of paying players for each game. Gross revenues from in-game payments of each month are recognised over the average user life of paying players estimated for that game.

The consideration of the average user life of paying players with each mobile game is based on the Group's best estimate that takes into account all known and relevant information at the time of assessment. The Group assesses the estimated average user life of paying players on a half-yearly basis. Any adjustments arising from changes in the user life of paying players as a result of new information will be accounted for as a change in accounting estimate.

Music-related services

These services are predominantly delivered through the platforms of various subsidiaries of China Mobile Communications Corporation ("China Mobile") and China United Telecommunications Corporation ("China Unicom"). These services are substantially billed on a monthly subscription basis with certain portions billed on a per-message basis (the "Mobile and Telecom Service Fees") and the fees are substantially collected by the subsidiaries of China Mobile and China Unicom on behalf of the Group.

Gross revenue is recognised based on the Mobile and Telecom Service Fees, net of the amount of the unreconciled items.

China Mobile and China Unicom are entitled to commissions, which are calculated based on agreed percentages of the Mobile and Telecom Service Fees received or receivable by these mobile operators. In addition, in certain cases, the two mobile operators charge a network usage fee based on a fixed per-message fee multiplied by the excess of messages sent over messages received between the platforms of the Group and these two mobile operators. These commissions and network usage fees (collectively referred to as the "Mobile and Telecom Charges") are retained by the mobile operators, and are reflected as cost of services provided in the consolidated statement of profit or loss of the Group. The Mobile and Telecom Charges are withheld and deducted from the gross Mobile and Telecom Service Fees collected by the two mobile operators from the users, with the net amounts remitted to the Group.

The Mobile and Telecom Service Fees and the Mobile and Telecom Charges, or the net amount of the two, are confirmed and/or advised by the subsidiaries of China Mobile and China Unicom to the Group on a regular basis. For revenue whose amount is not confirmed/advised by the two mobile operators at the time of reporting the financial results of the Group, management of the Group estimates the amount receivable based on historical data, which reflect developing trends in customer payment delinquencies. Historical data used in estimating revenues include the most recent history of the Mobile and Telecom Service Fees actually derived from the operators, the number of subscriptions and the volume of data transmitted between the network gateways of the Group, China Mobile and China Unicom. Adjustments are made in subsequent periods in case the actual revenue amounts are different from the original estimates.

Rental and management fee income

Rental income is recognised in the period in which the properties are let and on the straight-line basis over the lease terms, and management fee income is recognised in the period when the services are rendered.

Interest income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Employee benefits*Employee leave entitlements*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the reporting date. Employee entitlements to sick and maternity leave are not recognised until the time of leave.

Pension obligations

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute certain percentages of their payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

Equity compensation benefits

The Company operates a share option scheme and a share award scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments transaction, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using the Black-Scholes Option Pricing Model, further details of which are given in note 30 to the financial statements.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award

where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Shares held for share award scheme

As disclosed in note 31 to the financial statements, the Group has set up a trust for the share award scheme, where the trust purchases shares issued by the Group, and the consideration paid by the Company, including any directly attributable incremental costs, is presented as “Shares held for the Share Award Scheme” and deducted from the Group’s equity.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. In prior years, final dividends proposed by the directors were classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. Following the implementation of the Hong Kong Companies Ordinance (Cap. 622), proposed final dividends are disclosed in the notes to the financial statements.

Foreign currencies

The functional currency of the Company is the Hong Kong dollar while the presentation currency of the Company in the financial statements is RMB. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain group companies are currencies other than the presentation currency of the Company. As at the end of the reporting period, the assets and liabilities of the Company and the subsidiaries are translated into the presentation currency of the Company at the exchange rates prevailing at the end of the reporting period and their profit or loss are translated into RMB at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of certain group companies with functional currency other than RMB are translated into RMB at the exchange rates ruling at the

dates of the cash flows. Frequently recurring cash flows of these group companies which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the financial statements require management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

(i) Judgements

In the process of applying the Group's accounting policies, management has made the following judgement, apart from those involving estimations, which has the most significant effect on the amounts recognised in the financial statements:

Accounting for companies governed under contractual arrangements as subsidiaries

As mentioned in note 1 above, A8 New Media Group Limited does not have equity ownership in certain subsidiaries of the Group (collectively the "Subsidiaries under Contractual Agreements"). Nevertheless, under the contractual agreements entered into between the Subsidiaries under Contractual Agreements, their respective registered owners and certain subsidiaries of the Company, management has determined that the Company is exposed, or has rights, to variable returns from its involvement with these Subsidiaries under Contractual Agreements and has the ability to affect these returns through its power over these Subsidiaries under Contractual Agreements. As such, the Subsidiaries under Contractual Agreements and their respective subsidiaries are accounted for as subsidiaries of the Company for accounting purposes.

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

Deferred tax on investment properties

For the purpose of measuring deferred tax liabilities or deferred tax assets arising from investment properties that are measured using the fair value model, the directors have reviewed the Group's investment property portfolio and concluded that the Group's investment properties are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Therefore, in determining the Group's deferred tax on investment properties, the directors have determined that the presumption set out in IAS 12 Income Taxes that investment properties measured using the fair value model are recovered through sale is rebutted. In addition, in measuring the deferred tax liability on investment properties, the directors have made judgement on the tax rate that is expected to apply when the liability is settled based on tax rates and tax laws that have been enacted by the end of the reporting period.

(ii) Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Estimation of the user life of paying players

As mentioned in the “Revenue recognition” section of note 3.3, the Group recognises revenue from the sales of virtual currency ratably over the estimated average user life of paying players for the applicable games in which the Group is not able to track the consumption of virtual items. Future paying player usage patterns and behaviour may differ from the historical usage patterns and therefore the estimated average user life of paying players may change in the future.

The Group will continue to monitor the estimation used in determining the average user life of paying players, which may differ from the historical period, and any change in the estimate may result in the revenue being recognised on a different basis than in prior periods.

Recognition of telecommunications value-added services

As mentioned in the “Revenue recognition” section of note 3.3, for the Mobile and Telecom Service Fees not yet confirmed/advised by the mobile operators at the time of reporting the financial results of the Group, management of the Group estimates the amounts receivable based on historical data and developing trends in customer payment delinquencies.

Fair value of investment properties

Investment properties are revalued at the end of the reporting period on a market value, existing use basis by independent professionally qualified valuers. These valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the estimation, information from current prices in an active market for similar properties is considered and assumptions that are mainly based on the capitalisation of net rental income derived from the existing tenancies with due allowance for the reversionary income potential of the properties.

5. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their services and has two reportable operating segments as follows:

- (a) the digital entertainment segment engages in the provision of music-based entertainment and game-related services in the PRC; and
- (b) the property investment segment invests in properties for rental and management fee income in PRC.

During the year, as mentioned in note 1 above, the board of directors of the Company has resolved that resources would continuously be deployed to property investment and accordingly, the property investment business is redesignated by the board of directors as one of the principal activities of the Group. The results of the property investment business are also separately reviewed and evaluated for management reporting purposes. Accordingly, the presentation of segment information for the year ended 31 December 2014 has been restated to reflect this change of segment composition.

Management monitors the results of the Group’s operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit before tax.

The adjusted profit before tax is measured consistently with the Group's profit before tax except that bank interest income and corporate and other unallocated income and expenses are excluded from such measurement.

Information regarding these reportable segments, together with their related restated comparative information is presented below.

For the year ended 31 December

	Digital entertainment		Property investment		Total	
	2015 RMB'000	2014 RMB'000 (Restated)	2015 RMB'000	2014 RMB'000 (Restated)	2015 RMB'000	2014 RMB'000 (Restated)
Segment net revenue	95,896	204,934	49,682	24,804	145,578	229,738
Cost of services provided	(84,993)	(152,992)	(14,848)	(12,373)	(99,841)	(165,365)
Gross profit	<u>10,903</u>	<u>51,942</u>	<u>34,834</u>	<u>12,431</u>	<u>45,737</u>	<u>64,373</u>
Segment results	<u>(17,693)</u>	<u>(24,830)</u>	<u>75,599</u>	<u>99,752</u>	<u>57,906</u>	<u>74,922</u>
Reconciliation:						
Bank interest income					9,178	9,110
Corporate and other unallocated income and expenses, net					(35,015)	(41,016)
Profit before tax					32,069	43,016
Income tax expense					(10,394)	(33,363)
Profit for the year					<u>21,675</u>	<u>9,653</u>
Other segment information						
Depreciation and amortisation						
– operating segments	12,607	10,739	–	–	12,607	10,739
– corporate					4,276	2,026
					<u>16,883</u>	<u>12,765</u>
Capital expenditure*	25,067	48,953	–	11,879	25,067	60,832
Fair value gains on investment properties	–	–	39,000	87,321	39,000	87,321
Equity-settled share option expense						
– operating segments	2,169	2,225	–	–	2,169	2,225
– corporate					2,230	1,635
					<u>4,399</u>	<u>3,860</u>

	Digital entertainment		Property investment		Total	
	2015	2014	2015	2014	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(Restated)		(Restated)		(Restated)
Equity-settled share award expense	22	347	–	–	22	347
Share of losses of associates	(25,212)	(40,940)	–	–	(25,212)	(40,940)
Share of losses of joint ventures	(1,733)	(448)	–	–	(1,733)	(448)
Impairment losses recognised in the statement of profit or loss	(21,744)	(11,667)	–	–	(21,744)	(11,667)
Impairment losses reversed in the statement of profit or loss	1,615	1,430	–	–	1,615	1,430
Gain on redemption of convertible notes	53,705	–	–	–	53,705	–
Fair value loss on conversion option embedded in preferred shares	(2,933)	(3,773)	–	–	(2,933)	(3,773)
Fair value (loss)/gain on conversion option embedded in convertible notes	(11,751)	1,783	–	–	(11,751)	1,783
Investments in joint ventures	31,353	26,208	–	–	31,353	26,208
Investments in associates	27,229	–	–	–	27,229	–

* Capital expenditure consists of additions to property, plant and equipment, investment properties, prepaid land lease payments and intangible assets.

Over 90% of the Group's revenue from external customers is derived from the Group's operations in the PRC, and no non-current assets (excluding financial instruments) of the Group are located outside the PRC.

During the year ended 31 December 2015, the Group had no transaction with any single external customer which contributed over 10% of the Group's total revenue for the year.

During the year ended 31 December 2014, revenue of approximately RMB80,819,000 and RMB25,478,000 was derived from sales to two largest customers, each of which contributed 10% or more sales to the Group's revenue.

6. REVENUE, OTHER INCOME AND GAINS, NET

Revenue represents the net invoiced value (net of business tax) and estimated value of services rendered.

An analysis of revenue, other income and gains, net, is as follows:

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i> <i>(Restated)</i>
Revenue		
Digital entertainment		
Game-related revenue	79,401	133,736
Music-based entertainment	16,583	71,881
	<u>95,984</u>	<u>205,617</u>
Sub-total		
Property investment		
Rental and management fee income	52,371	26,268
	<u>148,355</u>	<u>231,885</u>
Less: Business tax	(2,777)	(2,147)
	<u>145,578</u>	<u>229,738</u>
Net revenue	<u>145,578</u>	<u>229,738</u>
Other income and gains, net		
Fair value gains on investment properties	39,000	87,321
Bank interest income	9,178	9,110
Imputed interest income	19,606	10,718
Fair value gains on financial assets at fair value through profit or loss	–	127
Fair value gain on conversion option embedded in convertible notes	–	1,783
Gain on deemed disposal on an investment in an associate	275	–
Foreign exchange differences, net	1,937	–
Gain on redemption of convertible notes	53,705	–
Others	1,891	31
	<u>125,592</u>	<u>109,090</u>

7. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	<i>Notes</i>	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Depreciation	<i>12</i>	6,969	3,159
Amortisation of intangible assets	<i>16</i>	9,592	9,288
Amortisation of prepaid land lease payments [#]	<i>14</i>	322	318
Operating lease rentals in respect of office buildings		1,540	1,553
Auditors' remuneration		1,739	1,521
Employee benefit expense (including directors' remuneration (<i>note 8</i>)):			
Wages, salaries and bonuses		24,944	28,428
Staff education fee		310	125
Welfare, medical and other expenses		3,217	3,191
Contributions to social security plans		3,439	3,925
Equity-settled share option expense		4,399	3,860
Equity-settled share award expense		22	347
		<u>36,331</u>	<u>39,876</u>
(Write-back of impairment)/impairment of trade receivables**	<i>20</i>	(1,615)	683
Write-off of trade receivables**		–	67
Impairment of prepayments**	<i>21</i>	8,513	2,019
Write-back of impairment of other receivables**	<i>21</i>	–	(1,430)
Impairment of intangible assets*	<i>16</i>	10,451	2,762
Write-off of an intangible asset*	<i>16</i>	1,009	–
Impairment of goodwill**	<i>15</i>	1,515	–
Foreign exchange differences, net***/**		(1,937)	185
Mobile and Telecom Charges*		12,125	52,135
Game publishing service charges*		31,390	32,191
Direct operating expenses (including repairs and maintenance) arising on rental-earning investment properties*		14,848	12,373
Loss of disposal of items of property, plant and equipment**		45	13
Impairment of an investment in an associate**		–	2,832
Impairment of an investment in a joint venture**		1,265	3,371
Gain on deemed disposal of an investment in an associate***		(275)	–
Fair value loss on conversion option embedded in preferred shares**		2,933	3,773
Fair value loss/(gain) on conversion option embedded in convertible notes**/**		11,751	(1,783)
Fair value losses/(gains) on financial assets at fair value through profit or loss**/**		101	(127)
Government grants ^{##}		(9,504)	(11,554)

[#] Included in "Administrative expenses" on the face of the consolidated statement of profit or loss.

- ## Included in “Selling and marketing expenses” on the face of the consolidated statement of profit or loss. Various government grants have been received for developing the cultural industry in Shenzhen in relation to Shenzhen’s government policy. The government grants received for which related expenditure has been utilised have been deducted from the selling and marketing expenses to which they relate. Government grants received for which related expenditure has not been utilised are included in deferred income in the statement of financial position. There are no unfulfilled conditions or contingencies relating to these grants.
- * Included in “Cost of services provided” on the face of the consolidated statement of profit or loss.
- ** Included in “Other expenses, net” on the face of the consolidated statement of profit or loss.
- *** Included in “Other income and gains, net” on the face of the consolidated statement of profit or loss.

8. DIRECTORS’ REMUNERATION AND THE FIVE HIGHEST PAID INDIVIDUALS

Directors’ remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”) and section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

(a) Directors’ remuneration

	2015 <i>RMB’000</i>	2014 <i>RMB’000</i>
Fees	289	285
Other emoluments:		
Salaries, allowances and benefits in kind	1,107	1,767
Performance related bonuses	211	112
Equity-settled share option expense	2,230	1,635
Pension scheme contributions	74	123
	3,622	3,637
	3,911	3,922

During the current and prior years, certain directors were granted share options, in respect of their services to the Group, under the share option schemes of the Company. The fair value of these options, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current and prior years is included in the above directors’ remuneration disclosures. Further details are set out in note 30 to the financial statements.

(i) *Independent non-executive directors*

The fees paid to independent non-executive directors during the year were as follows:

	Fees RMB'000	Equity-settled share option expense RMB'000	Total remuneration RMB'000
2015			
Independent non-executive directors:			
Mr. Chan Yiu Kwong	145	47	192
Mr. Song Ke	72	47	119
Ms. Wu Shihong	72	47	119
	<u>289</u>	<u>141</u>	<u>430</u>

2014			
Independent non-executive directors:			
Mr. Chan Yiu Kwong	143	47	190
Mr. Song Ke	71	47	118
Ms. Wu Shihong	71	47	118
	<u>285</u>	<u>141</u>	<u>426</u>

There were no other emoluments payable to the independent non-executive directors during the year (2014: Nil).

(ii) *Executive directors and non-executive directors*

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Equity- settled share option expense RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2015						
Executive directors:						
Mr. Liu Xiaosong ("Mr. Liu")*	–	307	–	1,623	53	1,983
Mr. Liu Pun Leung	–	800	211	466	21	1,498
	<u>–</u>	<u>1,107</u>	<u>211</u>	<u>2,089</u>	<u>74</u>	<u>3,481</u>

	Salaries, allowances and benefits in kind	Performance related bonuses	Equity- settled share option expense	Pension scheme contributions	Total remuneration	
Fees	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
2014						
Executive directors:						
Mr. Liu	–	866	–	843	81	1,790
Mr. Liu Pun Leung [@]	–	400	112	445	7	964
Mr. Lu Bin [#]	–	501	–	206	35	742
	–	1,767	112	1,494	123	3,496

* Mr. Liu is also the chief executive of the Company.

@ Appointed as executive director on 27 November 2014.

Resigned as executive director on 27 November 2014.

(b) Five highest paid individuals

The five highest paid individuals included two (2014: two) directors, details of whose remuneration are set out above. Details of the remuneration of the remaining three (2014: three) non-director, highest paid individuals for the year are as follows:

	2015 RMB'000	2014 RMB'000
Salaries, allowances and benefits in kind	2,384	2,484
Performance related bonuses	377	540
Equity-settled share option expense	1,469	681
Equity-settled share award expense	5	27
Pension scheme contributions	236	184
	4,471	3,916

The number of non-director, highest paid individuals whose remuneration fell within the following bands is as follows:

	Number of employees	
	2015	2014
Nil to HK\$1,000,000	–	1
HK\$1,000,001 to HK\$1,500,000	2	1
HK\$1,500,001 to HK\$2,000,000	–	–
HK\$2,500,001 to HK\$3,000,000	–	1
HK\$3,000,001 to HK\$3,500,000	1	–
	3	3

- (c) During the year, no emoluments were paid by the Group to the directors, or any of the non-director, highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office nor has any director or non-director, highest paid individual waived or agreed to waive any emoluments.

9. INCOME TAX EXPENSE

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year (2014: Nil). The income tax for the subsidiaries operating in Mainland China is calculated at the prevailing rates in the jurisdictions in which the subsidiaries operate.

An analysis of the income tax charges for the year is as follows:

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Current – PRC		
Charge for the year	2,029	2,251
Underprovision/(overprovision) in prior years	457	(216)
Deferred (<i>note 26</i>)	7,908	31,328
Total tax charge for the year	10,394	33,363

For the year ended 31 December 2015, Yunhai Qingtian and Kwaitonglian were entitled to a preferential tax rate of 15% as they were recognised as high technology enterprises for the year.

Yunhai Qingtian was recognised as a newly set-up software production enterprise in 2010 and was therefore entitled to full exemption from income tax for two years starting from the first profitable year which was the year ended 31 December 2010 and a 50% tax relief for the three years thereafter. Yunhai Qingtian was recognised as high technology enterprises and was entitled to a preferential tax rate of 15% for the year ended 31 December 2015.

For the year ended 31 December 2014, Kwaitonglian and Huadong Feitian were entitled to a preferential tax rate of 15% as they were recognised as high technology enterprises in the prior year.

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the jurisdiction in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

	2015		2014	
	RMB'000	%	RMB'000	%
Profit before tax	<u>32,069</u>		<u>43,016</u>	
Tax at the statutory tax rate	5,186	16.2	10,371	24.1
Preferential tax rates	4,147	12.8	(425)	(1.0)
Super-deduction of research and development expenditure	(239)	(0.7)	(516)	(1.2)
Effect on opening deferred tax of increase in rates	–	–	9,016	21.0
Adjustments in respect of current tax of previous periods	457	1.4	(216)	(0.5)
Income not subject to tax	(16,536)	(51.6)	(3,065)	(7.1)
Expenses not deductible for tax	4,420	13.8	3,512	8.2
Losses attributable to joint ventures and associates	4,443	13.9	10,350	24.0
Tax losses utilised from previous period	(395)	(1.2)	–	–
Tax losses not recognised	<u>8,911</u>	27.8	<u>4,336</u>	10.1
Tax charge at the Group's effective rate	<u>10,394</u>	32.4	<u>33,363</u>	77.6

10. DIVIDENDS

No dividends have been paid or declared by the Company for the year ended 31 December 2015 (2014: Nil).

11. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The calculation of the basic earnings per share amounts for the year ended 31 December 2015 is based on the profit for the year attributable to equity holders of the Company of RMB22,006,000 (2014: RMB10,758,000), and the weighted average number of ordinary shares in issue less shares held under the share award scheme during the year of 1,655,968,000 (2014: 1,406,288,000).

The calculation of the diluted earnings per share amounts for the year ended 31 December 2015 is based on the profit for the year attributable to equity holders of the Company of RMB22,006,000 (2014: RMB10,758,000) as used in the basic earnings per share calculation. The weighted average number of ordinary shares used in the calculation is 1,655,968,000 (2014: 1,406,288,000) ordinary shares in issue less shares held under the share award scheme during the year, as used in the basic earnings per share calculation, and the weighted average of 25,000 (2014: 3,083,000) ordinary shares assumed to have been issued at no consideration on the deemed exercise of dilutive potential ordinary shares into ordinary shares and the effect of awarded shares.

12. PROPERTY, PLANT AND EQUIPMENT

	Building <i>RMB'000</i>	Computer equipment <i>RMB'000</i>	Furniture, fixtures and office equipment <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Leasehold improve- ments <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
31 December 2015							
At 31 December 2014 and at 1 January 2015:							
Cost	136,519	10,587	8,717	2,114	3,905	4,387	166,229
Accumulated depreciation	(1,030)	(7,983)	(1,305)	(2,114)	(3,748)	–	(16,180)
Net carrying amount	<u>135,489</u>	<u>2,604</u>	<u>7,412</u>	<u>–</u>	<u>157</u>	<u>4,387</u>	<u>150,049</u>
At 1 January 2015, net of accumulated depreciation							
depreciation	135,489	2,604	7,412	–	157	4,387	150,049
Additions	–	5,644	1,768	–	1,345	1,860	10,617
Transfers	–	–	–	–	6,247	(6,247)	–
Disposals	–	(81)	(532)	–	–	–	(613)
Over accrual of cost	(4,671)	–	–	–	–	–	(4,671)
Depreciation provided during the year	(2,989)	(1,943)	(1,760)	–	(277)	–	(6,969)
At 31 December 2015, net of accumulated depreciation	<u>127,829</u>	<u>6,224</u>	<u>6,888</u>	<u>–</u>	<u>7,472</u>	<u>–</u>	<u>148,413</u>
At 31 December 2015:							
Cost	131,848	15,527	8,874	1,264	11,497	–	169,010
Accumulated depreciation	(4,019)	(9,303)	(1,986)	(1,264)	(4,025)	–	(20,597)
Net carrying amount	<u>127,829</u>	<u>6,224</u>	<u>6,888</u>	<u>–</u>	<u>7,472</u>	<u>–</u>	<u>148,413</u>

	Building <i>RMB'000</i>	Computer equipment <i>RMB'000</i>	Furniture, fixtures and office equipment <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Leasehold improve- ments <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
31 December 2014							
At 1 January 2014:							
Cost	–	10,204	2,666	2,114	4,110	127,230	146,324
Accumulated depreciation	–	(7,475)	(284)	(2,056)	(3,946)	–	(13,761)
Net carrying amount	–	2,729	2,382	58	164	127,230	132,563
At 1 January 2014, net of accumulated depreciation							
	–	2,729	2,382	58	164	127,230	132,563
Additions	–	1,215	6,069	–	–	13,676	20,960
Transfers	136,519	–	–	–	–	(136,519)	–
Disposals	–	(315)	–	–	–	–	(315)
Depreciation provided during the year	(1,030)	(1,025)	(1,039)	(58)	(7)	–	(3,159)
At 31 December 2014, net of accumulated depreciation							
	135,489	2,604	7,412	–	157	4,387	150,049
At 31 December 2014:							
Cost	136,519	10,587	8,717	2,114	3,905	4,387	166,229
Accumulated depreciation	(1,030)	(7,983)	(1,305)	(2,114)	(3,748)	–	(16,180)
Net carrying amount	135,489	2,604	7,412	–	157	4,387	150,049

13. INVESTMENT PROPERTIES

	Completed <i>RMB'000</i>	Under construction <i>RMB'000</i>	Total <i>RMB'000</i>
Carrying amount at 1 January 2014	–	210,800	210,800
Additions	–	11,879	11,879
Transfers	222,679	(222,679)	–
Fair value gains on investment properties	87,321	–	87,321
Carrying amount at 31 December 2014 and 1 January 2015	310,000	–	310,000
Fair value gains on investment properties	39,000	–	39,000
Carrying amount at 31 December 2015	349,000	–	349,000

The Group's completed investment properties were revalued on 31 December 2015 and 2014 based on valuations performed by Asset Appraisal Limited, independent professionally qualified valuers.

The completed investment properties are leased to third parties under operating leases, further summary details of which are included in note 33(a) to the financial statements.

The valuations of completed investment properties were based on the capitalisation of net rental income derived from the existing tenancies with due allowance for the reversionary income potential of the properties.

Each year, the Group's management decides to appoint which external valuer to be responsible for the external valuation of the Group's properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Group's management has discussions with the valuer on the valuation assumptions and valuation results twice a year when the valuation is performed for interim and annual financial reporting.

In the opinion of the directors, for all investment properties that are measured at fair value, the current use of the properties is their highest and best use. The completed investment properties measured at fair value in the aggregate carrying amount of RMB349,000,000 and RMB310,000,000 as at 31 December 2015 and 2014, respectively, are subject to restrictions on sale and transfer.

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's investment properties:

	Fair value measurement as at 31 December 2015 using			
	Quoted prices in active markets (Level 1) <i>RMB'000</i>	Significant observable inputs (Level 2) <i>RMB'000</i>	Significant unobservable inputs (Level 3) <i>RMB'000</i>	Total <i>RMB'000</i>
Recurring fair value measurement for:				
Commercial buildings	–	–	349,000	349,000

	Fair value measurement as at 31 December 2014 using			
	Quoted prices in active markets (Level 1) <i>RMB'000</i>	Significant observable inputs (Level 2) <i>RMB'000</i>	Significant unobservable inputs (Level 3) <i>RMB'000</i>	Total <i>RMB'000</i>
Recurring fair value measurement for:				
Commercial buildings	–	–	310,000	310,000

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2014: Nil).

Reconciliation of fair value measurements categorised within Level 3 of the fair value hierarchy:

	Completed <i>RMB'000</i>	Under construction <i>RMB'000</i>	Total <i>RMB'000</i>
Carrying amount at 1 January 2014	–	210,800	210,800
Additions	–	11,879	11,879
Transfers	222,679	(222,679)	–
Fair value gains on investment properties	<u>87,321</u>	<u>–</u>	<u>87,321</u>
Carrying amount at 31 December 2014 and 1 January 2015	310,000	–	310,000
Fair value gains on investment properties	<u>39,000</u>	<u>–</u>	<u>39,000</u>
Carrying amount at 31 December 2015	<u><u>349,000</u></u>	<u><u>–</u></u>	<u><u>349,000</u></u>

Below is a summary of the valuation technique used and the key inputs to the valuation of investment properties:

	Valuation technique	Significant unobservable inputs	Range (weighted average)	
			2015	2014
Commercial building (completed)	Income approach (refer above)	Estimated rental value (per sq.m. and per month)	RMB114	RMB108
		Rental growth rate (per annum)	5.0%	5.0%
		Discount rate	10.0%	10.3%

A significant increase/(decrease) in the estimated rental value per square metre and the rental growth rate per annum in isolation would result in a significant increase/(decrease) in the fair value of the investment properties. A significant increase/(decrease) in the discount rate in isolation would result in a significant decrease/(increase) in the fair value of the investment properties. Generally, a change in the assumption made for the estimated rental value is accompanied by a directionally similar change in the rental growth rate per annum and the discount rate.

14. PREPAID LAND LEASE PAYMENTS

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Carrying amount at 1 January	14,161	14,170
Addition	–	309
Recognised during the year	<u>(322)</u>	<u>(318)</u>
Carrying amount at 31 December	13,839	14,161
Current portion included in prepayments, deposits and other receivables (<i>note 21</i>)	<u>(323)</u>	<u>(322)</u>
Non-current portion	<u><u>13,516</u></u>	<u><u>13,839</u></u>

15. GOODWILL

	<i>RMB'000</i>
At 1 January 2014 and 31 December 2014:	
Cost	1,515
Accumulated impairment	<u>–</u>
Net carrying amount	<u><u>1,515</u></u>
Cost as at 1 January 2015, net of accumulated impairment	1,515
Impairment during the year (<i>Note</i>)	<u>(1,515)</u>
Cost and net carrying amount at 31 December 2015	<u><u>–</u></u>
At 31 December 2015:	
Cost	1,515
Accumulated impairment	<u>(1,515)</u>
Net carrying amount	<u><u>–</u></u>

Note: Based on the annual impairment test performed, an impairment of RMB1,515,000 was recognised for goodwill on acquisition of a subsidiary in current year as the core business of the subsidiary is gradually shrinking during the year and as a result, the recoverable amount is below the carrying amount of the subsidiary. As such, management determined to recognise impairment for the goodwill of the company as at 31 December 2015.

16. INTANGIBLE ASSETS

	Trademarks, licences and software <i>RMB'000</i>	Music copyrights <i>RMB'000</i>	Mobile game licences <i>RMB'000</i>	Total <i>RMB'000</i>
31 December 2015				
Cost at 1 January 2015, net of accumulated amortisation and impairment	1,448	1,149	19,836	22,433
Additions	–	–	14,450	14,450
Amortisation provided during the year	(371)	(1,111)	(8,110)	(9,592)
Write-off	–	–	(1,009)	(1,009)
Impairment during the year (<i>Note</i>)	–	–	(10,451)	(10,451)
At 31 December 2015	<u>1,077</u>	<u>38</u>	<u>14,716</u>	<u>15,831</u>
At 31 December 2015:				
Cost	39,282	7,030	40,637	86,949
Accumulated amortisation and impairment	(38,205)	(6,992)	(25,921)	(71,118)
Net carrying amount	<u>1,077</u>	<u>38</u>	<u>14,716</u>	<u>15,831</u>
31 December 2014				
Cost at 1 January 2014, net of accumulated amortisation	3,429	3,370	–	6,799
Additions	41	–	27,643	27,684
Amortisation provided during the year	(2,022)	(2,221)	(5,045)	(9,288)
Impairment during the year (<i>Note</i>)	–	–	(2,762)	(2,762)
At 31 December 2014	<u>1,448</u>	<u>1,149</u>	<u>19,836</u>	<u>22,433</u>
At 31 December 2014:				
Cost	39,282	7,030	27,643	73,955
Accumulated amortisation and impairment	(37,834)	(5,881)	(7,807)	(51,522)
Net carrying amount	<u>1,448</u>	<u>1,149</u>	<u>19,836</u>	<u>22,433</u>

Note: An impairment was recognised and charged to profit or loss for certain mobile game licences with net total carrying amount of RMB10,451,000 (2014: RMB2,762,000) which was considered to be not recoverable based on value in use due to the results of the game public trial testing being far below the expectation of management. As such, management considered that it was not commercially viable for the Group to continue to develop and launch the games to the market based on the testing results, and hence, the recoverable amount was nil (2014: Nil).

17. INVESTMENTS IN ASSOCIATES

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Share of net assets	4,395	190
Goodwill on acquisition	22,834	2,642
	27,229	2,832
Impairment (<i>Note</i>)	–	(2,832)
	27,229	–

Note: In the prior year, an impairment was recognised for an investment in an associate, which was considered to be not recoverable based on value in use because this company had been loss-making for years, the actual financial results of this company also could not meet the five-year budgeted cash flow projections which were approved by senior management in past years and the expected growth rate of this company in coming years was estimated to be minimal. As such, management determined to recognise impairment for the investment in this company as at 31 December 2014. As at 31 December 2015, the investment in this company was classified as an available-for-sale investment and measured at cost less impairment due to the dilution in the Group's shareholdings in this company.

In the opinion of the directors, the debt portions of convertible notes and preferred shares in Duomi Music Holding Limited ("Duomi Music") are considered as part of the Group's net investment in the associate.

The following table illustrates the aggregate financial information of the Group's associates that are not individually material. The Group did not have any material associates for each of the reporting periods.

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Share of the associates' losses for the year	(25,212)	(40,940)
Share of the associates' total comprehensive losses	(25,212)	(40,940)
Aggregate carrying amount of the Group's investments in the associates	27,229	–

18. INVESTMENTS IN JOINT VENTURES

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Share of net assets	9,997	5,736
Goodwill on acquisition	22,621	23,843
	32,618	29,579
Impairment (<i>Note</i>)	(1,265)	(3,371)
	31,353	26,208

Note:

An impairment was recognised for goodwill on acquisition of a joint venture in the current year which is considered to be not recoverable because the company does not have sufficient operating funds to support its core business and thus, was suspended during the year. As such, management determined to recognise impairment for the goodwill of this company as at 31 December 2015.

In the prior year, an impairment was also recognised for goodwill on acquisition of another joint venture which was considered to be not recoverable based on value in use because the actual financial results of the company could not meet the five-year budgeted cash flow projections which were approved by senior management in past years and the expected growth rate of this company in coming years is estimated to be minimal. As such, management determined to recognise impairment for the goodwill of this company as at 31 December 2014.

The following table illustrates the aggregate financial information of the Group's joint ventures that are not individually material. The Group did not have any material joint ventures for each of the reporting periods.

	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Share of the joint ventures' losses for the year	(1,733)	(448)
Share of the joint ventures' total comprehensive losses	(1,733)	(448)
Aggregate carrying amount of the Group's investments in the joint ventures	<u>31,353</u>	<u>26,208</u>

19. AVAILABLE-FOR-SALE INVESTMENTS

	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Unlisted equity investments, at cost	<u>46,994</u>	<u>6,000</u>

As at 31 December 2015, the unlisted equity investments with an aggregate carrying amount of RMB46,994,000 (2014: RMB6,000,000) were stated at cost because the variability in the range of reasonable fair value estimates is so significant that the directors are of the opinion that its fair value cannot be measured reliably. The Group does not intend to dispose of these investments in the near future.

As at 31 December 2015, an unlisted equity investment was reclassified from an investment in an associate to available-for-sale investment and was measured at cost less impairment due to the dilution in the Group's shareholdings in this company.

20. TRADE RECEIVABLES

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Trade receivables	24,135	35,069
Impairment	(1,014)	(2,853)
	<u>23,121</u>	<u>32,216</u>

The Group has no formal credit period communicated to its customers but the customers usually settle the amounts due to it within a period of 30 to 120 days. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivables. Trade receivables are non-interest-bearing.

An aged analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Billed		
Within 1 month	431	8
Over 1 month but less than 2 months	6,264	2,616
Over 2 months but less than 3 months	1,334	1,228
Over 3 months but less than 4 months	674	2,127
Over 4 months	2,026	4,989
	<u>10,729</u>	<u>10,968</u>
Unbilled	12,392	21,248
	<u>23,121</u>	<u>32,216</u>

The movements in provision for impairment of trade receivables are as follows:

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
At 1 January	2,853	2,170
Impairment losses recognised (<i>note 7</i>)	–	683
Write-back of impairment (<i>note 7</i>)	(1,615)	–
Amount written off as uncollectible	(224)	–
	<u>1,014</u>	<u>2,853</u>
At 31 December	<u>1,014</u>	<u>2,853</u>

An aged analysis of the billed trade receivables as at the end of the reporting period that are neither individually nor collectively considered to be impaired is as follows:

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Neither past due nor impaired	431	8
Less than 1 month past due	6,264	2,616
1 to 2 months past due	2,008	3,355
Over 3 months past due	2,026	4,989
	<u>10,729</u>	<u>10,968</u>

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Prepayments	17,369	10,261
Prepaid land lease payments (<i>note 14</i>)	323	322
Deposits and other receivables	9,079	7,752
Receivables on redemption of convertible notes	100,672	–
	<u>127,443</u>	<u>18,335</u>
Impairment	(12,588)	(4,075)
	<u>114,855</u>	<u>14,260</u>

The financial assets as at the end of the reporting period relate to receivables for which there was no recent history of default. Except for the receivables on redemption of convertible notes, the Group does not hold any collateral or other credit enhancements over these balances.

Included in the other receivables is an amount due from Duomi Music of RMB727,000 (2014: RMB727,000), which is unsecured, interest-free and repayable on demand. In addition, included in the other receivables is another amount due from the Group's another associate of RMB1 million (2014: Nil), which is unsecured, bears interest at 4.35% per annum and is repayable in 2016.

The receivables on redemption of convertible notes of outstanding principal amount of US\$14,730,000 together with interest payable accrued up to the date of repayment (in total equivalent to RMB100,672,000) have been settled subsequently in January 2016.

The movements in the provision for prepayments and other receivables are as follows:

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
At 1 January	4,075	3,486
Impairment losses recognised (<i>note 7</i>)	8,513	2,019
Write-back of impairment (<i>note 7</i>)	–	(1,430)
	<u> </u>	<u> </u>
At 31 December	<u>12,588</u>	<u>4,075</u>

Included in the above provision for prepayments and other receivables is a provision for individually impaired receivables of RMB12,588,000 (2014: RMB4,075,000) with a gross carrying amount of RMB12,588,000 (2014: RMB4,075,000).

22. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Listed equity investments, at fair value	<u>342</u>	<u>443</u>

The above listed equity investments were upon initial recognition, designated by the Group as financial assets as at fair value through profit or loss and are stated at fair value.

23. CASH AND CASH EQUIVALENTS

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Cash and bank balances	274,004	271,907
Time deposits	<u>222,731</u>	<u>48,436</u>
	496,735	320,343
Less: Restricted cash	<u>(66,990)</u>	<u>(3,885)</u>
Cash and cash equivalents	<u>429,745</u>	<u>316,458</u>
Denominated in RMB	285,918	276,902
Denominated in other currencies	<u>143,827</u>	<u>39,556</u>
Cash and cash equivalents	<u>429,745</u>	<u>316,458</u>

At the end of the reporting period, the cash and cash equivalents of the Group denominated in RMB are not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made with maturity of not more than three months and earn interest at the respective short term time deposit rates. The bank balances and deposits are deposited with creditworthy banks with no recent history of default.

24. TRADE PAYABLES

An aged analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Within 1 month	11,188	7,668
1 to 3 months	5,202	11,619
4 to 6 months	1,575	8,906
Over 6 months	11,340	7,198
	<u>29,305</u>	<u>35,391</u>

The trade payables are non-interest-bearing and are normally settled on 30-day to 180-day terms.

Included in the trade payables is an amount due to an associate of RMB344,000 (2014: RMB344,000), which is unsecured, interest-free and repayable on demand.

25. OTHER PAYABLES AND ACCRUALS

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Other payables	92,975	47,102
Accruals	15,989	23,427
Receipt in advance	599	1,011
	<u>109,563</u>	<u>71,540</u>

Included in the other payables is an amount due to an associate of RMB60 million (2014: Nil), which is a refundable collateral security for receivables on redemption of convertible notes. The refundable collateral security has been refunded to the associate in January 2016.

26. DEFERRED TAX

The movements in deferred tax assets and liabilities during the year are as follows:

Deferred tax assets

	Deductible temporary differences <i>RMB'000</i>
At 1 January 2014	2,906
Deferred tax charged to the statement of profit or loss during the year (<i>note 9</i>)	<u>(612)</u>
At 31 December 2014 and 1 January 2015	2,294
Deferred tax credited to the statement of profit or loss during the year (<i>note 9</i>)	<u>1,842</u>
At 31 December 2015	<u>4,136</u>

Deferred tax liabilities

	Transfer of profit derived from contractual agreements <i>RMB'000</i>	Fair value adjustments arising from acquisition of subsidiaries <i>RMB'000</i>	Gain on investments at fair value through profit or loss <i>RMB'000</i>	Revaluation of investment properties <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2014	(813)	(131)	(177)	(13,523)	(14,644)
Deferred tax credited/(charged) to the statement of profit or loss during the year (note 9)	—	131	—	(30,847)	(30,716)
At 31 December 2014 and 1 January 2015	(813)	—	(177)	(44,370)	(45,360)
Deferred tax charged to the statement of profit or loss during the year (note 9)	—	—	—	(9,750)	(9,750)
At 31 December 2015	<u>(813)</u>	<u>—</u>	<u>(177)</u>	<u>(54,120)</u>	<u>(55,110)</u>

The Group has tax losses arising in Mainland China of RMB35,820,000 (2014: RMB27,304,000) that will expire in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in the PRC in respect of earnings generated from 1 January 2008.

At 31 December 2015, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in the PRC. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB270,057,000 at 31 December 2015 (2014: RMB281,754,000).

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

27. DEBT PORTION OF PREFERRED SHARES AND CONVERSION OPTION EMBEDDED IN PREFERRED SHARES

On 14 December 2012 (the “Completion Date”), Phoenix Success subscribed for 13,853,868 convertible redeemable preferred shares (the “preferred shares”) at US\$0.43 each for cash issued by Duomi Music. All the above preferred shares can be converted into ordinary shares at US\$0.43 per share (subject to adjustments). The major terms of the preferred shares are set out below:

- (i) Phoenix Success has the option to request all (but not less than all) the preferred shares it holds to be converted at any time, without the payment of any additional consideration, into fully-paid and non-assessable ordinary shares in Duomi Music.
- (ii) From the beginning of the fourth anniversary of the Completion Date, Phoenix Success has the right to request Duomi Music to redeem all (but not less than all) of the preferred shares held by Phoenix Success for a redemption price per share equal to 140% of the subscription price of the preferred shares plus all accrued but unpaid dividends (subject to adjustment).

The Group classified the debt portion of the preferred shares in Duomi Music as loans and receivables and the conversion option embedded in preferred shares is deemed as held for trading and recognised at fair value through profit or loss on initial recognition with changes in fair value recognised in profit or loss subsequently. In the opinion of the directors, the debt portion of preferred shares is considered as part of the Group’s net investment in Duomi Music. As such, the debt portion was used to cover the Group’s share of loss of Duomi Music in 2013. The fair values of the conversion option embedded in preferred shares at the end of the reporting period are determined by the directors of the Company with reference to the valuation performed by independent qualified valuers, GCA Professional Services Group. Details of the method and assumptions used in the binomial pricing model in the valuation of the conversion option embedded in the preferred shares are as follows:

	2015	2014
Expected volatility ⁽ⁱ⁾	51.20%	56.16%
Dividend yield	–	–
Option life (years)	1.96	2.96
Risk-free interest rate ⁽ⁱⁱ⁾	1.04%	1.05%

Notes:

- (i) Expected volatility was calculated by reference to the annualised standard deviation of the continuously compounded rates of return on the weekly average adjusted share price of comparable companies.
- (ii) Risk-free interest rate was used by reference to the United States Treasury Bond Rate with similar maturity at the valuation date.

Generally, a change in the assumption made for the expected volatility is accompanied by a directionally similar change in the dividend yield and the option life and an opposite change in the risk-free interest rate.

The following table demonstrates the sensitivity of the Group’s profit before tax for the years ended 31 December 2015 and 2014 to a reasonably possible change in the combined net effect of the dividend yield, risk-free interest rate and stock volatility of comparable companies (collectively the “PS combined factors”).

	Increase/ (decrease) in percentage	Combined net effect on profit before tax <i>RMB'000</i>
31 December 2015		
PS combined factors	10	289
PS combined factors	(10)	(233)
	<u> </u>	<u> </u>
31 December 2014		
PS combined factors	10	778
PS combined factors	(10)	(845)
	<u> </u>	<u> </u>

The fair value of each underlying share of Duomi Music is estimated using a discounted cash flow model, which included some assumptions that are not supportable by observable market prices or rates. In determining the fair value, a weighted average cost of capital of 21.24% and 21.60% was used as at 31 December 2015 and 2014, respectively.

The effective interest rate of the debt portion of the preferred shares is 17.80% per annum.

28. DEBT PORTION OF CONVERTIBLE NOTES AND CONVERSION OPTION EMBEDDED IN CONVERTIBLE NOTES

On 28 July 2014, pursuant to the conditional subscription agreement dated 9 April 2014 entered into between Phoenix Success and Duomi Music, inter alia, convertible notes of Duomi Music (the first tranche) with an aggregate principal amount of US\$14,730,000 (approximately RMB90,132,870) were issued by Duomi Music to Phoenix Success. The convertible notes bore interest at 3.5% per annum and had a maturity of three years. In addition, subject to Duomi Music's fulfilment of certain conditions to give notice to Phoenix Success not later than 30 June 2015, Phoenix Success shall subscribe for, and Duomi Music shall issue, the second tranche of the convertible notes of an aggregate principal amount of US\$8,180,000 which bear the same interest rate and the same maturity date as the first tranche. As at 31 December 2015, no subscription of second tranche of the convertible notes was made.

The convertible notes were bifurcated into a debt portion and a conversion option for accounting purposes. The Group classified the debt portion as loans and receivables and the conversion option embedded in convertible notes was deemed as held for trading and recognised at fair value through profit or loss on initial recognition with changes in fair value recognised in profit or loss subsequently. In the opinion of the directors, the debt portion of convertible notes was considered as part of the Group's net investment in Duomi Music. As such, the debt portion was used to cover the Group's share of losses of Duomi Music.

Pursuant to the subscription agreement, Phoenix Success can exercise the conversion right at any time after the first anniversary of the date of issue of the first tranche or the second tranche of the convertible notes which requires prior written consent of at least 80% of convertible redeemable preferred share holders, provided that, after the expiry of 185 days from the conversion date, the proposed issuance shall cease to be subject to and bound by such prior consent requirement and shall not be earlier than the date of issuance of 2015 audited financial statements of Duomi Music upon which the conversion price of the conversion shares shall be determined.

On 31 December 2015, Phoenix Success demanded and Duomi Music agreed to redeem the convertible notes in full on the outstanding principal amount of US\$14,730,000 together with interest payable accrued up to the date of repayment. The amount has been settled subsequently in January 2016.

As at 31 December 2015, the Group had no outstanding convertible notes.

The fair value of the conversion option embedded in convertible notes as at 31 December 2014 was determined by the directors of the Company with reference to the valuation performed by independent qualified valuers, GCA Professional Services Group. Details of the method and assumptions used in the binomial pricing model in the valuation of the conversion option embedded in the convertible notes were as follows:

	2014
Expected volatility ⁽ⁱ⁾	55.30%
Dividend yield	–
Option life (years)	2.58
Risk-free interest rate ⁽ⁱⁱ⁾	0.89%

Notes:

- (i) Expected volatility was calculated by reference to the annualised standard deviation of the continuously compounded rates of return on the weekly average adjusted share price of comparable companies.
- (ii) Risk-free interest rate was used by reference to the United States Treasury Bond Rate with similar maturity at the valuation date.

Generally, a change in the assumption made for the expected volatility is accompanied by a directionally similar change in the dividend yield and the option life and an opposite change in the risk-free interest rate.

The following table demonstrates the sensitivity of the Group's profit before tax at the end of 31 December 2014 to a reasonably possible change in the combined net effect of the dividend yield, risk-free interest rate and stock volatility of comparable companies (collectively the "CN combined factors").

	Increase/ (decrease) in percentage	Combined net effect on profit before tax RMB'000
31 December 2014		
CN combined factors	10	2,362
CN combined factors	(10)	(1,967)
	<u> </u>	<u> </u>

The fair value of each underlying share of Duomi Music is estimated using a discounted cash flow model, which included some assumptions that are not supportable by observable market prices or rates. In determining the fair value, a weighted average cost of capital of 21.60% was used as at 31 December 2014.

The effective interest rate of the debt portion of the convertible notes was 19.81% per annum.

29. SHARE CAPITAL

Shares

	2015 RMB'000	2014 RMB'000
Authorised:		
3,000,000,000 (2014: 3,000,000,000) ordinary shares of HK\$0.01 each	<u>26,513</u>	<u>26,513</u>
Issued and fully paid:		
1,835,192,628 (2014: 1,428,847,128) ordinary shares of HK\$0.01 each	<u>15,123</u>	<u>11,914</u>

A summary of movements in the Company's share capital is as follows:

Notes	Number of issued and fully paid ordinary shares	Nominal value of ordinary shares HK\$'000	Share premium HK\$'000	Equivalent nominal value of ordinary shares RMB'000	Equivalent share premium RMB'000	Total RMB'000
As at 1 January 2014, 31 December 2014 and 1 January 2015	1,428,847,128	14,290	537,705	11,914	450,770	462,684
Exercise of share options (a)	577,500	5	540	5	425	430
Placement of new shares (b)	285,768,000	2,857	205,753	2,257	162,493	164,750
Placement of new shares (c)	120,000,000	1,200	67,200	947	53,062	54,009
Share issue expenses	-	-	(4,401)	-	(3,542)	(3,542)
As at 31 December 2015	<u>1,835,192,628</u>	<u>18,352</u>	<u>806,797</u>	<u>15,123</u>	<u>663,208</u>	<u>678,331</u>

Notes:

- (a) During the year, a total of 577,500 share options under the share option scheme were exercised at exercise prices ranging from HK\$0.65 to HK\$0.69 per share, for a total cash consideration, before expenses, of HK\$381,000 (equivalent to RMB301,000).
- (b) On 16 April 2015, the Company entered into a placing agreement with First Shanghai Securities Limited (the "Placing Agent") pursuant to which, the Placing Agent agreed to procure certain independent placees to subscribe an aggregate of 285,768,000 new ordinary shares of the Company at a price of HK\$0.73 per share. The placing was completed on 27 April 2015 and the Group raised a total of approximately HK\$208.6 million (equivalent to RMB164.8 million), before expenses.
- (c) On 13 July 2015, the Company entered into second placing agreement with the Placing Agent pursuant to which, the Placing Agent agreed to procure certain independent placees to subscribe an aggregate of 120,000,000 new ordinary shares of the Company at a price of HK\$0.57 per share. The placing was completed on 22 July 2015 and the Group raised a total of approximately HK\$68.4 million (equivalent to RMB54.0 million), before expenses.

30. SHARE OPTION SCHEMES**(a) Share option scheme**

The Company operates a share option scheme for the purpose of motivating eligible persons to optimise their future contribution to the Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain ongoing relationships with those eligible persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group, and additionally in the case of executives, to enable the Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions. The share option scheme became effective on 26 May 2008 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of shares which may be issued upon exercise of all options that can be granted under the share option scheme and any other schemes of the Group (including the Pre-IPO share option scheme) shall not in aggregate exceed 10% of the shares of the Company in issue, i.e., 142,884,712 shares, as at 24 May 2013 on which an ordinary resolution was passed at the annual general meeting of the Company for refreshing the 10% mandate under the share option scheme.

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the share option scheme and any other schemes of the Group shall not exceed 30% of the Company's issued share capital from time to time.

The maximum number of shares issuable under the share options to each eligible participant in the share option scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of offer of the share options.

The exercise price of share options is determinable by the directors, but may not be less than the highest of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer; and (iii) the nominal value of the Company's shares.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The following share options were outstanding under the share option scheme during the year:

	2015		2014	
	Weighted average exercise price <i>HK\$ per share</i>	Number of options <i>'000</i>	Weighted average exercise price <i>HK\$ per share</i>	Number of options <i>'000</i>
At 1 January	0.83	47,204	1.60	10,819
Granted during the year	1.04	4,808	0.66	39,017
Forfeiture during the year	1.30	(1,655)	1.34	(2,632)
Exercised during the year	0.66	(578)	–	–
At 31 December	0.84	<u>49,779</u>	0.83	<u>47,204</u>

The weighted average share price at the date of exercise for share options exercised during the year was HK\$0.64 per share. There were no share options exercised in the prior year.

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2015

Number of options <i>'000</i>	Exercise price* <i>HK\$ per share</i>	Exercise period
919	2.416	5-10-2009 to 26-5-2018
2,889	0.903	15-10-2010 to 14-10-2018
4,138	1.838	25-3-2011 to 24-3-2016
525	0.915	18-8-2011 to 17-8-2016
1,950	0.690	14-1-2014 to 14-1-2019
3,178	0.684	24-1-2014 to 24-1-2021
31,372	0.650	23-4-2014 to 23-4-2021
4,808	1.040	14-5-2015 to 14-5-2022
<u>49,779</u>		

2014

Number of options '000	Exercise price* HK\$ per share	Exercise period
20	2.440	24-12-2009 to 26-5-2018
919	2.416	5-10-2009 to 26-5-2018
2,889	0.903	15-10-2010 to 14-10-2018
5,004	1.838	25-3-2011 to 24-3-2016
525	0.915	18-8-2011 to 17-8-2016
2,400	0.690	14-1-2014 to 14-1-2019
3,177	0.684	24-1-2014 to 24-1-2021
32,270	0.650	23-4-2014 to 23-4-2021
<u>47,204</u>		

* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

The fair value of the share options granted during the year was RMB2,418,000 (RMB0.50 per share) (2014: RMB10,898,000, RMB0.28 per share). The Group recognised a share option expense of RMB4,399,000 (2014: RMB3,860,000) during the year ended 31 December 2015 in respect of the share options granted in the current and prior years.

The fair value of equity-settled share options granted during the year was estimated as at the date of grant using the Black-Scholes Option Pricing model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	2015	2014
Dividend yield (%)	–	–
Expected volatility (%)	69.36%	70.62%–72.21%
Risk-free interest rate (%)	1.54%	1.36%–1.84%
Expected life of options (year)	1.00–4.00	0.46–4.00
Weighted average share price (HK\$ per share)	<u>1.04</u>	<u>0.65–0.69</u>

The expected life of the options is based on the historical data over the past three years and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

(b) Join Reach share option scheme

The Join Reach share option scheme adopted by Join Reach Limited ("Join Reach") was set up by the shareholders of Prime Century Technology Limited ("Prime Century"), which is one of the substantial shareholders of the Company, to recognise and reward the contribution of certain employees of the Company and its subsidiaries who, in the opinion of the board of directors of Join Reach, have contributed or will contribute to the growth and development of the business invested by Prime Century. The Join Reach share option scheme became effective on 26 May 2008 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of shares in Prime Century which may be transferred by Join Reach to the grantees upon the exercise of all options to be granted under the Join Reach share option scheme represents approximately 8.8% of the total issued share capital of Prime Century.

The offer of a grant of share options may be accepted within 21 days from the date of offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors of Join Reach, and commences after a certain vesting period and ends on a date which is not later than four years from the date of offer of the share options or the expiry date of the Join Reach share option scheme, if earlier.

No share options were outstanding as at 31 December 2015 and 2014. No share option has been granted, exercised, cancelled or lapsed during the years.

At the end of the reporting period, the Company had approximately 49,779,000 share options outstanding under the share option scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 49,779,000 additional ordinary shares of the Company and additional share capital of HK\$498,000 and share premium of HK\$41,316,000 (before issue expenses).

Subsequent to the end of the reporting period, no share options under the share option scheme was lapsed, exercised or forfeited.

At the date of approval of these financial statements, the Company has 47,431,000 share options outstanding under the share option scheme, which represented approximately 2.58% of the Company's shares in issue as at that date.

31. SHARE AWARD SCHEME

On 16 August 2010, the board of directors of the Company (the "Board") approved the establishment of a share award scheme with the objective to recognise the performance of eligible employees within the Group and to retain them for the continued operation and development of the Group and to encourage senior employees to have a direct financial interest in the long term success of the Group. Under the share award scheme, award shares of the Company ("Award Shares") are granted to eligible employees of the Company or any one of its subsidiaries for no consideration but subject to certain considerations (including but not limited to, the lockup period) to be decided by the Board at the time of grant of the Award Shares under the share award scheme. The share award scheme will remain in force for 10 years from the date of adoption.

The share award scheme will operate in parallel with the Company's share option scheme. All options granted under the share option scheme will continue to be valid and exercisable subject to and in accordance with the terms of those schemes.

Pursuant to the rules of the share award scheme, the Company has set up the Trust for the purposes of administering the share award scheme and holding the Award Shares before vested and the expiry of the lock-up period. The Company can (i) make a loan to the Trust from time to time for the purchase of the Award Shares under the loan agreement; (ii) instruct its broker to purchase existing shares in the Company from the market, settle payment and costs and deliver the same to the trustee to hold on trust for the eligible employees; and (iii) allot and issue new shares in the Company to the trustee to hold on trust for the eligible employees.

The maximum number of all Award Shares purchased by the trustee under the share award scheme must not be 10% or more of the issued share capital of the Company as at the adoption date, i.e., 142,884,712 shares, unless the Board otherwise decides.

During the year, a total of 1,532,000 (2014: 824,000) shares at a cost of RMB1,788,000 (2014: RMB956,000) were vested.

Movements in the number of the Award Shares and their related average fair value are as follows:

	2015		2014	
	Average fair value <i>HK\$ per share</i>	Number of shares <i>'000</i>	Average fair value <i>HK\$ per share</i>	Number of shares <i>'000</i>
At 1 January		5,381		6,205
Vested	1.45	<u>(1,532)</u>	1.45	<u>(824)</u>
At 31 December		<u>3,849</u>		<u>5,381</u>

Movements in the number of shares held under the share award scheme are as follows:

	2015	2014
	Number of shares held <i>'000</i>	Number of shares held <i>'000</i>
At 1 January	22,299	23,123
Released during the year	<u>(1,532)</u>	<u>(824)</u>
At 31 December	<u>20,767</u>	<u>22,299</u>

32. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 7 to 8 of the financial statements.

(i) Merger reserve

The merger reserve of the Group represents (i) the excess of the nominal value of the paid-up capital of Huadong Feitian over the nominal value of A8 Music's shares which were issued as consideration for obtaining the control of Huadong Feitian at the time of the group reorganisation in 2004; and (ii) the excess of the nominal value of the shares of the Company issued over the nominal value of A8 Music's shares acquired pursuant to the group reorganisation in 2008.

(ii) Surplus contributions

According to an agreement dated 27 December 2004 on the capital contribution into A8 Music's signed by A8 Music, the then three shareholders of A8 Music and the registered owners, the three shareholders of A8 Music agreed to make cash contributions of HK\$1,000,000 (equivalent to RMB1,063,000) and RMB10,000,000 into A8 Music without any equity interests issued and issuable to them in return. In addition, A8 Music has no obligations to repay these contributions. As a result, the contributions were reported as surplus contributions of A8 Music.

(iii) PRC statutory reserves

In accordance with the Companies Laws of the PRC and the articles of association of the subsidiaries of the Company which are domestic enterprises established in the PRC, appropriations of their net profits after offsetting accumulated losses from prior years should be made to the statutory reserve fund maintained by these companies before any distributions are made to the investors. The percentage of appropriation to the statutory reserve fund is 10%. When

the balance of the statutory reserve fund reaches 50% of the paid-up/registered capital, no further appropriations are required to be made. The statutory reserve fund shall not be less than 25% of the original registered capital.

In accordance with the Law of the PRC for Enterprises with Foreign Investments and the articles of association of a subsidiary of the Company established in the PRC, namely Cash River, appropriations from net profits, after offsetting accumulated losses brought forward from prior years, should be made to the reserve fund before distributions are made to the owners. The percentage of net profits to be appropriated to the reserve fund should not be less than 10% of the net profits. When the balance of the reserve fund reaches 50% of the paid-up capital, no further appropriations are required to be made. Upon approval obtained from the board of directors, the reserve fund can be used to offset accumulated deficits or to increase the registered capital.

33. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 13) under operating lease arrangements, with leases negotiated for terms ranging from one to ten years. The terms of the leases generally allow the tenancies to be cancellable with any notice period no longer than 6 months, and also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions. At the end of the reporting period, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Within one year	29,824	23,713

(b) As lessee

The Group leases certain of its office properties under operating lease arrangements with lease terms ranging from one to three years. At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases in respect of building as follows:

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Within one year	120	253

34. COMMITMENTS

In addition to the operating lease commitments detailed in note 33 above, the Group had the following commitments as at the end of the reporting period:

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Contracted, but not provided for:		
Investments	10,000	63,500

35. RELATED PARTY DISCLOSURES**(a) Outstanding balances with an associate:**

Details of the Group's balances with its associate at the end of the reporting period are disclosed in notes 21, 24 and 25 to the financial statements.

(b) Compensation of key management personnel of the Group

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Short term employee benefits	2,211	3,052
Performance related bonuses	433	421
Pension scheme contributions	166	192
Equity-settled share option expense	3,239	1,941
Equity-settled share award expense	5	27
	<u>6,054</u>	<u>5,633</u>
Total compensation paid to key management personnel	<u>6,054</u>	<u>5,633</u>

Further details of directors' emoluments are included in note 8 to these financial statements.

36. FINANCIAL INSTRUMENTS BY CATEGORY

Other than financial assets at fair value through profit or loss and conversion options embedded in preferred shares and convertible notes as disclosed in notes 22, 27 and 28, respectively, and available-for-sale investments as disclosed in note 19 to the financial statements, all financial assets and liabilities of the Group as at 31 December 2015 and 2014, were loans and receivables, and financial liabilities stated at amortised cost, respectively.

37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts of the financial instruments are reasonable approximation of their fair values.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value

As at 31 December 2015

	Quoted prices in active markets (Level 1) <i>RMB'000</i>	Significant observable inputs (Level 2) <i>RMB'000</i>	Significant unobservable inputs (Level 3) <i>RMB'000</i>	Total <i>RMB'000</i>
Financial assets at fair value through profit or loss	342	–	–	342
Conversion option embedded in preferred shares	–	–	6,309	6,309
	<u>342</u>	<u>–</u>	<u>6,309</u>	<u>6,651</u>

As at 31 December 2014

	Quoted prices in active markets (Level 1) <i>RMB'000</i>	Significant observable inputs (Level 2) <i>RMB'000</i>	Significant unobservable inputs (Level 3) <i>RMB'000</i>	Total <i>RMB'000</i>
Financial assets at fair value through profit or loss	443	–	–	443
Conversion option embedded in preferred shares	–	–	9,242	9,242
Conversion option embedded in convertible notes	–	–	32,176	32,176
	<u>443</u>	<u>–</u>	<u>41,418</u>	<u>41,861</u>

The movements in fair value measurements within Level 3 during the year are as follows:

	Conversion option embedded in preferred shares <i>RMB'000</i>	Conversion option embedded in convertible notes <i>RMB'000</i>
At 1 January 2014	13,015	30,393
Fair value (loss)/gain on conversion option	<u>(3,773)</u>	<u>1,783</u>
At 31 December 2014 and 1 January 2015	9,242	32,176
Fair value loss on conversion option	(2,933)	(11,751)
Redemption of convertible notes	–	<u>(20,425)</u>
At 31 December 2015	<u>6,309</u>	<u>–</u>

There were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 during the current and prior years.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 3.3 above.

(a) Credit risk

The maximum credit risk exposure of the Group is the gross carrying value of each of its financial assets.

The Group generates revenue from the provision of game publishing services to the publishing platforms. If the strategic relationship with either of the publishing platforms is terminated or scaled-back; or if the publishing platforms alter the co-operative arrangements; or if they experience financial difficulties in paying the Group, the Group's receivables might be adversely affected in term of recoverability. To manage this risk, the Group assesses the credit quality of the publishing platforms, taking into account their financial position, past experience and other factors. In view of the history of cooperation with the publishing platforms and the collection history of receivables due from them, management believes that the credit risk inherent in the Group's outstanding trade receivable balances due from publishing platforms is not significant.

As mentioned in note 3.3 above, the Mobile and Telecom Service Fees and the revenue from providing value-added services of the Group are substantially derived from co-operative arrangements with China Mobile and China Unicom (the "Mobile Telecommunications Operators"). If the strategic relationship with either of the Mobile Telecommunications Operators is terminated or scaled-back, or if the Mobile Telecommunications Operators alter the co-operative arrangements, the Group's mobile and telecommunications value-added services might be adversely affected. Since the Group mainly trades with the Mobile Telecommunications Operators, which are recognised and creditworthy third parties, the directors of the Company do not consider these counterparties to be of significant credit risk. The credit risk relating to the end customers of the services offered by the Group was shared by the Mobile Telecommunications Operators and the Group.

Apart from this, the directors of the Company do not consider there are significant concentrations of credit risk.

(b) Liquidity risk

The Group manages liquidity risk by maintaining a sufficient amount of bank deposits to ensure that operational requirements are fulfilled.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.

As at 31 December

	2015	2014
	Within one year or on demand	Within one year or on demand
	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	29,305	35,391
Other payables and accruals	109,563	71,540
	<u>138,868</u>	<u>106,931</u>

(c) Capital management

The primary objectives of the Group's capital management are to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and to provide an adequate return to shareholders by pricing its services commensurately with the level of risk.

The Group monitors capital on the basis of the net cash over the debt position, which is cash and cash equivalents less trade payables, other payables and accruals. The amounts of the net cash over debt position at the end of the reporting periods were as follows:

	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Cash and cash equivalents	429,745	316,458
Trade payables	(29,305)	(35,391)
Other payables and accruals	(109,563)	(71,540)
	<hr/>	<hr/>
Net cash over debt position	<u>290,877</u>	<u>209,527</u>

39. EVENT AFTER THE REPORTING PERIOD

Subsequent to the end of the reporting period, the Group received the full outstanding principal amount together with interest payable accrued of the convertible notes from Duomi Music amounting to US\$16 million (equivalent to RMB101 million) and refunded the collateral security of RMB60 million to Duomi Music in January 2016.

40. COMPARATIVE AMOUNTS

As further explained in notes 1 and 5 to the financial statements, due to the changes in the designation of principal activities and segment composition, certain comparative amounts have been reclassified to conform with the current year's presentation and disclosure.

41. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
NON-CURRENT ASSETS		
Investments in subsidiaries	111,165	107,432
Total non-current assets	<u>111,165</u>	<u>107,432</u>
CURRENT ASSETS		
Other receivables	277	509
Amounts due from subsidiaries	461,705	377,148
Cash and cash equivalents	116,680	3,596
Total current assets	<u>578,662</u>	<u>381,253</u>
CURRENT LIABILITIES		
Other payables and accruals	2,589	1,957
Total current liabilities	<u>2,589</u>	<u>1,957</u>
NET CURRENT ASSETS		
	<u>576,073</u>	<u>379,296</u>
Net assets	<u><u>687,238</u></u>	<u><u>486,728</u></u>
EQUITY		
Issued capital	15,123	11,914
Reserves (<i>note</i>)	672,115	474,814
Total equity	<u><u>687,238</u></u>	<u><u>486,728</u></u>

Note:

A summary of the Company's reserves is as follows:

	Share premium account RMB'000	Shares held under share award scheme RMB'000	Capital reserve RMB'000	Exchange fluctuation reserve RMB'000	Employee share-based compensation reserve RMB'000	Retained profits/ losses (accumulated) RMB'000	Total RMB'000
At 1 January 2014	459,699	(5,806)	8,969	(3,293)	16,683	(486)	475,766
Total comprehensive loss for the year	-	-	-	5	-	(5,164)	(5,159)
Equity-settled share-based payment arrangements	-	-	-	-	4,207	-	4,207
Transfer of reserve upon the forfeiture or expiry of share options	-	-	-	-	(1,143)	1,143	-
Employee share award scheme – release of award shares	-	482	-	-	(482)	-	-
At 31 December 2014 and 1 January 2015	459,699	(5,324)	8,969	(3,288)	19,265	(4,507)	474,814
Total comprehensive loss for the year	-	-	-	7,608	-	(27,037)	(19,429)
Placement of new shares	215,555	-	-	-	-	-	215,555
Share issue expenses	(3,542)	-	-	-	-	-	(3,542)
Issue of shares in connection with the exercise of share options	425	-	-	-	(129)	-	296
Equity-settled share-based payment arrangements	-	-	-	-	4,421	-	4,421
Transfer of reserve upon the forfeiture or expiry of share options	-	-	-	-	(739)	739	-
Employee share award scheme – release of award shares	-	382	-	-	(382)	-	-
At 31 December 2015	<u>672,137</u>	<u>(4,942)</u>	<u>8,969</u>	<u>4,320</u>	<u>22,436</u>	<u>(30,805)</u>	<u>672,115</u>

The employee share-based compensation reserve comprises the fair value of share options and share awards granted which are yet to be exercised, as further explained in the accounting policy for equity compensation benefits in note 3.3 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 23 March 2016.

Set out below are the audited consolidated financial statements of the Group for the financial year ended 31 December 2014 extracted from the annual report of the Company for the year ended 31 December 2014.

Consolidated Statement of Profit or Loss

Year ended 31 December 2014

	<i>Notes</i>	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
REVENUE		205,617	189,736
Business tax		<u>(1,788)</u>	<u>(2,237)</u>
Net revenue	6	203,829	187,499
Cost of services provided		<u>(148,211)</u>	<u>(125,339)</u>
Gross profit		55,618	62,160
Other income and gains, net	6	134,999	111,420
Selling and marketing expenses		(32,955)	(55,573)
Administrative expenses		(46,096)	(49,152)
Other operating expenses		(12,373)	–
Other expenses, net		(14,789)	(15,604)
Share of losses of associates	18	(40,940)	(31,964)
Share of losses of joint ventures	19	<u>(448)</u>	<u>(67)</u>
PROFIT BEFORE TAX	7	43,016	21,220
Income tax expense	9	<u>(33,363)</u>	<u>(12,747)</u>
PROFIT FOR THE YEAR		<u>9,653</u>	<u>8,473</u>
Attributable to:			
Owners of the Company	10	10,758	9,820
Non-controlling interests		<u>(1,105)</u>	<u>(1,347)</u>
		<u>9,653</u>	<u>8,473</u>
EARNINGS PER SHARE			
ATTRIBUTABLE TO ORDINARY			
EQUITY HOLDERS OF THE			
COMPANY	12		
Basic (RMB per share)		<u>0.8 cent</u>	<u>0.8 cent</u>
Diluted (RMB per share)		<u>0.8 cent</u>	<u>0.8 cent</u>

Consolidated Statement of Comprehensive Income*Year ended 31 December 2014*

	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
PROFIT FOR THE YEAR	9,653	8,473
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive loss to be reclassified to profit or loss in subsequent periods:		
Exchange realignment	<u>(1,655)</u>	<u>(7,743)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u><u>7,998</u></u>	<u><u>730</u></u>
Attributable to:		
Owners of the Company	9,103	2,077
Non-controlling interests	<u>(1,105)</u>	<u>(1,347)</u>
	<u><u>7,998</u></u>	<u><u>730</u></u>

Consolidated Statement of Financial Position*31 December 2014*

	<i>Notes</i>	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment	<i>13</i>	150,049	132,563
Investment properties	<i>14</i>	310,000	210,800
Prepaid land lease payments	<i>15</i>	13,839	13,855
Goodwill		1,515	1,515
Prepayment for acquisition of items of property, plant and equipment		1,904	1,051
Intangible assets	<i>16</i>	22,433	6,799
Investments in associates	<i>18</i>	–	3,318
Investments in joint ventures	<i>19</i>	26,208	3,360
Available-for-sale investment	<i>20</i>	6,000	–
Deferred tax assets	<i>27</i>	2,294	2,906
Conversion option embedded in preferred shares	<i>28</i>	9,242	13,015
Debt portion of convertible notes	<i>29</i>	30,004	–
Conversion option embedded in convertible notes	<i>29</i>	32,176	–
Deposit for acquisition of an investment		3,000	–
Total non-current assets		<u>608,664</u>	<u>389,182</u>
CURRENT ASSETS			
Trade receivables	<i>21</i>	32,216	51,141
Prepayments, deposits and other receivables	<i>22</i>	14,260	19,081
Investments at fair value through profit or loss	<i>23</i>	443	10,316
Restricted cash balances	<i>24</i>	3,885	16,476
Cash and cash equivalents	<i>24</i>	316,458	449,157
Total current assets		<u>367,262</u>	<u>546,171</u>

	<i>Notes</i>	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
CURRENT LIABILITIES			
Trade payables	25	35,391	28,967
Other payables and accruals	26	71,540	80,126
Tax payable		6,804	5,160
Deferred income		8,758	7,770
		<u>122,493</u>	<u>122,023</u>
NET CURRENT ASSETS			
		<u>244,769</u>	<u>424,148</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			
		853,433	813,330
NON-CURRENT LIABILITIES			
Deferred tax liabilities	27	45,360	14,644
Deferred income		9,662	12,800
		<u>55,022</u>	<u>27,444</u>
Net assets		<u>798,411</u>	<u>785,886</u>
EQUITY			
Equity attributable to owners of the Company			
Issued capital	30	11,914	11,914
Reserves	33(a)	786,863	775,213
		<u>798,777</u>	<u>787,127</u>
Non-controlling interests		<u>(366)</u>	<u>(1,241)</u>
Total equity		<u>798,411</u>	<u>785,886</u>

Consolidated Statement of Changes in Equity

Year ended 31 December 2014

	Attributable to owners of the Company													
	Issued capital	Shares premium account	Share held under share award scheme	Merger reserve	Surplus contributions	Employee share-based compensation reserve	Exchange fluctuation reserve	Capital reserve	Statutory reserve funds	Reserve fund	Retained profits	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(note 30)	(note 30)	(note 32)	(note 33(a))	(note 33(a))				(note 33(a))	(note 33(a))				
At 1 January 2013	4,203	185,434	(1,375)	29,135	10,522	21,650	2,010	10,833	21,643	4,422	226,683	515,160	106	515,266
Profit for the year	-	-	-	-	-	-	-	-	-	-	9,820	9,820	(1,347)	8,473
Other comprehensive loss for the year:														
Exchange realignment	-	-	-	-	-	-	(7,743)	-	-	-	-	(7,743)	-	(7,743)
Total comprehensive income for the year	-	-	-	-	-	-	(7,743)	-	-	-	9,820	2,077	(1,347)	730
Rights issue	7,711	269,904	-	-	-	-	-	-	-	-	-	277,615	-	277,615
Equity-settled share-based payment arrangements	-	-	-	-	-	1,555	-	-	-	-	-	1,555	-	1,555
Share issue expenses	-	(4,568)	-	-	-	-	-	-	-	-	-	(4,568)	-	(4,568)
Transfer of reserve upon the forfeiture or expiry of share options	-	-	-	-	-	(1,091)	-	-	-	-	1,091	-	-	-
Employee share award scheme:														
- shares purchased for share award scheme	-	-	(4,712)	-	-	-	-	-	-	-	-	(4,712)	-	(4,712)
- release of award shares	-	-	281	-	-	(281)	-	-	-	-	-	-	-	-
Transfer from retained profits	-	-	-	-	-	-	-	-	29	-	(29)	-	-	-
At 31 December 2013	11,914	450,770*	(5,806)*	29,135*	10,522*	21,833*	(5,733)*	10,833*	21,672*	4,422*	237,565*	787,127	(1,241)	785,886

Attributable to owners of the Company														
Issued capital	Share held			Employee			Exchange fluctuation reserve	Statutory			Retained profits	Non-controlling interests	Total equity	
	premium account	under share award scheme	Merger reserve	Surplus contributions	share-based compensation reserve	Capital reserve		reserve funds	Reserve fund	Total				
RMB'000 (note 30)	RMB'000 (note 30)	RMB'000 (note 32)	RMB'000 (note 33(a))	RMB'000 (note 33(a))	RMB'000	RMB'000	RMB'000	RMB'000 (note 33(a))	RMB'000 (note 33(a))	RMB'000	RMB'000	RMB'000	RMB'000	
At 31 December 2013 and 1 January 2014	11,914	450,770	(5,806)	29,135	10,522	21,833	(5,733)	10,833	21,672	4,422	237,565	787,127	(1,241)	785,886
Profit for the year	-	-	-	-	-	-	-	-	-	-	10,758	10,758	(1,105)	9,653
Other comprehensive loss for the year:														
Exchange realignment	-	-	-	-	-	-	(1,655)	-	-	-	-	(1,655)	-	(1,655)
Total comprehensive income for the year	-	-	-	-	-	-	(1,655)	-	-	-	10,758	9,103	(1,105)	7,998
Capital contribution from non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	-	-	320	320
Acquisition of non-controlling interest	-	-	-	-	-	-	-	(1,660)	-	-	-	(1,660)	1,660	-
Equity-settled share-based payment arrangements	-	-	-	-	-	4,207	-	-	-	-	-	4,207	-	4,207
Transfer of reserve upon the forfeiture or expiry of share options	-	-	-	-	-	(1,143)	-	-	-	-	1,143	-	-	-
Employee share award scheme:														
- release of award shares	-	-	482	-	-	(482)	-	-	-	-	-	-	-	-
Transfer from retained profits	-	-	-	-	-	-	-	-	29	-	(29)	-	-	-
At 31 December 2014	11,914	450,770*	(5,324)*	29,135*	10,522*	24,415*	(7,388)*	9,173*	21,701*	4,422*	249,437*	798,777	(366)	798,411

* These reserve accounts comprise the consolidated reserves of RMB786,863,000 (2013: RMB775,213,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows*Year ended 31 December 2014*

	<i>Notes</i>	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
CASH FLOWS FROM INVESTING			
ACTIVITIES			
Profit before tax		43,016	21,220
Adjustments for:			
Depreciation	7	3,159	1,439
Amortisation of prepaid land lease payments	7	318	585
Amortisation of intangible assets	7	9,288	9,288
Gain on disposal of a subsidiary	6	–	(256)
Loss on disposal of investments at fair value through profit or loss	7	–	1,084
Impairment of intangible assets	7	2,762	12,889
Loss on disposal of items of property, plant and equipment	7	13	34
Fair value (gain)/loss on investments at fair value through profit or loss	7	(127)	55
Fair value loss/(gain) on conversion option embedded in preferred shares	6, 7	3,773	(415)
Fair value gain on conversion option embedded in convertible notes	7	(1,783)	–
Fair value gains on investment properties	6	(87,321)	(90,158)
Bank interest income	6	(9,110)	(15,474)
Imputed interest income	6	(10,718)	(4,741)
Share of losses of associates	18	40,940	31,964
Share of losses of joint ventures	19	448	67
Impairment of trade receivables	7	683	132
Impairment of prepayments	7	2,019	–
Write-back of impairment of trade receivables	7	–	(1,545)
Write-back of impairment of other receivables	7	(1,430)	–
Impairment of an investment in an associate	7	2,832	–
Impairment of an investment in a joint venture	7	3,371	–
Equity-settled share option expense	7	3,860	968
Equity-settled share award expense	7	347	587
		<u>6,340</u>	<u>(32,277)</u>
Decrease in trade receivables		18,242	3,372
Decrease in prepayments, deposits and other receivables		3,434	2,114
Increase/(decrease) in trade payables		6,424	(1,295)
Decrease in other payables and accruals		(24,963)	(11,972)
(Decrease)/increase in deferred income		<u>(2,150)</u>	<u>11,417</u>
Cash generated from/(used in) operations		7,327	(28,641)
Tax paid		<u>(391)</u>	<u>(1,151)</u>
Net cash flows from/(used in) operating activities		<u>6,936</u>	<u>(29,792)</u>

	<i>Notes</i>	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
CASH FLOWS FROM INVESTING			
ACTIVITIES			
Disposal of a subsidiary		–	760
Acquisition of an available-for-sale investment		(6,000)	–
Additions to investment properties	<i>14</i>	(11,879)	–
Additions to prepaid land lease	<i>15</i>	(309)	–
Purchases of items of property, plant and equipment		(16,853)	(74,272)
Deposit for acquisition of an investment		(3,000)	–
Proceeds from disposal of items of property, plant and equipment		302	430
Purchases of intangible assets		(15,462)	(593)
Purchases of investments at fair value through profit or loss		–	(128,656)
Proceeds from disposal of investments at fair value through profit or loss		10,000	118,572
Purchase of preferred shares		–	(11,314)
Purchase of convertible notes		(89,927)	–
Purchase of shareholdings in joint ventures		(26,667)	–
Interest received		9,110	15,474
Decrease/(increase) in restricted cash		12,591	(13,536)
Increase in prepayments for acquisition of items of property, plant and equipment		–	(567)
Decrease in short term time deposits with original maturity of more than three months		–	8,318
Net cash flows used in investing activities		<u>(138,094)</u>	<u>(85,384)</u>
CASH FLOWS FROM FINANCING			
ACTIVITIES			
Proceeds from rights issue		–	277,615
Share issue expenses		–	(4,568)
Purchase of award shares		–	(4,712)
New bank loan		–	13,272
Repayment of a bank loan		–	(82,839)
Interest paid		–	(1,254)
Capital contribution from non-controlling shareholders		320	–
Net cash flows from financing activities		<u>320</u>	<u>197,514</u>

	<i>Notes</i>	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of year		(130,838)	82,338
Effect of foreign exchange rate changes, net		449,157	374,562
		<u>(1,861)</u>	<u>(7,743)</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR			
		<u>316,458</u>	<u>449,157</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	<i>24</i>	268,022	337,301
Time deposits with original maturity of less than three months when acquired	<i>24</i>	<u>48,436</u>	<u>111,856</u>
Cash and cash equivalents as stated in the consolidated statement of financial position and the consolidated statement of cash flows		<u>316,458</u>	<u>449,157</u>

Statement of Financial Position*31 December 2014*

	<i>Notes</i>	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
NON-CURRENT ASSETS			
Investments in subsidiaries	<i>17</i>	<u>107,432</u>	<u>103,305</u>
Total non-current assets		<u>107,432</u>	<u>103,305</u>
CURRENT ASSETS			
Other receivables		509	94
Amounts due from subsidiaries		377,148	381,099
Cash and cash equivalents	<i>24</i>	<u>3,596</u>	<u>5,093</u>
Total current assets		<u>381,253</u>	<u>386,286</u>
CURRENT LIABILITIES			
Other payables and accruals		<u>1,957</u>	<u>1,911</u>
Total current liabilities		<u>1,957</u>	<u>1,911</u>
NET CURRENT ASSETS			
		<u>379,296</u>	<u>384,375</u>
Net assets		<u><u>486,728</u></u>	<u><u>487,680</u></u>
EQUITY			
Issued capital	<i>30</i>	11,914	11,914
Reserves	<i>33(b)</i>	<u>474,814</u>	<u>475,766</u>
Total equity		<u><u>486,728</u></u>	<u><u>487,680</u></u>

Notes to Financial Statements*31 December 2014***1. CORPORATE INFORMATION**

A8 New Media Group Limited (formerly known as A8 Digital Music Holdings Limited) (the “Company”) is a limited liability company incorporated in the Cayman Islands. The registered office address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

During the year, the Company and its subsidiaries (collectively referred to as the “Group”) were principally engaged in the provision of digital entertainment services, including music-based entertainment services and game related services in the People’s Republic of China (the “PRC” or “Mainland China”).

2. BASIS OF PREPARATION

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”), which comprise standards and interpretations approved by the International Accounting Standards Board (the “IASB”), and International Accounting Standards (“IASs”) and Interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”) approved by the International Accounting Standards Committee that remain in effect. These financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance relating to the preparation of financial statements, which for this financial year and the comparative period continue to be those of the predecessor Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 of the Hong Kong Companies Ordinance (Cap. 622), “Accounts and Audit”, which are set out in sections 76 to 87 of Schedule 11 to that Ordinance.

The financial statements have been prepared under the historical cost convention, except for investment properties, investments at fair value through profit or loss and conversion options embedded in the preferred shares and the convertible notes which have been measured at fair value. The financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand (RMB’000) except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2014. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described in the accounting policy for subsidiaries below. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

3.1 CHANGES IN ACCOUNTING POLICIES DISCLOSURES

The Group has adopted the following revised standards and a new interpretation for the first time for the current year's financial statements.

Amendments to IFRS 10, IFRS 12 and IAS 27 (2011)	<i>Investment Entities</i>
Amendments to IAS 32	<i>Offsetting Financial Assets and Financial Liabilities</i>
Amendments to IAS 39	<i>Novation of Derivatives and Continuation of Hedge Accounting</i>
IFRIC 21	<i>Levies</i>
Amendment to IFRS 2 included in <i>Annual Improvements 2010-2012 Cycle</i>	<i>Definition of Vesting Condition¹</i>
Amendment to IFRS 3 included in <i>Annual Improvements 2010-2012 Cycle</i>	<i>Accounting for Contingent Consideration in a Business Combination¹</i>
Amendment to IFRS 13 included in <i>Annual Improvements 2010-2012 Cycle</i>	<i>Short-term Receivables and Payables</i>
Amendments to IFRS 1 included in <i>Annual Improvements 2011-2013 Cycle</i>	<i>Meaning of Effective IFRSs</i>

¹ Effective from 1 July 2014

The adoption of the revised standards and interpretation has had no significant financial effect on these financial statements.

3.2 NEW AND REVISED IFRSs AND NEW DISCLOSURE REQUIREMENTS UNDER THE HONG KONG COMPANIES ORDINANCE NOT YET ADOPTED

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to IAS 1	<i>Disclosure Initiative²</i>
IFRS 9	<i>Financial Instruments⁴</i>
Amendments to IFRS 10 and IAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture²</i>
Amendments to IFRS 10, IFRS 12 and IAS 28 (2011)	<i>Investment Entities: Applying the Consolidation Exception²</i>
Amendments to IFRS 11	<i>Accounting for Acquisitions of Interests in Joint Operations²</i>
IFRS 14	<i>Regulatory Deferral Accounts⁵</i>
IFRS 15	<i>Revenue from Contracts with Customers³</i>
Amendments to IAS 16 and IAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation²</i>
Amendments to IAS 16 and IAS 41	<i>Agriculture: Bearer Plants²</i>
Amendments to IAS 19	<i>Defined Benefit Plans: Employee Contributions¹</i>
Amendments to IAS 27 (2011)	<i>Equity Method in Separate Financial Statements²</i>
<i>Annual Improvements 2010-2012 Cycle</i>	Amendments to a number of IFRSs ¹
<i>Annual Improvements 2011-2013 Cycle</i>	Amendments to a number of IFRSs ¹
<i>Annual Improvements 2012-2014 Cycle</i>	Amendments to a number of IFRSs ²

- ¹ Effective for annual periods beginning on or after 1 July 2014
- ² Effective for annual periods beginning on or after 1 January 2016
- ³ Effective for annual periods beginning on or after 1 January 2017
- ⁴ Effective for annual periods beginning on or after 1 January 2018
- ⁵ Effective for an entity that first adopts IFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group

In addition, the new Hong Kong Companies Ordinance (Cap. 622) will affect the presentation and disclosure of certain information in the consolidated financial statements for the year ending 31 December 2015. The Group is in the process of making an assessment of the impact of these changes.

Further information about those IFRSs that are expected to be applicable to the Group is as follows:

IFRS 9 Financial Instruments

The final version of IFRS 9, as issued, brings together all phases of the financial instruments project to replace IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt IFRS 9 from 1 January 2018. The Group expects that the adoption of IFRS 9 will have an impact on the classification and measurement of the Group's financial assets. Further information about the impact will be available nearer the implementation date of the standard.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (2011)

The amendments to IFRS 10 and IAS 28 (2011) address an inconsistency between the requirements in IFRS 10 and in IAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The Group expects to adopt the amendments from 1 January 2016.

Accounting for Acquisitions of Interests in Joint Operations – Amendments to IFRS 11

The amendments to IFRS 11 require that an acquirer of an interest in a joint operation in which the activity of the joint operation constitutes a business must apply the relevant principles for business combinations in IFRS 3. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2016.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will

supersede all current revenue recognition requirements under IFRSs. The Group expects to adopt IFRS 15 on 1 January 2017 and is currently assessing the impact of IFRS 15 upon adoption.

Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38

Amendments to IAS 16 and IAS 38 clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are to be applied prospectively. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2016 as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

Annual Improvements to IFRSs 2010-2012

The *Annual Improvements to IFRSs 2010-2012 Cycle* issued in December 2013 sets out amendments to a number of IFRSs. Except for those described in note 3.1, the Group expects to adopt the amendments from 1 January 2015. None of the amendments are expected to have a significant financial impact on the Group. Details of the amendment most applicable to the Group are as follows:

IFRS 8 *Operating Segments*: Clarifies that an entity must disclose the judgements made by management in applying the aggregation criteria in IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics used to assess whether the segments are similar. The amendments also clarify that a reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group's voting rights and potential voting rights.

The results of subsidiaries are included in the Company's statement of profit or loss to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Investments in associates and joint ventures

An associate is an entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated statement of profit or loss and consolidated statement of other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

The results of associates and joint ventures are included in the Company's statement of profit or loss to the extent of dividends received and receivable. The Company's investments in associates and joint ventures are treated as non-current assets and are stated at cost less any impairment losses.

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with IFRS 5.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 is measured at fair value with changes in fair value either recognised in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Fair value measurement

The Group measures its investment properties, derivative financial instruments and equity investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
- Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than financial assets and investment properties), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

- (vi) the entity is controlled or jointly controlled by a person identified in (a); and
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose as follows:

Building	Over the lease terms
Computer equipment	3 to 5 years
Furniture, fixtures, and office and other equipment	5 to 10 years
Motor vehicles	5 years
Leasehold improvements	Over the shorter of the lease terms and useful lives

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Investment properties

Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Property under construction or development for future use as an investment property is classified as investment property under construction. If the fair value cannot be reliably determined, the investment property under construction will be measured at cost until such time as fair value can be determined or construction is completed.

Gains or losses arising from changes in the fair values of investment properties are included in the statement of profit or loss in the year in which they arise. Any gains or losses on the retirement or disposal of an investment property are recognised in the statement of profit or loss in the year of the retirement or disposal.

When the Group completes the construction or development of a self-constructed investment property, any difference between the fair value of the property at the completion date and its previous carrying amount is recognised in the statement of profit or loss.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Trademarks, licences and software

Purchased trademarks, licences and software are stated at cost less accumulated amortisation and any impairment losses and are amortised on the straight-line basis over their estimated useful lives of two to ten years.

Music copyrights

Music copyrights are stated at cost less accumulated amortisation and any impairment losses and are amortised on the straight-line basis over their estimated useful lives of three years.

Mobile game licenses

Mobile game licenses represent up front license fees paid for exclusive mobile game development and publishing in a specified territory. They are stated at cost less accumulated amortisation and any impairment losses and are amortised on the straight-line basis over the estimated useful lives.

Research and development costs

All research costs are charged to the statement of profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less accumulated amortisation and any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding three years, commencing from the date when the products are put into commercial production.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under

operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases are charged to the statement of profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss and loans and receivables. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for “Revenue recognition” below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in IAS 39 are satisfied.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is

included in other income and gains in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in finance costs for loans and in other expenses for receivables.

Preferred shares and convertible notes held by the Group are separately presented as a debt portion and conversion option embedded in preferred shares and convertible notes. On initial recognition, the debt portion represents the residual value between the fair value of the preferred shares and convertible notes and the fair value of the embedded conversion options. The debt portion is classified as loans and receivables and is subsequently measured at amortised cost using the effective interest method.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the statement of profit or loss as other income in accordance with the policies set out for “Revenue recognition” below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that

are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in the statement of profit or loss.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of profit or loss, is removed from other comprehensive income and recognised in the statement of profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss – is removed from other comprehensive income and recognised in the statement of profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through the statement of profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired, or
- the Group has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks

and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade payables, other payables and accruals.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in IAS 39 are satisfied.

Loans and borrowings

After initial recognition, interest-bearing bank and borrowings are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Treasury shares

Own equity instruments which are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in the statement of profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration is recognised in equity.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statements of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the statement of profit or loss by way of a reduced depreciation charge.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably. Revenue from the rendering of services is recognised when the related services are provided.

The Group principally derives revenue from providing digital entertainment services, including music-based entertainment services and game related services in PRC.

Ringbacktone and other music-related services

These services are predominantly delivered through the platforms of various subsidiaries of China Mobile Communications Corporation (“China Mobile”) and China United Telecommunications Corporation (“China Unicom”). These services are substantially billed on a monthly subscription basis with certain portions billed on a per-message basis (the “Mobile and Telecom Service Fees”) and the fees are substantially collected by the subsidiaries of China Mobile and China Unicom on behalf of the Group.

Gross revenue is recognised based on the Mobile and Telecom Service Fees, net of the amount of the uncollectibles.

China Mobile and China Unicom are entitled to commissions, which are calculated based on agreed percentages of the Mobile and Telecom Service Fees received or receivable by these mobile operators. In addition, in certain cases, the two mobile operators charge a network usage fee based on a fixed per-message fee multiplied by the excess of messages sent over messages received between the platforms of the Group and these two mobile operators. These commissions and network usage fees (collectively referred to as the “Mobile and Telecom Charges”) are retained by the mobile operators, and are reflected as costs of services provided in the consolidated statement of profit or loss of the Group. The Mobile and Telecom Charges are withheld and deducted from the gross Mobile and Telecom Service Fees collected by the two mobile operators from the users, with the net amounts remitted to the Group.

The Mobile and Telecom Service Fees and the Mobile and Telecom Charges, or the net amount of the two, are confirmed and/or advised by subsidiaries of China Mobile and China Unicom to the Group on a regular basis. For revenue whose amount is not confirmed/advised by the two mobile operators at the time of reporting the financial results of the Group, management of the Group estimates the amount receivable based on historical data, which reflect developing trends in customer payment delinquencies. Historical data used in estimating revenues include the most recent history of the Mobile and Telecom Service Fees actually derived from the operators, the number of subscriptions and the volume of data transmitted between the network gateways of the Group, China Mobile and China Unicom. Adjustments are made in subsequent periods in case the actual revenue amounts are different from the original estimates.

Game publishing services

The Group engages in the provision of mobile game publishing services. Pursuant to exclusive game licensing agreements signed between the Group and the game developers, the Group is responsible for the publishing, promotion and distribution of the mobile games within a specified territory, collecting the payments made by players and providing customer services relating to game content and payments made by individual players. These agreements typically last for two to three years.

The Group then distribute the mobile games through a diversified range of third-party distribution channels. Game players made payments through the in-game payment systems, which include various channels, such as online wire transfer through third-party online payment vendors, through mobile network carriers and by credit card. In all cases, payments made by players of the games under exclusive licenses, regardless of which platform such players access the game, are paid to the game developers through the Group.

During the term of the agreements, the Group has to share a percentage of the gross billings generated by the sale of the virtual currency within the games with the third-party distribution channels. The percentage of gross billings the Group shared varies depending on the particular agreement. Payments from distribution channels to the Group are usually settled on a monthly basis. Prior to the settlement date, the relevant distribution channels will send the record of gross in-game payments to the Group for verification. The Group’s operations team maintains databases that connect to the game server maintained by the game developers, to track the virtual currency and premium features sold in the games. As a result, the Group can calculate the estimated gross in-game payments from the operations team’s records and verify the gross in-game payments records provided by the distribution channels. The distribution channels then monthly withhold the pre-agreed portion and the portion is deducted

from the gross in-game payments collected from the game players, with the net amounts remitted to the Group. The consideration received for the purchase of the virtual currency is non-refundable and the related contracts are non-cancellable. The Group does not track the marketing discounts offered by the distribution channels as the latter bears the costs of such marketing discounts.

Revenue from the sale of virtual currency to be used for the purchase of in-game virtual items from mobile games is also shared between the Group and the game developers based on a predetermined ratio for each game monthly on a net basis after the deduction of game publishing charges paid to distribution channels. The Group has evaluated and concluded that it has the primary roles and responsibilities in the delivery of game experience to the game players and in the rendering of service as the Group determined itself being primarily responsible for all the requests and comments from the distribution channels as well as the game players. Accordingly, the Group is determined to be the primary obligor and reports revenue from the sale of virtual currency on a gross basis.

Given that the Group does not have sufficient data to analyse the characteristics of virtual items to reasonably estimate the delivery obligation period due to the system constraint, the Group has adopted a policy to recognise revenue relating to game publishing service over the estimated average user life of paying players with the Group on a game-by-game basis.

The estimated user life of paying players is based on data collected from those game players who have purchased the virtual currencies. To estimate the user life of paying players, the Group captures the following information for each paid player from its database: (a) the frequency that paying players log into each game via the distribution channels; and (b) the amount and the timing of when the paying players purchased the virtual currencies. The Group estimates the user life of paying players for a particular game to be the date a player purchases virtual currency through the date the Group estimates the user plays the game for the last time. This computation is completed on a player by player basis. Then, the results for all analysed paying players are averaged to determine an estimated user life of paying players for each game. Gross revenues from in-game payments of each month are recognised over the average user life of paying players estimated for that game.

The consideration of the average user life of paying players with each mobile game is based on the Group's best estimate that takes into account all known and relevant information at the time of assessment. The Group assesses the estimated average user life of paying players on a half-yearly basis. Any adjustments arising from changes in the user life of paying players as a result of new information will be accounted for as a change in accounting estimate.

Rental and management fee income

Rental income is recognised in the period in which the properties are let and on the straight-line basis over the lease terms, and management fee income is recognised in the period when the services are rendered.

Interest income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Employee benefits

Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the reporting date. Employee entitlements to sick and maternity leave are not recognised until the time of leave.

Pension obligations

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute certain percentages of its payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

Equity compensation benefits

The Company operates the share option scheme and a share award scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments transaction, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled in employee benefit expense. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Shares held for share award scheme

As disclosed in note 32 to the financial statements, the Group has set up a trust for the share award scheme, where the trust purchases shares issued by the Group, the consideration paid by the Company, including any directly attributable incremental costs, is presented as "Shares held for the Share Award Scheme" and deducted from the Group's equity.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Foreign currencies

These financial statements are presented in RMB, which is the functional and presentation currency of certain of the Company's subsidiaries. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currency of the Company and certain subsidiaries is the Hong Kong dollar ("HK\$"). As at the end of the reporting period, the assets and liabilities of the Company and the subsidiaries are translated into the presentation currency of the Group at the exchange rates prevailing at the end of the reporting period and the statements of profit or loss of the Company and the subsidiaries are translated into RMB at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of the Company and the subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of the Company and the subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the financial statements require management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

(i) Judgements

In the process of applying the Group's accounting policies, management has made the following judgement, apart from those involving estimations, which has the most significant effect on the amounts recognised in the financial statements:

Accounting for companies governed under contractual arrangements as subsidiaries

As further detailed in note 17(a) below, A8 New Media Group Limited does not have equity ownership in certain subsidiaries of the Group (collectively the "Subsidiaries under Contractual Agreements"). Nevertheless, under the contractual agreements entered into between the Subsidiaries under Contractual Agreements, their respective registered owners and certain subsidiaries of the Group, management has determined that the Group controls the financial and operating policies of the Subsidiaries under Contractual Agreements so as to obtain benefits from their activities. As such, the Subsidiaries under Contractual Agreements and their respective subsidiaries are accounted for as subsidiaries of the Group for accounting purposes.

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

Deferred tax on investment properties

For the purpose of measuring deferred tax liabilities or deferred tax assets arising from investment properties that are measured using the fair value model, the directors have reviewed the Group's investment property portfolio and concluded that the Group's investment properties are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Therefore, in determining the Group's deferred tax on investment properties, the directors have determined that the presumption set out in IAS 12 *Income Taxes* that investment properties measured using the fair value model are recovered through sale is rebutted. In addition, in measuring the deferred tax liability on investment properties, the directors have made judgement on the tax rate that is expected to apply when the liability is settled based on tax rates and tax laws that have been enacted by the end of the reporting period.

(ii) Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Recognition of telecommunications value-added services

As mentioned in the “Revenue recognition” section of note 3.3, for the Mobile and Telecom Service Fees not yet confirmed/advised by the mobile operators at the time of reporting the financial results of the Group, management of the Group estimates the amounts receivable based on historical data and developing trends in customer payment delinquencies.

Fair value of investment properties

Investment properties including completed investment properties and investment properties under construction are revalued at the end of the reporting period on a market value, existing use basis by independent professionally qualified valuers. These valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the estimation, information from current prices in an active market for similar properties is considered and assumptions that are mainly based on market conditions existing at the end of the reporting period are used.

Estimation of the user life of paying players

As mentioned in the “Revenue recognition” section of note 3.3, the Group recognises revenue from the sales of virtual currency ratably over the estimated average user life of paying players for the applicable games in which the Group is not able to track the consumption of virtual items. Future paying player usage patterns and behaviour may differ from the historical usage patterns and therefore the estimated average user life of paying players may change in the future.

The Group will continue to monitor the estimation used in determining the average user life of paying players, which may differ from the historical period, and any change in the estimate may result in the revenue being recognised on a different basis than in prior periods.

5. OPERATING SEGMENT INFORMATION

The directors consider that the Group’s activities constitute one operating segment as the Group is principally engaged in providing digital entertainment services through mobile phones, including music-based entertainment and game related services. Management makes decisions about resource allocation and performance assessment on a group basis.

Over 90% of the Group’s revenue from external customers is derived from the Group’s operations in the PRC, and no non-current assets of the Group are located outside the PRC.

Revenue of approximately RMB80,819,000 (2013: RMB106,386,000) and RMB25,478,000 (2013: RMB20,476,000), respectively, were derived from providing mobile value-added services through mobile phones to the two largest customers.

6. REVENUE, OTHER INCOME AND GAINS, NET

Revenue represents the net invoiced value and estimated value of services rendered.

An analysis of revenue, other income and gains, net, is as follows:

	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
Music-based entertainment		
Ringback tone services	42,193	86,094
Other music related services	29,688	43,223
	<u>71,881</u>	<u>129,317</u>
Sub-total	<u>71,881</u>	<u>129,317</u>
Game-related revenue	<u>127,528</u>	<u>37,177</u>
Other entertainment revenue	<u>6,208</u>	<u>23,242</u>
	205,617	189,736
Less: Business tax	<u>(1,788)</u>	<u>(2,237)</u>
Net revenue	<u><u>203,829</u></u>	<u><u>187,499</u></u>
Other income and gains, net		
Fair value gains on investment properties	87,321	90,158
Gross rental and management fee income	25,909	–
Bank interest income	9,110	15,474
Imputed interest income	10,718	4,741
Gain on disposal of a subsidiary	–	256
Fair value gains on investments at fair value through profit or loss	127	–
Fair value gain on conversion option embedded in preferred shares	–	415
Fair value gain on conversion option embedded in convertible notes	1,783	–
Others	31	376
	<u><u>134,999</u></u>	<u><u>111,420</u></u>

7. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
Depreciation	3,159	1,439
Amortisation of intangible assets	9,288	9,288
Amortisation of prepaid land lease payments [#]	318	585
Operating lease rentals in respect of office buildings	1,553	6,262
Auditors' remuneration	1,426	1,356
Direct operating expenses (including repairs and maintenance) arising on rental-earning investment properties	12,373	–
Employee benefit expense (including directors' remuneration):		
Wages, salaries and bonuses	28,428	34,110
Welfare, medical and other expenses	3,191	4,544
Contributions to social security plans	3,925	5,579
Equity-settled share option expense	3,860	968
Equity-settled share award expense	347	587
	<u>39,751</u>	<u>45,788</u>
Impairment of trade receivables**	683	132
Write-back of impairment of trade receivables**	–	(1,545)
Write-back of impairment of other receivable**	(1,430)	–
Impairment of prepayments**	2,019	–
Write-off of trade receivables**	67	–
Impairment of intangible assets**	2,762	12,889
Foreign exchange differences, net**	185	2,528
Mobile and Telecom Charges*	52,135	78,246
Game publishing service charges*	32,191	–
Loss of disposal of items of property, plant and equipment**	13	34
Loss on disposal of investments at fair value through profit or loss**	–	1,084
Impairment of an investment in an associate**	2,832	–
Impairment of an investment in a joint venture**	3,371	–
Fair value loss on conversion option embedded in preferred shares**	3,773	–
Fair value gain on conversion option embedded in convertible notes***	(1,783)	–
Fair value (gains)/losses on investments at fair value through profit or loss**/**	<u>(127)</u>	<u>55</u>

[#] Included in "Administrative expenses" on the face of the consolidated statement of profit or loss.

* Included in "Cost of services provided" on the face of the consolidated statement of profit or loss.

** Included in "Other expenses, net" on the face of the consolidated statement of profit or loss.

*** Included in "Other income and gains, net" on the face of the consolidated statement of profit or loss.

8. DIRECTORS' REMUNERATION AND THE FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' remuneration

	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
Fees	285	281
Other emoluments:		
Salaries, bonuses, allowances and benefits in kind	1,879	1,811
Share-based payments	1,635	635
Pension scheme contributions	123	110
	3,637	2,556
	3,922	2,837

During the current and prior years, certain directors were granted share options, in respect of their services to the Group, under the share option schemes of the Company. The fair value of these options, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current and prior years is included in the above directors' remuneration disclosures.

Further details are set out in note 31 to the financial statements.

(i) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

2014

	Fees <i>RMB'000</i>	Bonuses <i>RMB'000</i>	Share-based payments <i>RMB'000</i>	Total remuneration <i>RMB'000</i>
Independent non-executive directors:				
Mr. Chan Yiu Kong	143	–	47	190
Mr. Song Ke	71	–	47	118
Ms. Wu Shihong	71	–	47	118
	285	–	141	426

2013

	Fees RMB'000	Bonuses RMB'000	Share-based payments RMB'000	Total remuneration RMB'000
Independent non-executive directors:				
Mr. Chan Yiu Kong	144	–	–	144
Mr. Song Ke*	42	–	–	42
Mr. Zeng Liqing [#]	23	–	–	23
Ms. Wu Shihong	72	–	–	72
	<u>281</u>	<u>–</u>	<u>–</u>	<u>281</u>

There were no other emoluments payable to the independent non-executive directors during the year (2013: Nil).

* Appointed as independent non-executive director on 30 May 2013.

[#] Resigned as independent non-executive director on 30 May 2013.

(ii) *Executive directors and non-executive directors*

Fees RMB'000	Salaries, bonuses, allowances and benefits in kind RMB'000	Share-based payments RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
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2014

Executive directors:

Mr. Liu Xiaosong ("Mr. Liu")*	–	866	843	81	1,790
Mr. Liu Pun Leung [@]	–	512	445	7	964
Mr. Lu Bin [#]	–	501	206	35	742
	<u>–</u>	<u>1,879</u>	<u>1,494</u>	<u>123</u>	<u>3,496</u>

2013

Executive directors:

Mr. Liu	–	893	–	49	942
Mr. Lu Bin	–	918	635	61	1,614
	<u>–</u>	<u>1,811</u>	<u>635</u>	<u>110</u>	<u>2,556</u>

* Mr. Liu is also the chief executive of the Company.

[@] Appointed as executive director on 27 November 2014.

[#] Resigned as executive director on 27 November 2014.

(b) Five highest paid individuals

The five highest paid individuals included two (2013: two) directors, details of whose remuneration are set out above. Details of the remuneration of the remaining three (2013: three) non-director, highest paid individuals for the year are as follows:

	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>
Salaries, bonuses, allowances and benefits in kind	3,024	2,442
Equity-settled share option expense	681	216
Equity-settled share award expense	27	382
Pension scheme contributions	184	218
	<u>3,916</u>	<u>3,258</u>

The number of non-director, highest paid individuals whose remuneration fell within the following bands is as follows:

	Number of employees	
	2014	2013
Nil to HK\$1,000,000	1	1
HK\$1,000,001 to HK\$1,500,000	1	1
HK\$1,500,001 to HK\$2,000,000	–	1
HK\$2,500,001 to HK\$3,000,000	1	–
	<u>3</u>	<u>3</u>

(c) During the year, no emoluments were paid by the Group to the directors, or any of the non-director, highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office nor has any director or non-director, highest paid individual waived or agreed to waive any emoluments.

9. INCOME TAX EXPENSE

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year (2013: Nil). The income tax for the subsidiaries operating in Mainland China is calculated at the prevailing rates in the jurisdictions in which the subsidiaries operate.

An analysis of the income tax charges for the year is as follows:

	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>
Group		
Current – PRC		
Charge for the year	2,251	873
Underprovision/(overprovision) in prior years	(216)	325
Deferred (<i>note 27</i>)	<u>31,328</u>	<u>11,549</u>
Total tax charge for the year	<u>33,363</u>	<u>12,747</u>

Shenzhen Kwaitonglian Technology Co., Ltd. (“Kwaitonglian”) and Shenzhen Huadong Feitian Technology Co., Ltd. (“Huadong Feitian”) were subject to a preferential tax rate of 15% as they were recognised as high technology enterprises for the year ended 31 December 2014.

Shenzhen Yunhai Qingtian Cultural Broadcasting Co., Ltd. (“Yunhai Qingtian”) was recognised as a newly set-up software production enterprise in 2010 and was therefore entitled to full exemption from income tax for two years starting from the first profitable year which was the year ended 31 December 2010 and a 50% tax relief for the three years thereafter.

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the jurisdiction in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

	2014					
	Hong Kong		The PRC, excluding Hong Kong		Total	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
Profit before tax	4,513		38,503		43,016	
Tax at the statutory tax rate	745	16.5	9,626	25.0	10,371	24.1
Preferential tax rates	–	–	(425)	(1.1)	(425)	(1.0)
Super-deduction of research and development expenditure	–	–	(516)	(1.3)	(516)	(1.2)
Effect on opening deferred tax of increase in rates	–	–	9,016	23.4	9,016	21.0
Adjustments in respect of current tax of previous periods	–	–	(216)	(0.6)	(216)	(0.5)
Income not subject to tax	(2,371)	(52.5)	(694)	(1.8)	(3,065)	(7.1)
Expenses not deductible for tax	1,626	36.0	1,886	4.9	3,512	8.2
Losses attributable to joint ventures and associates	–	–	10,350	26.9	10,350	24.1
Tax losses not recognised	–	–	4,336	11.3	4,336	10.1
Tax charge at the Group's effective rate	–	–	33,363	86.7	33,363	77.6

	2013					
	Hong Kong		The PRC, excluding Hong Kong		Total	
	RMB'000	%	RMB'000	%	RMB'000	%
Profit before tax	<u>4,015</u>		<u>17,205</u>		<u>21,220</u>	
Tax at the statutory tax rate	662	16.5	4,309	25.0	4,971	23.4
Preferential tax rates	–	–	(6,320)	(36.7)	(6,320)	(29.8)
Super-deduction of research and development expenditure	–	–	(490)	(2.8)	(490)	(2.3)
Adjustments in respect of current tax of previous periods	–	–	325	1.9	325	1.5
Income not subject to tax	(1,040)	(25.9)	(5)	–	(1,045)	(4.9)
Expenses not deductible for tax	378	9.4	4,205	24.4	4,583	21.6
Losses attributable to a joint venture and associates	–	–	8,008	46.5	8,008	37.8
Tax losses not recognised	<u>–</u>	<u>–</u>	<u>2,715</u>	<u>15.8</u>	<u>2,715</u>	<u>12.8</u>
Tax charge at the Group's effective rate	<u>–</u>	<u>–</u>	<u>12,747</u>	<u>74.1</u>	<u>12,747</u>	<u>60.1</u>

10. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated profit attributable to owners of the Company for the year ended 31 December 2014 includes a loss of RMB5,164,000 (2013: RMB4,760,000) which has been dealt with in the financial statements of the Company (note 33(b)).

11. DIVIDENDS

No dividends have been paid or declared by the Company for the year ended 31 December 2014 (2013: Nil).

12. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The calculation of the basic earnings per share amount for the year ended 31 December 2014 is based on the profit for the year attributable to equity holders of the Company of RMB10,758,000 (2013: RMB9,820,000), and the weighted average number of ordinary shares in issue less shares held under the share award scheme during the year of 1,406,288,000 (2013: 1,219,482,000).

The calculation of the diluted earnings per share amount for the year ended 31 December 2014 is based on the profit for the year attributable to equity holders of the Company of RMB10,758,000 as used in the basic earnings per share calculation. The weighted average number of ordinary shares used in the calculation is the 1,406,288,000 ordinary shares in issue less shares held under the share award scheme during the year, as used in the basic earnings per share calculation, and the weighted average of 3,083,370 ordinary shares assumed to have been issued at no consideration on the deemed exercise of dilutive potential ordinary shares into ordinary shares and the effect of awarded shares.

No adjustment has been made to the basic earnings per share amount presented for the year ended 31 December 2013 in respect of a dilution as the impact of the share options outstanding and the awarded shares had an anti-dilutive effect on the basic earnings per share amount presented.

13. PROPERTY, PLANT AND EQUIPMENT

Group

	Building RMB'000	Computer equipment RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2014							
At 31 December 2013 and at 1 January 2014:							
Cost	-	10,204	2,666	2,114	4,110	127,230	146,324
Accumulated depreciation	-	(7,475)	(284)	(2,056)	(3,946)	-	(13,761)
Net carrying amount	-	2,729	2,382	58	164	127,230	132,563
At 1 January 2014, net of accumulated depreciation							
Additions	-	1,215	6,069	-	-	13,676	20,960
Transfers	136,519	-	-	-	-	(136,519)	-
Disposals	-	(315)	-	-	-	-	(315)
Depreciation provided during the year	(1,030)	(1,025)	(1,039)	(58)	(7)	-	(3,159)
At 31 December 2014, net of accumulated depreciation	135,489	2,604	7,412	-	157	4,387	150,049
At 31 December 2014:							
Cost	136,519	10,587	8,717	2,114	3,905	4,387	166,229
Accumulated depreciation	(1,030)	(7,983)	(1,305)	(2,114)	(3,748)	-	(16,180)
Net carrying amount	135,489	2,604	7,412	-	157	4,387	150,049

The Group's building included in property, plant and equipment with a net carrying amount of RMB135,489,000 (2013: Nil) is situated in Mainland China and is held under a medium term lease.

	Computer equipment RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2013						
At 1 January 2013:						
Cost	10,227	1,334	2,114	4,110	131,628	149,413
Accumulated depreciation	(6,694)	(1,334)	(1,926)	(3,939)	-	(13,893)
Net carrying amount	<u>3,533</u>	<u>-</u>	<u>188</u>	<u>171</u>	<u>131,628</u>	<u>135,520</u>
At 1 January 2013, net of accumulated depreciation						
depreciation	3,533	-	188	171	131,628	135,520
Additions	847	2,497	-	-	104,174	107,518
Disposals	(384)	(80)	-	-	-	(464)
Depreciation provided during the year	(1,267)	(35)	(130)	(7)	-	(1,439)
Transfer to investment properties (note 14)	-	-	-	-	(108,572)	(108,572)
At 31 December 2013, net of accumulated depreciation	<u>2,729</u>	<u>2,382</u>	<u>58</u>	<u>164</u>	<u>127,230</u>	<u>132,563</u>
At 31 December 2013:						
Cost	10,204	2,666	2,114	4,110	127,230	146,324
Accumulated depreciation	(7,475)	(284)	(2,056)	(3,946)	-	(13,761)
Net carrying amount	<u>2,729</u>	<u>2,382</u>	<u>58</u>	<u>164</u>	<u>127,230</u>	<u>132,563</u>

14. INVESTMENT PROPERTIES**Group**

	Completed RMB'000	Under construction RMB'000	Total RMB'000
31 December 2014			
Carrying amount at 1 January 2013	-	-	-
Transfer from property, plant and equipment (note 13)	-	108,572	108,572
Transfer from prepaid land lease payments (note 15)	-	12,070	12,070
Fair value gain on investment properties	-	90,158	90,158
Carrying amount at 31 December 2013 and 1 January 2014	-	210,800	210,800
Additions	-	11,879	11,879
Transfers	222,679	(222,679)	-
Fair value gain on investment properties	87,321	-	87,321
Carrying amount at 31 December 2014	<u>310,000</u>	<u>-</u>	<u>310,000</u>

The Group's completed investment properties and investment properties under construction are situated in Mainland China and are held under medium term leases.

The Group's completed investment properties and investment properties under construction were revalued on 31 December 2014 and 2013 based on valuations performed by Asset Appraisal Limited, independent professionally qualified valuers.

The completed investment properties are leased to third parties under operating leases, further summary details of which are included in note 34(a) to the financial statements.

The valuations of completed investment properties were based on the capitalisation of net rental income derived from the existing tenancies with due allowance for the reversionary income potential of the properties.

The valuations of investment properties under construction were based on the residual approach, and have taken into account the expended construction costs and the costs that will be expended to complete the development to reflect the quality of the completed development on the basis that the properties will be developed and completed in accordance with the Group's latest development plan.

Each year, the Group's management decides to appoint which external valuer to be responsible for the external valuation of the Group's properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Group's management has discussions with the valuer on the valuation assumptions and valuation results twice a year when the valuation is performed for interim and annual financial reporting.

In the opinion of the directors, for all investment properties that are measured at fair value, the current use of the properties is their highest and best use. The completed investment properties and investment properties under construction measured at fair value in the aggregate carrying amount of RMB310,000,000 and RMB210,800,000 as at 31 December 2014 and 2013, respectively, are subject to restrictions on sale and transfer.

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's investment properties:

	Fair value measurement as at 31 December 2014 using			
	Quoted prices in active markets (Level 1) <i>RMB'000</i>	Significant observable inputs (Level 2) <i>RMB'000</i>	Significant unobservable inputs (Level 3) <i>RMB'000</i>	Total <i>RMB'000</i>
Recurring fair value measurement for:				
Commercial building	—	—	310,000	310,000

	Fair value measurement as at 31 December 2013 using			
	Quoted prices in active markets (Level 1) <i>RMB'000</i>	Significant observable inputs (Level 2) <i>RMB'000</i>	Significant unobservable inputs (Level 3) <i>RMB'000</i>	Total <i>RMB'000</i>
Recurring fair value measurement for:				
Commercial building	–	–	210,800	210,800

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2013: Nil).

Below is a summary of the valuation techniques used and the key inputs to the valuation of investment properties:

	Valuation techniques	Significant unobservable inputs	Range (weighted average)	
			2014	2013
Commercial building (completed)	Income approach (refer above)	Estimated rental value (per sq.m. and per month)	RMB108	–
		Rental growth rate (per annum)	5.0%	–
		Discount rate	10.3%	–
Commercial building (under construction)	Residual approach (refer above)	Estimated rental value (per sq.m. and per month)	–	RMB79
		Rental growth rate (per annum)	–	5.0%
		Discount rate	–	9.85%

A significant increase/(decrease) in the estimated rental value per square meter and the rental growth rate per annum in isolation would result in a significant increase/(decrease) in the fair value of the investment properties. A significant increase/(decrease) in the discount rate in isolation would result in a significant decrease/(increase) in the fair value of the investment properties. Generally, a change in the assumption made for the estimated rental value is accompanied by a directionally similar change in the rental growth rate per annum and the discount rate.

15. PREPAID LAND LEASE PAYMENTS

	Group	
	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>
Carrying amount at 1 January	14,170	26,825
Addition	309	–
Recognised during the year	(318)	(585)
Transfer to investment properties (<i>note 14</i>)	–	(12,070)
	<u>14,161</u>	<u>14,170</u>
Carrying amount at 31 December	14,161	14,170
Current portion included in prepayments, deposits and other receivables (<i>note 22</i>)	<u>(322)</u>	<u>(315)</u>
Non-current portion	<u>13,839</u>	<u>13,855</u>

The leasehold land is situated in Mainland China and is held under a medium term lease.

	Trademarks, licenses and software	Music copyrights	Mobile game licenses	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
31 December 2014				
Cost at 1 January 2014, net of accumulated amortisation	3,429	3,370	–	6,799
Additions	41	–	27,643	27,684
Amortisation provided during the year	(2,022)	(2,221)	(5,045)	(9,288)
Impairment during the year (<i>note (1)</i>)	–	–	(2,762)	(2,762)
	<u>1,448</u>	<u>1,149</u>	<u>19,836</u>	<u>22,433</u>
At 31 December 2014	<u>1,448</u>	<u>1,149</u>	<u>19,836</u>	<u>22,433</u>
At 31 December 2014:				
Cost	39,282	7,030	27,643	73,955
Accumulated amortisation and impairment	<u>(37,834)</u>	<u>(5,881)</u>	<u>(7,807)</u>	<u>(51,522)</u>
Net carrying amount	<u>1,448</u>	<u>1,149</u>	<u>19,836</u>	<u>22,433</u>

	Trademarks, licenses and software <i>RMB'000</i>	Music copyrights <i>RMB'000</i>	Mobile game licenses <i>RMB'000</i>	Total <i>RMB'000</i>
31 December 2013				
Cost at 1 January 2013, net of accumulated amortisation	23,917	5,160	–	29,077
Additions	24	569	–	593
Amortisation provided during the year	(6,929)	(2,359)	–	(9,288)
Disposal of a subsidiary	(694)	–	–	(694)
Impairment during the year (<i>note (2)</i>)	(12,889)	–	–	(12,889)
At 31 December 2013	<u>3,429</u>	<u>3,370</u>	<u>–</u>	<u>6,799</u>
At 31 December 2013:				
Cost	41,236	7,180	–	48,416
Accumulated amortisation and impairment	<u>(37,807)</u>	<u>(3,810)</u>	<u>–</u>	<u>(41,617)</u>
Net carrying amount	<u>3,429</u>	<u>3,370</u>	<u>–</u>	<u>6,799</u>

Note (1):

An impairment was recognised as at 31 December 2014 for certain mobile game licenses with net total carrying amount of RMB2,762,000 which was considered to be not recoverable based on value in use due to the results of the game public trial testing being far below the expectation of management. As such, management considered that it was not commercially viable for the Group to continue to develop and launch the games to the market based on the testing results, and hence, the recoverable amount was nil as at 31 December 2014.

Note (2):

An impairment was recognised as at 31 December 2013 for a music software with a net carrying amount of RMB12,889,000 which was considered to be not recoverable based on value in use due to the postponement of the mobile music downloading charge in mid-2013, the high music copyright costs, and the significant change in mobile music business model in 2013 from charge on music downloading service to mobile music entertainment or music value-added services. As the music software was tailor-made primarily for old version of operating system-supported mobile internet application for music downloading when developed in 2011 without functions for any value-added services, the significant change in the mobile music business model in 2013 would require an entire upgrade of the music software from pure music downloading platform to music entertainment platform which was estimated to be costly by management. Besides, through investment in Duomi Music Holding Limited (“Duomi Music”), the Group can enjoy the benefit from the rapid growth of mobile music market in China. As such, management considered it was not commercially viable for the Group to continue to develop and upgrade the music software based on the current business trend in mobile music market in China, and hence, the recoverable amount was nil as at 31 December 2013.

17. INVESTMENTS IN SUBSIDIARIES

	Company	
	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>
Unlisted shares, at cost	74,333	74,333
Capital contribution in respect of share-based compensation	33,099	28,972
	107,432	103,305
	107,432	103,305

The amounts due from subsidiaries, included in the Company's current assets, are unsecured, interest-free and have no fixed terms of repayment.

(a) Particulars of the principal subsidiaries are as follows:

Company name	Place of incorporation/ establishment	Paid-up issued/registered capital	Percentage of equity/ interest attributable to the Company		Principal activities
			Direct	Indirect	
A8 Music Group Limited ("A8 Music") (note (ii))	British Virgin Islands	Ordinary shares US\$64,500 Preferred shares US\$9,300	100	–	Investment holding
佳仕域信息科技(深圳) 有限公司 Cash River Information Technology (Shenzhen) Co., Ltd. (note (ii))*#	PRC	HK\$40,000,000 Registered capital	–	100	Development of computer software and provision of technical and management consultancy services
深圳市華動飛天網絡技術 開發有限公司 Shenzhen Huadong Feitian Network Development Co., Ltd. ("Huadong Feitian") (notes (i) and (ii))*@	PRC	RMB28,680,000 Registered capital	–	100	Provision of telecommunications instant messaging and value-added services
深圳市雲海情天文化傳播 有限公司 Shenzhen Yunhai Qingtian Cultural Broadcasting Co., Ltd. (notes (i) and (ii))*@	PRC	RMB10,000,000 Registered capital	–	100	Provision of game publishing services
深圳市快通聯科技 有限公司 Shenzhen Kuaitonglian Technology Co., Ltd. ("Kuaitonglian") (notes (i) and (ii))*@	PRC	RMB10,000,000 Registered capital	–	100	Provision of mobile value-added services

Company name	Place of incorporation/ establishment	Paid-up issued/registered capital	Percentage of equity/ interest attributable to the Company		Principal activities
			Direct	Indirect	
北京創盟音樂文化發展 有限公司 Beijing Chuangmeng Yinyue Culture Development Co., Ltd. (notes (i) and (ii))* [Ⓔ]	PRC	RMB5,000,000 Registered capital	–	100	Provision of mobile value-added services
北京愛樂空間文化傳播 有限公司 Beijing Aiyue Cultural Broadcasting Co., Ltd. (notes (i) and (ii))* [Ⓔ]	PRC	RMB10,000,000 Registered capital	–	100	Provision of mobile value-added services
北京樂聲飛揚音樂文化傳 播有限公司 Beijing Yuesheng Feiyang Music Culture Broadcasting Co., Ltd. (notes (i) and (ii))* [Ⓔ]	PRC	RMB10,000,000 Registered capital	–	100	Provision of mobile value-added services
北京天籟印象文化傳播 有限公司 Beijing Tianlai Cultural Broadcasting Co., Ltd. ("Tianlai") (notes (i) and (ii))* [Ⓔ]	PRC	RMB20,000,000 Registered capital	–	100	Provision of mobile value-added services
江蘇廣視科貿發展 有限公司 Jiangsu Guangshi Science and Trade Development Limited (notes (i) and (ii))* [Ⓔ]	PRC	RMB10,070,000 Registered capital	–	100	Provision of mobile value-added services
北京樂音無限文化傳播 有限公司 Beijing Yueyin Wuxian Cultural Broadcasting Co., Ltd. (notes (i) and (ii))* [Ⓔ]	PRC	RMB1,000,000 Registered capital	–	100	Provision of mobile value-added services
普好有限公司 Total Plus Limited	Hong Kong	HK\$97,045 Issued capital	–	100	Investment holding

Company name	Place of incorporation/ establishment	Paid-up issued/registered capital	Percentage of equity/ interest attributable to the Company		Principal activities
			Direct	Indirect	
北京布拉琪音樂文化傳媒 有限公司 Beijing Bulaqi Music Cultural Broadcasting Co., Ltd. (“Bulaqi”) (notes (i) and (ii))* [@]	PRC	RMB1,000,000 Registered capital	–	100	Holding of music patents and licenses
北京掌中地帶信息科技 有限公司 Beijing Zhangzhong Didai Information Technology Ltd. (notes (i) and (ii))* [@]	PRC	RMB10,000,000 Registered capital	–	100	Provision of mobile value-added and game publishing services
深圳市掌翼天下有限公司 Shenzhen Zhangyi Tianxia Development Co., Ltd. (notes (i) and (ii))* [@]	PRC	RMB3,000,000 Registered capital	–	100	Dormant
茂御有限公司 Phoenix Success Limited (“Phoenix Success”)	Hong Kong	HK\$1 Issued capital	100	–	Investment holding
北京悅音經典網絡科技 有限公司 Beijing Yueyin Jingdian Network Technology Co., Ltd. (notes (i) and (ii))* [@]	PRC	RMB1,000,000 Registered capital	–	100	Dormant
深圳市指遊方寸網絡科技 有限公司 Shenzhen Finger Fun Network Technology Co., Ltd. (note (ii))* [#]	PRC	RMB39,650,000 Registered capital	–	100	Investment holding of game business
北京德木欣潤文化傳播 有限公司 Beijing Demo Xinrun Cultural Broadcasting Co., Ltd. (notes (i) and (ii))* [@]	PRC	RMB100,000 Registered capital	–	80	Production of live music shows and music channels

* The English names of these companies are the direct translations of their Chinese names, as no English names have been registered or are available.

Registered as a wholly-foreign-owned enterprise under PRC law.

@ Registered as domestic limited liability companies under PRC law.

Notes:

- (i) The current PRC laws and regulations limit the provision of telecommunications value-added services by companies with foreign ownership, which include activities and services operated by these companies. In order to enable the Company to make investments in the telecommunications value-added services in the PRC, the equity interests of these companies are held by individual nominees on behalf of the Group and certain contractual agreements have been effectuated among these companies, their respective registered owners and Cash River, Huadong Feitian, Kuaitonglian, Bulaqi or Tianlai to the effect that the operating and financial decisions of these companies are effectively controlled by the Company.

As a result of the contractual agreements, these companies are accounted for as subsidiaries of the Company for accounting purposes.

- (ii) Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

(b) Controlled special purpose entity

The Company has set up a trust, A8 New Media share award trust (the “Trust”), for the purpose of administering the share award scheme established by the Company (note 32). In accordance with IFRS 10 *Consolidated Financial Statements*, the Company is required to consolidate the Trust as the Company has control over the Trust and can derive benefits from the contributions of employees who have been awarded the shares through their employment with the Group.

Special purpose entity	Place of incorporation	Principal activities
Law Debenture (Asia) Trust Limited – A8 New Media Group	Hong Kong	Administration and holding of the Company’s shares for the share award scheme for the benefit of eligible employees

18. INVESTMENTS IN ASSOCIATES

	Group	
	2014 RMB’000	2013 RMB’000
Share of net assets	190	676
Goodwill on acquisition	2,642	2,642
	2,832	3,318
Impairment (<i>Note</i>)	(2,832)	–
	–	3,318

Note: An impairment was recognised for the investment in Ningmenghai which is considered to be not recoverable based on value in use because this company was loss-making in these years, the actual financial results of this company for the current year also could not meet the five-year budgeted cash flow projections which were approved by senior management in past years and the expected growth rate of this company in coming years is estimated to be minimal. As such, management determined to recognise impairment for the investment in this company as at 31 December 2014.

In the opinion of the directors, the debt portions of convertible notes and preferred shares in Duomi Music are considered as part of the Group’s net investment in the associate.

Particulars of the Group's associates are as follows:

Company name	Particulars of registered capital	Place of incorporation/ registration and business	Percentage of ownership interest attributable to the Group		Principal activities
			2014	2013	
Shenzhen Ningmenghai Technology Co., Ltd. ("Ningmenghai") (notes (i) and (ii))*#	RMB5,000,000	PRC	19.34%	19.34%	Provision of internet social network services
Duomi Music Holding Limited (note (ii))*	USD50,000	Cayman Islands/ PRC	42.69%	42.69%	Provision of online and connected digital music services

Notes:

(i) As at 31 December 2014 and 2013, the Group owned a 19.34% equity interest in Ningmenghai. Although the Group holds less than 20% of the equity interest in Ningmenghai, in the opinion of the Company's directors, the Group is in a position to exercise significant influence over Ningmenghai having considered the prevailing widely dispersed shareholding structure of Ningmenghai.

(ii) Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

* The above investments in associates are indirectly held by the Company.

The English name of the company represents the best effort made by management of the Company to directly translate its Chinese name as it did not register any official English name.

The following table illustrates the aggregate financial information of the Group's associates that are not individually material. The Group did not have any material associates for each of the reporting periods.

	2014 RMB'000	2013 RMB'000
Share of the associates' losses for the year and unrecognised accumulated losses in prior years	(40,940)	(31,964)
Share of the associates' total comprehensive losses and unrecognised accumulated losses in prior years	(40,940)	(31,964)
Aggregate carrying amount of the Group's investments in the associates	—	3,318

As at 31 December 2013, the Group has discontinued the recognition of its share of losses of an associate, Duomi Music, because the share of losses of the associate exceeded the Group's interest in the associate and the Group has no obligation to take up further losses. The amounts of the Group's unrecognised share of losses of this associate for the prior year and cumulatively were RMB1,536,000 and RMB10,866,000 as at 31 December 2013, respectively.

19. INVESTMENTS IN JOINT VENTURES

	Group	
	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>
Share of net assets	5,736	–
Goodwill on acquisition	23,843	3,360
	<u>29,579</u>	<u>3,360</u>
Impairment (<i>Note</i>)	(3,371)	–
	<u>26,208</u>	<u>3,360</u>

Note: An impairment was recognised for goodwill on acquisition of Utooo which is considered to be not recoverable based on value in use because the actual financial results of this company could not meet the five-year budgeted cash flow projections which were approved by senior management in past years and the expected growth rate of this company in coming years is estimated to be minimal. As such, management determined to recognise impairment for the goodwill of this company as at 31 December 2014.

Particulars of the Group's joint ventures are as follows:

Name	Particulars of issued shares held	Place of registration and business	Percentage of ownership interest		Principal activities
			31 December 2014	2013	
Nanjing Utooo Information Technology Co., Ltd. (“Utooo”) [#]	Registered and paid-up capital of RMB1,059,000	PRC	15%*	15%*	Mobile phone application provider
Beijing Babyjia Education Technology Development Co., Ltd. (“Babyjia”) [#]	Registered and paid-up capital of RMB1,000,000	PRC	30%*	–	Developing, producing and selling children storytelling devices
Bigbang Interactive Ltd. (“Bigbang”)	Registered and paid-up capital of USD125,000	Republic of Seychelles/ Korea	20%*	–	Publishing mobile games and mobile applications
Smart Breeze Co., Ltd (“Smart Breeze”)	Registered and paid-up capital of KRW62,500,000	Korea	20%*	–	Publishing mobile games and mobile applications
Shanghai Shileniao Information Technology Ltd. (“Shileniao”) [#]	Registered and paid-up capital of RMB125,000	PRC	20%*	–	Publishing mobile games and mobile applications

The above investments were not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

The English names of these companies represent the best effort made by management of the Company to directly translate their Chinese names as they did not register any official English name.

* Notwithstanding that the Group owned 15%-30% equity interests in these companies, in the opinion of the Company's directors, the Group is in a position to have joint control over these companies having considered that the other shareholders have contractually agreed the sharing of control over the relevant business activities of these companies with the Group.

The following table illustrates the aggregate financial information of the Group's joint ventures that are not individually material. The Group did not have any material joint ventures for each of the reporting periods.

	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
Share of the joint ventures' losses for the year and unrecognised accumulated losses in prior years	(448)	(67)
Share of the joint ventures' total comprehensive losses and unrecognised accumulated losses in prior years	(448)	(67)
Aggregate carrying amount of the Group's investments in the joint ventures	<u>26,208</u>	<u>3,360</u>

As at 31 December 2013, the Group has discontinued the recognition of its share of losses of a joint venture because the share of losses of the joint venture exceeded the Group's interest in the joint venture and the Group has no obligation to take up further losses. The amounts of the Group's unrecognised share of losses of joint venture for the prior year and cumulatively were RMB2,000 and RMB2,000 as at 31 December 2013, respectively.

20. AVAILABLE-FOR-SALE INVESTMENT

	Group	
	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Unlisted equity investment, at cost	<u>6,000</u>	<u>–</u>

As at 31 December 2014, the unlisted equity investment with a carrying amount of RMB6,000,000 (2013: Nil) was stated at cost because the variability in the range of reasonable fair value estimates is so significant that the directors are of the opinion that its fair value cannot be measured reliably. The Group does not intend to dispose of it in the near future.

21. TRADE RECEIVABLES

	Group	
	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
Trade receivables	35,069	53,311
Impairment	<u>(2,853)</u>	<u>(2,170)</u>
	<u>32,216</u>	<u>51,141</u>

The Group has no formal credit period communicated to its customers but the customers usually settle the amounts due to it within a period of 30 to 120 days. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivables. Trade receivables are non-interest-bearing. An aged analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	Group	
	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>
<i>Neither past due nor impaired:</i>		
Within 1 month	10,479	15,338
Over 1 month but less than 2 months	9,870	13,721
Over 2 months but less than 3 months	2,070	3,692
Over 3 months but less than 4 months	2,297	2,861
<i>Past due but not impaired:</i>		
4 to 6 months	4,267	4,361
Over 6 months	3,233	11,168
	32,216	51,141
	32,216	51,141

The movements in provision for impairment of trade receivables are as follows:

	Group	
	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January	2,170	3,583
Impairment losses recognised (<i>note 7</i>)	683	132
Write-back of impairment (<i>note 7</i>)	–	(1,545)
	2,853	2,170
At 31 December	2,853	2,170

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group	
	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>
Prepayments	8,242	11,340
Prepaid land lease payments (<i>note 15</i>)	322	315
Deposits and other receivables	7,752	10,912
Impairment	(2,056)	(3,486)
	<u>14,260</u>	<u>19,081</u>

The financial assets as at the end of the reporting period relate to receivables for which there was no recent history of default. The Group does not hold any collateral or other credit enhancements over these balances.

Included in the other receivables is an amount due from the Group's associate of RMB727,000 (2013: RMB727,000), which is unsecured, interest-free and repayable on demand.

The movements in the provision for other receivables are as follows:

	Group	
	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January	3,486	3,486
Write-back of impairment (<i>note 7</i>)	(1,430)	–
	<u>2,056</u>	<u>3,486</u>

Included in the above provision for other receivables is a provision for individually impaired receivables of RMB2,056,000 (2013: RMB3,486,000) with a gross carrying amount of RMB2,056,000 (2013: RMB3,486,000). The individually impaired receivables relate to a portion of the receivables that is not expected to be recovered.

23. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>
Listed equity investments in Mainland China, at fair value	443	316
Unlisted investments, at fair value	–	10,000
	<u>443</u>	<u>10,316</u>

The above listed equity investments were upon initial recognition, designated by the Group as financial assets as at fair value through profit or loss and are stated at fair value.

The Group's unlisted investments represented fund investments and the fair values were based on values quoted by the relevant financial institutions.

24. CASH AND CASH EQUIVALENTS

	Group		Company	
	2014	2013	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Cash and bank balances	271,907	353,777	3,596	5,093
Time deposits	48,436	111,856	–	–
	320,343	465,633	3,596	5,093
Less: Restricted cash	(3,885)	(16,476)	–	–
Time deposits with original maturity of more than three months	–	–	–	–
Cash and cash equivalents	<u>316,458</u>	<u>449,157</u>	<u>3,596</u>	<u>5,093</u>
Denominated in RMB	276,902	333,292	4	4
Denominated in other currencies	<u>39,556</u>	<u>115,865</u>	<u>3,592</u>	<u>5,089</u>
Cash and cash equivalents	<u>316,458</u>	<u>449,157</u>	<u>3,596</u>	<u>5,093</u>

At the end of the reporting period, the cash and cash equivalents of the Group denominated in RMB are not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made with maturity of not more than three months and earn interest at the respective short term time deposit rates. The bank balances and deposits are deposited with creditworthy banks with no recent history of default.

25. TRADE PAYABLES

An aged analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	Group	
	2014	2013
	RMB'000	RMB'000
Within 1 month	7,668	7,381
1 to 3 months	11,619	7,597
4 to 6 months	8,906	2,616
Over 6 months	<u>7,198</u>	<u>11,373</u>
	<u>35,391</u>	<u>28,967</u>

The trade payables are non-interest-bearing and are normally settled on 30-day to 180-day terms.

Included in the trade payables is an amount of RMB344,000 (2013: RMB344,000) due to an associate which is unsecured, interest-free and repayable on demand.

26. OTHER PAYABLES AND ACCRUALS

	Group	
	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>
Other payables	47,102	46,084
Accruals	23,427	34,042
Receipt in advance	1,011	–
	<u>71,540</u>	<u>80,126</u>

27. DEFERRED TAX

The movements in deferred tax assets/(liabilities) during the year are as follows:

Group

	Deductible temporary differences <i>RMB'000</i>	Transfer of profit derived from contractual agreements <i>RMB'000</i>	Fair value adjustments arising from acquisition of subsidiaries <i>RMB'000</i>	Fair value gain on investments at fair value through profit or loss <i>RMB'000</i>	Revaluation of investment properties <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2013	1,193	(813)	(392)	(177)	–	(189)
Deferred tax credited/(charged) to the statement of profit or loss during the year (note 9)	<u>1,713</u>	<u>–</u>	<u>261</u>	<u>–</u>	<u>(13,523)</u>	<u>(11,549)</u>
At 31 December 2013 and 1 January 2014	2,906	(813)	(131)	(177)	(13,523)	(11,738)
Deferred tax credited/(charged) to the statement of profit or loss during the year (note 9)	<u>(612)</u>	<u>–</u>	<u>131</u>	<u>–</u>	<u>(30,847)</u>	<u>(31,328)</u>
At 31 December 2014	<u>2,294</u>	<u>(813)</u>	<u>–</u>	<u>(177)</u>	<u>(44,370)*</u>	<u>(43,066)</u>

* The deferred tax liability is measured at the tax rate of 25% that is expected to apply when the liability is settled.

The Group has tax losses arising in Mainland China of RMB27,304,000 (2013: RMB22,968,000) that will expire in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in the PRC in respect of earnings generated from 1 January 2008.

At 31 December 2014, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in the PRC. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB300,531,000 at 31 December 2014 (2013: RMB282,599,000).

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

28. DEBT PORTION OF PREFERRED SHARES AND CONVERSION OPTION EMBEDDED IN PREFERRED SHARES

On 14 December 2012 (the "Completion Date"), Phoenix Success subscribed for 13,853,868 convertible redeemable preferred shares (the "preferred shares") at US\$0.43 each for cash issued by Duomi Music. All the above preferred shares can be converted into ordinary shares at US\$0.43 per share (subject to adjustments). The major terms of the preferred shares are set out below:

- (i) Phoenix Success has the option to request all (but not less than all) the preferred shares it holds to be converted at any time, without the payment of any additional consideration, into fully-paid and non-assessable ordinary shares in Duomi Music.
- (ii) From the beginning of the fourth anniversary of the Completion Date, Phoenix Success has the right to request Duomi Music to redeem all (but not less than all) of the preferred shares held by Phoenix Success for a redemption price per share equal to 140% of the subscription price of the preferred shares plus all accrued but unpaid dividends (subject to adjustment).

The Group classified the debt portion of the preferred shares in Duomi Music as loans and receivables and the conversion option embedded in preferred shares is deemed as held for trading and recognised at fair value through profit or loss on initial recognition with changes in fair value recognised in profit or loss subsequently. In the opinion of the directors, the debt portion of preferred shares is considered as part of the Group's net investment in Duomi Music. As such, the debt portion was used to cover the Group's share of loss of Duomi Music in 2013. The fair values of the conversion option embedded in preferred shares on initial recognition and at the end of the reporting period are determined by the directors of the Company with reference to the valuation performed by independent qualified valuers, Grant Sherman Appraisal Limited. Details of the method and assumptions used in the Binomial Pricing Model in the valuation of the conversion option embedded in the preferred shares are as follows:

	31 December 2014	31 December 2013
Expected volatility (i)	56.16%	43.37%
Dividend yield	–	–
Option life (year(s))	2.96	3.96
Risk-free interest rate (ii)	1.05%	1.22%

Notes:

- (i) Expected volatility was calculated by reference to the annualised standard deviation of the continuously compounded rates of return on the weekly average adjusted share price of comparable companies.

- (ii) Risk-free interest rate was used by reference to the United States Treasury Bond Rate with similar maturity at the valuation date.

Generally, a change in the assumption made for the expected volatility is accompanied by a directionally similar change in the dividend yield and the option life and an opposite change in the risk-free interest rate.

The following table demonstrates the sensitivity of the Group's profit before tax at the end of 31 December 2014 and 2013 to a reasonably possible change in combined net effect of the dividend yield, risk-free interest rate and stock volatility of comparable companies (collectively the "PS combined factors").

	Increase/ (decrease) in percentage	Combined net effect on profit before tax <i>RMB'000</i>
31 December 2014		
PS combined factors	10	778
PS combined factors	(10)	(845)
	<u> </u>	<u> </u>
31 December 2013		
PS combined factors	10	273
PS combined factors	(10)	(315)
	<u> </u>	<u> </u>

The fair value of each underlying share of Duomi Music is estimated using a discounted cash flow model, which included some assumptions that are not supportable by observable market prices or rates. In determining the fair value, a weighted average cost of capital of 21.6% and 22.7% was used as at 31 December 2014 and 2013, respectively.

The effective interest rate of the debt portion of the preferred shares is 17.80% per annum.

29. DEBT PORTION OF CONVERTIBLE NOTES AND CONVERSION OPTION EMBEDDED IN CONVERTIBLE NOTES

On 28 July 2014, pursuant to the conditional subscription agreement dated 9 April 2014 entered into between Phoenix Success and Duomi Music, inter alia, convertible notes of Duomi Music (the first tranche) with an aggregate principal amount of US\$14,730,000 (approximately RMB90,132,870) were issued by Duomi Music to Phoenix Success. The convertible notes bear interest at 3.5% per annum and have a maturity of three years. In addition, subject to Duomi Music's fulfilment of certain conditions to give notice to Phoenix Success not later than 30 June 2015, Phoenix Success shall subscribe for, and Duomi Music shall issue, the second tranche of the convertible notes of an aggregate principal amount of US\$8,180,000 which bear the same interest rate and the same maturity date as the first tranche. Up to the date of approval of these financial statements, Duomi Music has not given notice to Phoenix Success regarding the subscription of the second tranche of the convertible notes.

The convertible notes are bifurcated into a debt portion and a conversion option for accounting purposes. The Group classified the debt portion as loans and receivables and the conversion option embedded in convertible notes is deemed as held for trading and recognised at fair value through profit or loss on initial recognition with changes in fair value recognised in profit or loss subsequently. In the

opinion of the directors, the debt portion of convertible notes is considered as part of the Group's net investment in Duomi Music. As such, the debt portion was used to cover the Group's share of loss of Duomi Music.

Pursuant to the subscription agreement, Phoenix Success can exercise the conversion right at any time after the first anniversary of the date of issue of the first tranche or the second tranche of the convertible notes which requires prior written consent of at least 80% of convertible redeemable preferred share holders, provided that, after the expiry of 185 days from the conversion date, the proposed issuance shall cease to be subject to and bound by such prior consent requirement and shall not be earlier than the date of issuance of 2015 audited financial statements of Duomi Music upon which the conversion price of the conversion shares shall be determined.

The fair values of the conversion option embedded in convertible notes on initial recognition and at the end of the reporting period are determined by the directors of the Company with reference to the valuation performed by independent qualified valuers, Grant Sherman Appraisal Limited. Details of the method and assumptions used in the Binomial Pricing Model in the valuation of the conversion option embedded in the convertible notes are as follows:

	31 December 2014	28 July 2014
Expected volatility (i)	55.30%	59.51%
Dividend yield	–	–
Option life (year(s))	2.58	3.0
Risk-free interest rate (ii)	0.89%	0.98%

Notes:

- (i) Expected volatility was calculated by reference to the annualised standard deviation of the continuously compounded rates of return on the weekly average adjusted share price of comparable companies.
- (ii) Risk-free interest rate was used by reference to the United States Treasury Bond Rate with similar maturity at the valuation date.

Generally, a change in the assumption made for the expected volatility is accompanied by a directionally similar change in the dividend yield and the option life and an opposite change in the risk-free interest rate.

The following table demonstrates the sensitivity of the Group's profit before tax at the end of 31 December 2014 to a reasonably possible change in combined net effect of the dividend yield, risk-free interest rate and stock volatility of comparable companies (collectively the "CN combined factors").

	Increase/ (decrease) in percentage	Combined net effect on profit before tax RMB'000
31 December 2014		
CN combined factors	10	2,362
CN combined factors	(10)	(1,967)

The fair value of each underlying share of Duomi Music is estimated using a discounted cash flow model, which included some assumptions that are not supportable by observable market prices or rates. In determining the fair value, a weighted average cost of capital of 21.6% and 22.9% was used as at 31 December 2014 and 28 July 2014, respectively.

The effective interest rate of the debt portion of the convertible notes is 19.81% per annum.

30. SHARE CAPITAL

Shares

	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
Authorised:		
3,000,000,000 (2013: 3,000,000,000) ordinary shares of HK\$0.01 each	<u>26,513</u>	<u>26,513</u>
Issued and fully paid:		
1,428,847,128 (2013: 1,428,847,128) ordinary shares of HK\$0.01 each	<u>11,914</u>	<u>11,914</u>

A summary of movements in the Company's share capital is as follows:

	Number of issued and fully paid ordinary shares	Nominal value of ordinary shares <i>HK\$'000</i>	Share premium account <i>HK\$'000</i>	Equivalent nominal value of ordinary shares <i>RMB'000</i>	Equivalent share premium account <i>RMB'000</i>	Total <i>RMB'000</i>
As at 1 January 2013	476,282,376	4,765	210,041	4,203	185,434	189,637
Rights issue	952,564,752	9,525	333,398	7,711	269,904	277,615
Share issue expenses	-	-	(5,734)	-	(4,568)	(4,568)
As at 31 December 2013, 1 January 2014 and 31 December 2014	<u>1,428,847,128</u>	<u>14,290</u>	<u>537,705</u>	<u>11,914</u>	<u>450,770</u>	<u>462,684</u>

During the year, there was no movement in the Company's share capital.

During the prior year, a rights issue of two rights shares for every existing share held by members on the register of members on 27 February 2013 was made, at an issue price of HK\$0.36 per rights share, resulting in the issue of 952,564,752 shares of HK\$0.01 each for a total cash consideration, before expenses, of HK\$342,923,000 (equivalent to RMB277,615,000).

31. SHARE OPTION SCHEMES**(a) Share option scheme**

The Company operates a share option scheme for the purpose of motivating eligible persons to optimise their future contribution to the Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain ongoing relationships with those eligible persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group, and additionally in the case of executives, to enable the Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions. The share option scheme became effective on 26 May 2008 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of shares which may be issued upon exercise of all options that can be granted under the share option scheme and any other schemes of the Group (including the Pre-IPO share option scheme) shall not in aggregate exceed 10% of the shares of the Company in issue, i.e., 142,884,712 shares, as at 24 May 2013 on which an ordinary resolution was passed at the annual general meeting of the Company for refreshing the 10% mandate under the share option scheme.

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the share option scheme and any other schemes of the Group shall not exceed 30% of the Company's issued share capital from time to time.

The maximum number of shares issuable under the share options to each eligible participant in the share option scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of offer of the share options.

The exercise price of share options is determinable by the directors, but may not be less than the highest of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer; and (iii) the nominal value of the Company's shares.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The following share options were outstanding under the share option scheme during the year:

	2014		2013	
	Weighted average exercise price HK\$ per share	Number of options '000	Weighted average exercise price HK\$ per share	Number of options '000
At 1 January	1.60	10,819	2.15	9,312
Adjustments arising from the rights issue	–	–	1.64	2,900
Granted during the year	0.66	39,017	–	–
Forfeiture during the year	1.34	(2,632)	1.97	(1,393)
At 31 December	0.83	<u>47,204</u>	1.60	<u>10,819</u>

There were no share options exercised during the current and prior years. The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2014

Number of options '000	Exercise price* HK\$ per share	Exercise period
20	2.440	24-12-2009 to 26-5-2018
919	2.416	5-10-2009 to 26-5-2018
2,889	0.903	15-10-2010 to 14-10-2018
5,004	1.838	25-3-2011 to 24-3-2016
525	0.915	18-8-2011 to 17-8-2016
2,400	0.690	14-1-2014 to 14-1-2019
3,177	0.684	24-1-2014 to 24-1-2021
32,270	0.650	23-4-2014 to 23-4-2021
<u>47,204</u>		

2013

Number of options '000	Exercise price* HK\$ per share	Exercise period
20	2.440	24-12-2009 to 23-12-2014
999	2.416	5-10-2009 to 4-10-2014
2,889	0.903	15-10-2010 to 14-10-2018
6,386	1.838	25-3-2011 to 24-3-2016
525	0.915	18-8-2011 to 17-8-2016
<u>10,819</u>		

* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

The Group recognised a share option expense of RMB3,860,000 (2013: RMB968,000) during the year ended 31 December 2014 in respect of the share options granted in the current and prior years.

(b) Join Reach share option scheme

The Join Reach share option scheme adopted by Join Reach Limited (“Join Reach”) was set up by the shareholders of Prime Century Technology Limited (“Prime Century”), which is one of the substantial shareholders of the Company, to recognise and reward the contribution of certain employees of the Company and its subsidiaries who, in the opinion of the board of directors of Join Reach, have contributed or will contribute to the growth and development of the business invested by Prime Century. The Join Reach share option scheme became effective on 26 May 2008 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of shares in Prime Century which may be transferred by Join Reach to the grantees upon the exercise of all options to be granted under the Join Reach share option scheme represents approximately 8.8% of the total issued share capital of Prime Century.

The offer of a grant of share options may be accepted within 21 days from the date of offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors of Join Reach, and commences after a certain vesting period and ends on a date which is not later than four years from the date of offer of the share options or the expiry date of the Join Reach share option scheme, if earlier.

No share options were outstanding as at 31 December 2014 and 2013. No share option has been granted, exercised, cancelled or lapsed during the years.

At the end of the reporting period, the Company had approximately 47,204,000 share options outstanding under the share option scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 47,204,000 additional ordinary shares of the Company and additional share capital of HK\$472,040 and share premium of HK\$38,707,280 (before issue expenses).

Subsequent to the end of the reporting period, an aggregate of 240,000 share options under the share option scheme were lapsed.

At the date of approval of these financial statements, the Company has 46,964,000 share options outstanding under the share option scheme, which represented approximately 3.29% of the Company’s shares in issue as at that date.

32. SHARE AWARD SCHEME

On 16 August 2010, the board of directors of the Company (the “Board”) approved the establishment of a share award scheme with the objective to recognise the performance of eligible employees within the Group and to retain them for the continued operation and development of the Group and to encourage senior employees to have a direct financial interest in the long term success of the Group. Under the share award scheme, award shares of the Company (“Award Shares”) are granted to eligible employees of the Company or any one of its subsidiaries for no consideration but subject to certain considerations (including but not limited to, the lockup period) to be decided by the Board at the time of grant of the Award Shares under the share award scheme. The share award scheme will remain in force for 10 years from the date of adoption.

The share award scheme will operate in parallel with the Company's share option scheme. All options granted under the share option scheme will continue to be valid and exercisable subject to and in accordance with the terms of those schemes.

Pursuant to the rules of the share award scheme, the Company has set up the Trust for the purposes of administering the share award scheme and holding the Award Shares before vested and the expiry of the lock-up period. The Company can (i) make a loan to the Trust from time to time for the purchase of the Award Shares under the loan agreement; (ii) instruct its broker to purchase existing shares in the Company from the market, settle payment and costs and deliver the same to the trustee to hold on trust for the eligible employees; and (iii) allot and issue new shares in the Company to the trustee to hold on trust for the eligible employees.

The maximum number of all Award Shares purchased by the trustee under the share award scheme must not be 10% or more of the issued share capital of the Company as at the adoption date, i.e., 142,884,712 shares, unless the Board otherwise decides.

During the year, a total of 824,000 (2013: 1,135,000) shares at a cost of RMB956,000 (2013: RMB1,313,000) were vested.

Movements in the number of the Award Shares and their related average fair value are as follows:

	2014		2013	
	Average fair value HK\$ per share	Number of shares '000	Average fair value HK\$ per share	Number of shares '000
At 1 January		6,205		7,340
Vested	1.45	(824)	1.45	(1,135)
At 31 December		<u>5,381</u>		<u>6,205</u>

Movements in the number of shares held under the share award scheme are as follows:

	2014	2013
	Number of shares held '000	Number of shares held '000
At 1 January	23,123	8,086
Purchased during the year	–	16,172
Released during the year	(824)	(1,135)
At 31 December	<u>22,299</u>	<u>23,123</u>

33. RESERVES**(a) Group**

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 44 to 45 of the financial statements.

(i) Merger reserve

The merger reserve of the Group represents (i) the excess of the nominal value of the paid-up capital of Huadong Feitian over the nominal value of A8 New Media's shares which were issued as consideration for obtaining the control of Huadong Feitian at the time of the group reorganisation in 2004; and (ii) the excess of the nominal value of the shares of the Company issued over the nominal value of A8 New Media's shares acquired pursuant to the group reorganisation in 2008.

(ii) Surplus contributions

According to an agreement dated 27 December 2004 on the capital contribution into A8 New Media's signed by A8 New Media, the then three shareholders of A8 New Media and the registered owners, the three shareholders of A8 New Media agreed to make cash contributions of HK\$1,000,000 (equivalent to RMB1,063,000) and RMB10,000,000 into A8 New Media without any equity interests issued and issuable to them in return. In addition, A8 New Media has no obligations to repay these contributions. As a result, the contributions were reported as surplus contributions of A8 New Media.

(iii) PRC statutory reserves

In accordance with the Companies Laws of the PRC and the articles of association of the subsidiaries of the Company which are domestic enterprises established in the PRC, appropriations of their net profits after offsetting accumulated losses from prior years should be made to the statutory surplus reserve fund maintained by these companies before any distributions are made to the investors. The percentage of appropriation to the statutory reserve fund is 10%. When the balance of the statutory reserve fund reaches 50% of the paid-up/ registered capital, no further appropriations are required to be made. The statutory reserve fund shall not be less than 25% of the original registered capital.

In accordance with the Law of the PRC for Enterprises with Foreign Investments and the articles of association of a subsidiary of the Company established in the PRC, namely Cash River, appropriations from net profits, after offsetting accumulated losses brought forward from prior years, should be made to the reserve fund before distributions are made to the owners. The percentage of net profits to be appropriated to the reserve fund should not be less than 10% of the net profits. When the balance of the reserve fund reaches 50% of the paid-up capital, no further appropriations are required to be made. Upon approval obtained from the board of directors, the reserve fund can be used to offset accumulated deficits or to increase the registered capital.

(b) Company

	Share premium account RMB'000	Shares held under share award scheme RMB'000	Capital reserve RMB'000	Exchange fluctuation reserve RMB'000	Employee share-based compensation reserve RMB'000	Retained profits/ accumulated losses) RMB'000	Total RMB'000
At 1 January 2013	194,363	(1,375)	8,969	(3,166)	16,500	3,183	218,474
Total comprehensive loss for the year	-	-	-	(127)	-	(4,760)	(4,887)
Rights issue	269,904	-	-	-	-	-	269,904
Equity-settled share-based payment arrangements	-	-	-	-	1,555	-	1,555
Share issue expenses	(4,568)	-	-	-	-	-	(4,568)
Transfer of reserve upon the forfeiture or expiry of share options	-	-	-	-	(1,091)	1,091	-
Employee share award scheme							
- shares purchased for share award scheme	-	(4,712)	-	-	-	-	(4,712)
- release of award shares	-	281	-	-	(281)	-	-
At 31 December 2013 and 1 January 2014	459,699*	(5,806)	8,969*	(3,293)	16,683	(486)	475,766
Total comprehensive income/(loss) for the year	-	-	-	5	-	(5,164)	(5,159)
Equity-settled share-based payment arrangements	-	-	-	-	4,207	-	4,207
Transfer of reserve upon the forfeiture or expiry of share options	-	-	-	-	(1,143)	1,143	-
Employee share award scheme							
- release of award shares	-	482	-	-	(482)	-	-
At 31 December 2014	<u>459,699*</u>	<u>(5,324)</u>	<u>8,969*</u>	<u>(3,288)</u>	<u>19,265</u>	<u>(4,507)</u>	<u>474,814</u>

* These reserve accounts comprise the Company's reserves available for distribution amounting to RMB468,668,000 (2013: RMB468,668,000).

The employee share-based compensation reserve comprises the fair value of share options and share awards granted which are yet to be exercised, as further explained in the accounting policy for equity compensation benefits in note 3.3 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

34. OPERATING LEASE ARRANGEMENTS**(a) As lessor**

The Group leases its investment properties (note 14) under operating lease arrangements, with leases negotiated for terms ranging from three to ten years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions. As 31 December 2014, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	23,713	–
	<u>23,713</u>	<u>–</u>

(b) As lessee

The Group leases certain of its office properties under operating lease arrangements with lease terms of one year. At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases in respect of buildings as follows:

	Group	
	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	253	539
	<u>253</u>	<u>539</u>

35. COMMITMENTS

In addition to the operating lease commitments detailed in note 34 above, the Group had the following commitments as at the end of the reporting period:

	Group	
	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>
Authorised, but not contracted for:		
Construction in progress	–	–
Contracted, but not provided for:		
Construction in progress	–	1,851
Investments	63,500	–
	<u>63,500</u>	<u>1,851</u>
	<u>63,500</u>	<u>1,851</u>

At the end of the reporting period, the Company did not have any significant commitments.

36. RELATED PARTY TRANSACTIONS

- (a) In addition to those detailed elsewhere in these financial statements, during the current year, the Group had the following transaction:

	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
Service fee paid	–	506

The Company entered into a subcontract agreement with Beijing Caiyun Online Technologies Co., Ltd. (a subsidiary of Duomi Music) dated 4 November 2011 for software development and the provision of music downloading service. The service fee was substantially in line with those offered by external service providers.

The above related party transaction also constituted a continuing connected transaction as defined in Chapter 14A of the Listing Rules.

- (b) Outstanding balance with an associate:

Details of the Group's balance with its associate at the end of the reporting period are disclosed in notes 22 and 25 to the financial statements.

- (c) **Compensation of key management personnel of the Group**

	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
Short term employee benefits	3,473	2,771
Post-employment benefits	192	181
Equity-settled share option expenses	1,941	216
Equity-settled share award expenses	27	808
Total compensation paid to key management personnel	5,633	3,976

37. FINANCIAL INSTRUMENTS BY CATEGORY

Other than investments at fair value through profit or loss and conversion options embedded in preferred shares and convertible notes as disclosed in notes 23, 28 and 29, respectively, and available-for-sale investment as disclosed in note 20 to the financial statements, all financial assets and liabilities of the Group and the Company as at 31 December 2014 and 2013, were loans and receivables, and financial liabilities stated at amortised cost, respectively.

38. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts of the financial instruments are reasonable approximation of their fair values.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value**As at 31 December 2014**

	Quoted prices in active markets (Level 1) <i>RMB'000</i>	Significant observable inputs (Level 2) <i>RMB'000</i>	Significant unobservable inputs (Level 3) <i>RMB'000</i>	Total <i>RMB'000</i>
Investments at fair value through profit or loss	443	–	–	443
Conversion option embedded in preferred shares	–	–	9,242	9,242
Conversion option embedded in convertible notes	–	–	32,176	32,176
	<u>443</u>	<u>–</u>	<u>41,418</u>	<u>41,861</u>

As at 31 December 2013

	Quoted prices in active markets (Level 1) <i>RMB'000</i>	Significant observable inputs (Level 2) <i>RMB'000</i>	Significant unobservable inputs (Level 3) <i>RMB'000</i>	Total <i>RMB'000</i>
Investments at fair value through profit or loss	10,316	–	–	10,316
Conversion option embedded in preferred shares	–	–	13,015	13,015
	<u>10,316</u>	<u>–</u>	<u>13,015</u>	<u>23,331</u>

There were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 during the current and prior years.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 3.3 above.

(a) Credit risk

The maximum credit risk exposure of the Group is the gross carrying value of each of its financial assets. As mentioned in note 3.3 above, the Mobile and Telecom Service Fees and the revenue from providing value-added services of the Group are substantially derived from co-operative arrangements with China Mobile and China Unicom (the "Mobile Telecommunications Operators"). If the strategic relationship with either of the Mobile Telecommunications Operators is terminated or scaled-back, or if the Mobile Telecommunications Operators alter the co-operative arrangements, the Group's mobile and telecommunications value-added services might be adversely affected. Since the Group mainly trades with the Mobile Telecommunications Operators, which are recognised and creditworthy third parties, the directors of the Company do not consider these counterparties to be of significant credit risk. Apart from this, the directors of the Company do not consider there are significant concentrations of credit risk.

However, the credit risk relating to the end customers of the services offered by the Group was shared by the Mobile Telecommunications Operators and the Group.

(b) Liquidity risk

The Group manages liquidity risk by maintaining a sufficient amount of bank deposits and the use of a bank loan to ensure that operational requirements are fulfilled.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.

As at 31 December 2014

RMB'000

	Group			
	Within one year or on demand	In the second year	In the third to fifth years, inclusive	Total
Trade payables (note 25)	35,391	–	–	35,391
Other payables and accruals (note 26)	71,540	–	–	71,540
	<u>106,931</u>	<u>–</u>	<u>–</u>	<u>106,931</u>

As at 31 December 2013

RMB'000

	Within one year or on demand	Group		Total
		In the second year	In the third to fifth years, inclusive	
Trade payables (note 25)	28,967	–	–	28,967
Other payables and accruals (note 26)	80,126	–	–	80,126
	<u>109,093</u>	<u>–</u>	<u>–</u>	<u>109,093</u>

(c) Capital management

The primary objectives of the Group's capital management are to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and to provide an adequate return to shareholders by pricing its services commensurately with the level of risk.

The Group monitors capital on the basis of the net cash over the debt position, which is cash and cash equivalents less trade payables, other payables and accruals. The amounts of the net cash over debt position at the end of the reporting periods were as follows:

	2014 RMB'000	2013 RMB'000
Cash and cash equivalents	316,458	449,157
Trade payables	(35,391)	(28,967)
Other payables and accruals	<u>(71,540)</u>	<u>(80,126)</u>
Net cash over debt position	<u>209,527</u>	<u>340,064</u>

40. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the end of the reporting period, the Group paid the second installment amounting to RMB22 million for the acquisition of an investment and paid a total consideration of RMB20 million for acquisition of 10% equity interests of a new investment.

41. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 31 March 2015.

(c) Unaudited consolidated financial statements

Set out below are the unaudited consolidated financial statements of the Group for the six months ended 30 June 2016 extracted from the interim report of the Company for the six months ended 30 June 2016.

Condensed Consolidated Statement of Profit or Loss

For the six months ended 30 June 2016

	<i>Notes</i>	For the six months ended 30 June	
		2016 (Unaudited) <i>RMB'000</i>	2015 (Unaudited) <i>RMB'000</i>
REVENUE, net of business tax	4	91,645	66,605
Cost of services provided		<u>(52,257)</u>	<u>(42,244)</u>
Gross profit		39,388	24,361
Other income and gains, net	4	15,776	31,469
Selling and marketing expenses		(8,557)	(8,284)
Administrative expenses		(16,188)	(21,118)
Other expenses		(1,147)	(5,478)
Share of losses of associates		(7,503)	(9,762)
Share of losses of joint ventures		<u>(2,071)</u>	<u>(916)</u>
PROFIT BEFORE TAX	5	19,698	10,272
Income tax expense	6	<u>(3,350)</u>	<u>(4,751)</u>
PROFIT FOR THE PERIOD		<u>16,348</u>	<u>5,521</u>
Attributable to:			
Owners of the Company		16,350	5,834
Non-controlling interests		<u>(2)</u>	<u>(313)</u>
		<u>16,348</u>	<u>5,521</u>
EARNINGS PER SHARE			
ATTRIBUTABLE TO ORDINARY			
EQUITY HOLDERS OF THE			
COMPANY	8		
Basic (RMB per share)		<u>0.9 cent</u>	<u>0.4 cent</u>
Diluted (RMB per share)		<u>0.9 cent</u>	<u>0.4 cent</u>

Condensed Consolidated Statement of Comprehensive Income*For the six months ended 30 June 2016*

	For the six months ended 30 June	
	2016 (Unaudited) <i>RMB'000</i>	2015 (Unaudited) <i>RMB'000</i>
Profit for the period	16,348	5,521
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	<u>2,380</u>	<u>291</u>
Total comprehensive income for the period	<u><u>18,728</u></u>	<u><u>5,812</u></u>
Attributable to:		
Owners of the Company	18,730	6,125
Non-controlling interests	<u>(2)</u>	<u>(313)</u>
	<u><u>18,728</u></u>	<u><u>5,812</u></u>

Condensed Consolidated Statement of Financial Position*As at 30 June 2016*

		30 June 2016	31 December 2015
	<i>Notes</i>	(Unaudited) <i>RMB'000</i>	(Audited) <i>RMB'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment	9	146,384	148,413
Investment properties	10	358,000	349,000
Prepaid land lease payments		13,354	13,516
Available-for-sale investments	11	56,994	46,994
Intangible assets		17,771	15,831
Investments in associates	12	28,057	27,229
Investments in joint ventures		29,282	31,353
Deferred tax assets		3,657	4,136
Conversion option embedded in preferred shares		–	6,309
Total non-current assets		<u>653,499</u>	<u>642,781</u>
CURRENT ASSETS			
Trade receivables	13	13,730	23,121
Prepayments, deposits and other receivables		12,164	114,855
Available-for-sale investments	11	45,000	–
Financial assets at fair value through profit or loss	14	296	342
Restricted cash balances		1,861	66,990
Cash and cash equivalents		<u>492,980</u>	<u>429,745</u>
Total current assets		<u>566,031</u>	<u>635,053</u>
CURRENT LIABILITIES			
Trade payables	15	33,619	29,305
Other payables and accruals		31,933	109,563
Tax payable		7,711	7,771
Deferred income		<u>8,704</u>	<u>17,267</u>
Total current liabilities		<u>81,967</u>	<u>163,906</u>
NET CURRENT ASSETS		<u>484,064</u>	<u>471,147</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>1,137,563</u>	<u>1,113,928</u>

		30 June 2016 (Unaudited) <i>RMB'000</i>	31 December 2015 (Audited) <i>RMB'000</i>
	<i>Notes</i>		
NON-CURRENT LIABILITIES			
Deferred tax liabilities		57,360	55,110
Deferred income		10,215	9,475
		<u>67,575</u>	<u>64,585</u>
Total non-current liabilities		<u>67,575</u>	<u>64,585</u>
Net assets		<u>1,069,988</u>	<u>1,049,343</u>
EQUITY			
Equity attributable to owners of the Company			
Issued capital	<i>16</i>	15,123	15,123
Reserves		1,055,564	1,034,917
		<u>1,070,687</u>	<u>1,050,040</u>
Non-controlling interests		<u>(699)</u>	<u>(697)</u>
Total equity		<u>1,069,988</u>	<u>1,049,343</u>

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2016

	Attributable to owners of the Company													
	Issued capital	Share premium account	Shares held under share award scheme	Merger reserve	Surplus contributions	Employee share-based compensation reserve	Exchange fluctuation reserve	Capital reserve	Statutory reserve funds	Reserve fund	Retained profits	Total	Non-controlling interests	Total equity
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2016	15,123	663,208	(4,942)	29,135	10,522	27,586	1,087	10,016	21,701	4,422	272,182	1,050,040	(697)	1,049,343
Profit for the period	-	-	-	-	-	-	-	-	-	-	16,350	16,350	(2)	16,348
Other comprehensive income for the period:														
Exchange differences on translation of foreign operations	-	-	-	-	-	-	2,380	-	-	-	-	2,380	-	2,380
Total comprehensive income for the period	-	-	-	-	-	-	2,380	-	-	-	16,350	18,730	(2)	18,728
Equity-settled share-based payment arrangements	-	-	-	-	-	1,917	-	-	-	-	-	1,917	-	1,917
Transfer of reserve upon the lapse of share options	-	-	-	-	-	(162)	-	-	-	-	162	-	-	-
Employee share award scheme:														
- release of award shares	-	-	201	-	-	(201)	-	-	-	-	-	-	-	-
At 30 June 2016	15,123	663,208*	(4,741)*	29,135*	10,522*	29,140*	3,467*	10,016*	21,701*	4,422*	288,694*	1,070,687	(699)	1,069,988

* These reserve accounts comprise the consolidated reserves of RMB1,055,564,000 (31 December 2015: RMB1,034,917,000) in the condensed consolidated statement of financial position.

Attributable to owners of the Company

	Shares held			Employee			Exchange fluctuation reserve	Capital reserve	Statutory reserve funds	Reserve fund	Retained profits	Non- controlling		
	Issued capital	Share premium account	under share award scheme	Merger reserve	Surplus contributions	share-based compensation reserve						Total	interests	Total equity
	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	
At 1 January 2015	11,914	450,770	(5,324)	29,135	10,522	24,415	(7,388)	9,173	21,701	4,422	249,437	798,777	(366)	798,411
Profit for the period	-	-	-	-	-	-	-	-	-	-	5,834	5,834	(313)	5,521
Other comprehensive income for the period:														
Exchange differences on translation of foreign operations	-	-	-	-	-	-	291	-	-	-	-	291	-	291
Total comprehensive income for the period	-	-	-	-	-	-	291	-	-	-	5,834	6,125	(313)	5,812
Placement of new shares	2,257	162,493	-	-	-	-	-	-	-	-	-	164,750	-	164,750
Share issue expenses	-	(2,571)	-	-	-	-	-	-	-	-	-	(2,571)	-	(2,571)
Issuance of shares in connection with the exercise of share options	5	547	-	-	-	(129)	-	-	-	-	-	423	-	423
Equity-settled share-based payment arrangements	-	-	-	-	-	2,297	-	-	-	-	-	2,297	-	2,297
Transfer of reserve upon the lapse of share options	-	-	-	-	-	(342)	-	-	-	-	342	-	-	-
Employee share award scheme:														
- release of award shares	-	-	67	-	-	(67)	-	-	-	-	-	-	-	-
At 30 June 2015	14,176	611,239	(5,257)	29,135	10,522	26,174	(7,097)	9,173	21,701	4,422	255,613	969,801	(679)	969,122

Condensed Consolidated Statement of Cash Flows*For the six months ended 30 June 2016*

	For the six months ended 30 June	
	2016 (Unaudited) <i>RMB'000</i>	2015 (Unaudited) <i>RMB'000</i>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash from/(used in) operations	11,293	(7,805)
Tax paid	(681)	(1,525)
Net cash flows from/(used in) operating activities	<u>10,612</u>	<u>(9,330)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of available-for-sale investments	(55,000)	(26,000)
Purchases of items of property, plant and equipment	(1,473)	(16,979)
Purchases of financial assets at fair value through profit or loss	–	(3,000)
Interest received	4,457	4,060
Decrease in restricted cash	65,129	3,498
Increase in time deposits with original maturity of more than three months when acquired	(199,251)	–
Purchases of shareholdings in associates	–	(25,000)
Capital injection in an associate	(3,000)	–
Proceeds from redemption of convertible notes	101,572	–
Refund of refundable collateral security	(60,000)	–
Other cash flows arising used in investing activities	(1,442)	(7,283)
Net cash flows used in investing activities	<u>(149,008)</u>	<u>(70,704)</u>

	For the six months ended 30 June	
	2016	2015
	(Unaudited) RMB'000	(Unaudited) RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	–	423
Proceeds from placement of shares	–	164,750
Share issue expenses	–	(2,571)
	<u>–</u>	<u>(2,571)</u>
Net cash flows from financing activities	–	162,602
	<u>–</u>	<u>162,602</u>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		
Cash and cash equivalents at beginning of year	(138,396)	82,568
Effect of foreign exchange rate changes, net	429,745	316,458
	2,380	291
	<u>293,729</u>	<u>399,317</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD		
	<u>293,729</u>	<u>399,317</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	81,963	181,096
Time deposits	411,017	218,221
	<u>492,980</u>	<u>399,317</u>
Cash and cash equivalents as stated in the condensed consolidated statement of financial position	492,980	399,317
Time deposits with original maturity of more than three months when acquired	(199,251)	–
	<u>(199,251)</u>	<u>–</u>
Cash and cash equivalents as stated in the condensed consolidated statement of cash flows	293,729	399,317
	<u>293,729</u>	<u>399,317</u>

Notes to Condensed Consolidated Interim Financial Information

1. CORPORATE INFORMATION

A8 New Media Group Limited (the “Company”) is a limited liability company incorporated in the Cayman Islands. The registered office address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

During the period, the Company and its subsidiaries (collectively referred to as the “Group”) were involved in the following principal activities in the People’s Republic of China (the “PRC” or “Mainland China”):

- provision of digital entertainment services
- property investment

There were no significant changes in the nature of the Group’s principal activities.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial information have been prepared in accordance with International Accounting Standard (“IAS”) 34 “Interim Financial Reporting” issued by the International Accounting Standards Board and the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”). The accounting policies and basis of preparation adopted in the preparation of the unaudited condensed consolidated interim financial information are the same as those used in the annual financial statements for the year ended 31 December 2015, except in relation to the following revised International Financial Reporting Standards, (“IFRSs”, which also include IASs and Interpretations) that affect the Group and are adopted for the first time for the current period’s financial statements:

Amendments to IFRS 11	<i>Accounting for Acquisitions of Interests in Joint Operation</i>
Amendments to IAS 1	<i>Disclosure Initiative</i>
Amendments to IAS 16 and IAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i>
<i>Annual Improvements 2012-2014 Cycle</i>	Amendments to a number of IFRSs

The adoption of the above revised IFRSs has had no significant financial effect on the interim financial information. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

3. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their services and has two reportable operating segments as follows:

- (a) the digital entertainment segment engages in the provision of music-based entertainment and game-related services in the PRC; and
- (b) the property investment segment invests in properties for rental and management fee income in the PRC.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that bank interest income and corporate and other unallocated income and expenses are excluded from such measurement.

Information regarding these reportable segments, together with their related comparative information is presented below.

For the six months ended 30 June

	Digital entertainment		Property investment		Total	
	2016	2015	2016	2015	2016	2015
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment net revenue	64,985	44,708	26,660	21,897	91,645	66,605
Cost of services provided	(44,645)	(35,513)	(7,612)	(6,731)	(52,257)	(42,244)
Gross profit	<u>20,340</u>	<u>9,195</u>	<u>19,048</u>	<u>15,166</u>	<u>39,388</u>	<u>24,361</u>
Segment results	<u>(49)</u>	<u>(10,783)</u>	<u>28,048</u>	<u>33,166</u>	27,999	22,383
Reconciliation:						
Bank interest income					4,457	4,060
Corporate and other unallocated income and expenses, net					(12,758)	(16,171)
Profit before tax					19,698	10,272
Income tax expense					(3,350)	(4,751)
Profit for the period					<u>16,348</u>	<u>5,521</u>

Over 90% of the Group's revenue from external customers is derived from the Group's operations in the PRC, and no non-current assets of the Group are located outside the PRC.

4. REVENUE, OTHER INCOME AND GAINS, NET

Revenue represents the net invoiced value (net of business tax) and estimated value of services rendered.

An analysis of revenue, other income and gains, net, is as follows:

	For the six months ended 30 June	
	2016 (Unaudited) <i>RMB'000</i>	2015 (Unaudited) <i>RMB'000</i>
Revenue		
Digital entertainment		
Game-related revenue	57,072	36,050
Music-based entertainment	7,920	8,832
	<u>64,992</u>	<u>44,882</u>
Sub-total	64,992	44,882
Property investment		
Rental and management fee income	27,627	23,025
	<u>92,619</u>	<u>67,907</u>
Less: Business tax	(974)	(1,302)
	<u>91,645</u>	<u>66,605</u>
Net revenue	<u>91,645</u>	<u>66,605</u>
Other income and gains, net		
Bank interest income	4,457	4,060
Imputed interest income	–	9,191
Fair value gains on investment properties	9,000	18,000
Foreign exchange differences, net	2,234	50
Others	85	168
	<u>15,776</u>	<u>31,469</u>

5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	For the six months ended 30 June	
	2016 (Unaudited) <i>RMB'000</i>	2015 (Unaudited) <i>RMB'000</i>
Depreciation	3,626	3,381
Amortisation of intangible assets	1,060	5,311
Amortisation of prepaid land lease payments	162	162
Impairment of an investment in an associate	978	–
Fair value loss on conversion option embedded in preferred shares	–	1,761
Fair value loss on conversion option embedded in convertible notes	–	3,655
Fair value loss/(gain) on financial assets at fair value through profit or loss	46	(22)
	<u>46</u>	<u>(22)</u>

6. INCOME TAX EXPENSE

An analysis of the income tax charges for the six months ended 30 June 2016 and 2015 is as follows:

	For the six months ended 30 June	
	2016	2015
	(Unaudited) <i>RMB'000</i>	(Unaudited) <i>RMB'000</i>
Current – PRC		
Charge for the period	999	–
Overprovision in the prior year	(377)	(264)
Deferred	2,728	5,015
	<u>3,350</u>	<u>4,751</u>
Total tax charge for the period	<u><u>3,350</u></u>	<u><u>4,751</u></u>

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the six months ended 30 June 2016 and 2015, respectively.

The income tax for the subsidiaries operating in Mainland China is calculated at the prevailing tax rates in the jurisdictions in which the subsidiaries operate.

7. INTERIM DIVIDEND

The Board does not recommend payment of an interim dividend for the six months ended 30 June 2016 (six months ended 30 June 2015: Nil).

8. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic earnings per share amounts for the six months ended 30 June 2016 is based on the profit for the period attributable to ordinary equity holders of the Company of RMB16,350,000 (six months ended 30 June 2015: RMB5,834,000), and the weighted average number of ordinary shares in issue less shares held under share award scheme during the six months ended 30 June 2016 of 1,814,259,696 (six months ended 30 June 2015: 1,525,305,770).

No adjustment has been made to the basic earnings per share amount presented for the period ended 30 June 2016 in respect of a dilution as the impact of the shares options outstanding and the awarded shares had an anti-dilutive effect on the basic earnings per share amount presented.

The calculation of diluted earnings per share amounts for the six months ended 30 June 2015 is based on the profit for the period attributable to ordinary equity holders of the Company of RMB5,834,000 as used in the basic earnings per share calculation. The weighted average number of ordinary shares used in the calculation is 1,525,305,770 ordinary shares in issue less shares held under the share award scheme during the six months ended 30 June 2015, as used in the basic earnings per share calculation, and the weighted average of 8,237 ordinary shares assumed to have been issued at no consideration on the deemed exercise of dilutive potential ordinary shares into ordinary shares and the effect of awarded shares.

9. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment of RMB1,677,000 (six months ended 30 June 2015: RMB7,905,000). There were disposals and/or write-off of property, plant and equipment of RMB80,000 (six months ended 30 June 2015: RMB169,000) during the six months ended 30 June 2016.

10. INVESTMENT PROPERTIES

	(Unaudited) RMB'000
At 1 January 2015	310,000
Fair value gains on investment properties	<u>39,000</u>
At 31 December 2015 and 1 January 2016	349,000
Fair value gains on investment properties	<u>9,000</u>
At 30 June 2016	<u><u>358,000</u></u>

The Group's completed investment properties were revalued on 30 June 2016 based on valuations performed by Asset Appraisal Limited, independent professionally qualified valuers.

The completed investment properties are leased to third parties under operating leases.

The valuations of completed investment properties were based on the capitalisation of net rental income derived from the existing tenancies with due allowance for the reversionary income potential of the properties.

Each year, the Group's management decides to appoint which external valuer to be responsible for the external valuation of the Group's properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Group's management has discussions with the valuer on the valuation assumptions and valuation results twice a year when the valuation is performed for interim and annual financial reporting.

In the opinion of the directors, for all investment properties that are measured at fair value, the current use of the properties is their highest and best use. The completed investment properties measured at fair value in the aggregate carrying amount of RMB358,000,000 and RMB349,000,000 as at 30 June 2016 and 31 December 2015, respectively, are subject to restrictions on sale and transfer.

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's investment properties:

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
As at 30 June 2016 (Unaudited):				
Recurring fair value measurement for:				
Commercial building	<u>–</u>	<u>–</u>	<u>358,000</u>	<u>358,000</u>
As at 31 December 2015 (Audited):				
Recurring fair value measurement for:				
Commercial building	<u>–</u>	<u>–</u>	<u>349,000</u>	<u>349,000</u>

During the current period and prior year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

Below is a summary of the valuation techniques used and the key inputs to the valuation of investment properties:

	Valuation technique	Significant unobservable inputs	Range (weighted average)	
			30 June 2016	31 December 2015
Commercial building (Completed)	Income approach (refer above)	Estimated rental value (per sq.m. and per month)	RMB121	RMB114
		Rental growth rate (per annum)	5.0%	5.0%
		Discount rate	9.95%	10.0%

A significant increase/(decrease) in the estimated rental value per square meter and the rental growth rate per annum in isolation would result in a significant increase/(decrease) in the fair value of the investment properties. A significant increase/(decrease) in the discount rate in isolation would result in a significant decrease/(increase) in the fair value of the investment properties. Generally, a change in the assumption made for the estimated rental value is accompanied by a directionally similar change in the rental growth rate per annum and the discount rate.

11. AVAILABLE-FOR-SALE INVESTMENTS

During the period, the Group acquired 10% equity interest in Shanghai Hanqu Network Technology Company Limited, which is principally engaged in developing mobile games, for a total cash consideration of RMB10 million.

The Group has also entered into contracts with various financial institutions in the PRC to acquire structured investments amounted to RMB45 million during the period. The structured investments are non-capital protected financial products.

During the period ended 30 June 2016, no gain/loss in respect of the Group's available-for-sale investments were recognised in other comprehensive income or reclassified from other comprehensive income to profit or loss.

12. INVESTMENTS IN ASSOCIATES

During the period, a capital injection of RMB3 million was made to one of the associates, which principally engaged in producing anime and musical performance.

13. TRADE RECEIVABLES

An aged analysis of the trade receivable as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	30 June 2016 (Unaudited) <i>RMB'000</i>	31 December 2015 (Audited) <i>RMB'000</i>
Billed		
Within 1 month	3,962	431
Over 1 month but less than 2 months	788	6,264
Over 2 months but less than 3 months	341	1,334
Over 3 months but less than 4 months	418	674
Over 4 months	1,840	2,026
	<u>7,349</u>	<u>10,729</u>
Unbilled	6,381	12,392
	<u>13,730</u>	<u>23,121</u>

The Group has no formal credit period communicated to its customers but the customers usually settle the amounts due to the Group within a period of 30 to 120 days.

14. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The Group's listed equity investments were upon initial recognition, designated by the Group as financial assets as at fair value through profit or loss and are stated at fair value.

15. TRADE PAYABLES

An aged analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	30 June 2016 (Unaudited) <i>RMB'000</i>	31 December 2015 (Audited) <i>RMB'000</i>
Within 1 month	2,236	11,188
1 to 3 months	1,502	5,202
4 to 6 months	3,521	1,575
Over 6 months	26,360	11,340
	<u>33,619</u>	<u>29,305</u>

The trade payables are non-interest-bearing and are normally settled on 30-day to 180-day terms.

16. SHARE CAPITAL

	30 June 2016 (Unaudited) <i>RMB'000</i>	31 December 2015 (Audited) <i>RMB'000</i>
Authorised:		
3,000,000,000 ordinary shares of HK\$0.01 each	26,513	26,513
Issued and fully paid:		
1,835,192,628 ordinary shares of HK\$0.01 each	15,123	15,123

17. SHARE OPTION SCHEME

The following share options were outstanding under the share option scheme during the period:

	Weighted average exercise price <i>HK\$ per share</i>	Number of options <i>'000</i>
At 1 January 2015	0.83	47,204
Granted during the period	1.04	4,808
Lapsed during the period	1.30	(773)
Exercised during the period	0.66	(578)
At 30 June 2015	0.85	50,661
At 1 January 2016	0.84	49,779
Granted during the period	0.56	8,910
Lapsed during the period	1.30	(1,970)
Cancelled during the period	1.32	(5,417)
At 30 June 2016	0.72	51,302

At the end of the reporting period, the Company had 51,302,000 share options outstanding under the share option scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 51,302,000 additional ordinary shares of the Company and additional share capital of HK\$513,000 and share premium of HK\$36,424,000 (before issue expenses).

At the date of approval of these condensed consolidated interim financial information, the Company had 51,302,000 share options outstanding under the share option scheme, which represented approximately 2.8% of the Company's shares in issue as at that date.

For the six months ended 30 June 2016, the fair value of the share options granted was RMB2,587,000 at RMB0.29 each (six months ended 30 June 2015: RMB2,361,000 at RMB0.49 each). The Group recognised a share option expense of RMB1,917,000 (six months ended 30 June 2015: RMB2,297,000) during the six months ended 30 June 2016 in respect of share options granted in the current and prior periods.

18. COMMITMENTS

The Group had the following commitments as at the end of the reporting period:

	30 June 2016 (Unaudited) <i>RMB'000</i>	31 December 2015 (Audited) <i>RMB'000</i>
Contracted, but not provided for:		
Investments	–	10,000

19. RELATED PARTY TRANSACTION

In addition to those detailed elsewhere in these condensed consolidated interim financial information, during the current period, the Group has the following transaction:

	For the six months ended 30 June	
	2016 (Unaudited) <i>RMB'000</i>	2015 (Unaudited) <i>RMB'000</i>
Game licence fee	3,000	–

The licence of a mobile game was entrusted to Xiamen Mechanist Internet Technologies Co., Ltd. (“Mengjia”), a company of which Mr. Liu Xiaosong, the Chairman of the Group, is the shareholder and the director. The game licence fee was charged pursuant to the terms in the agreement signed between the Group and Mengjia.

20. FAIR VALUE AND FAIR VALUE HIERARCHY

The carrying amounts of the Group’s financial instruments are reasonable approximation to their fair values.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group’s financial instruments:

*Assets measured at fair value***As at 30 June 2016**

	Quoted prices in active markets (Level 1) (Unaudited) <i>RMB'000</i>	Significant observable inputs (Level 2) (Unaudited) <i>RMB'000</i>	Significant unobservable inputs (Level 3) (Unaudited) <i>RMB'000</i>	Total (Unaudited) <i>RMB'000</i>
Financial assets at fair value through profit or loss	296	–	–	296

As at 31 December 2015

	Quoted prices in active markets (Level 1) (Audited) <i>RMB'000</i>	Significant observable inputs (Level 2) (Audited) <i>RMB'000</i>	Significant unobservable inputs (Level 3) (Audited) <i>RMB'000</i>	Total (Audited) <i>RMB'000</i>
Financial assets at fair value through profit or loss	342	–	–	342
Conversion option embedded in preferred shares	–	–	6,309	6,309
	<u>342</u>	<u>–</u>	<u>6,309</u>	<u>6,651</u>

There were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 during the current period and prior year.

21. EVENT AFTER THE REPORTING PERIOD

On 13 May 2016, the Group has entered into a sale and purchase agreement with independent third parties to acquire 35% equity interests in Beijing Jiangwen Information Technology Co., Ltd. (“Beijing Jiangwen”) for a cash consideration of RMB192.5 million. Beijing Jiangwen is principally engaged in incubation and operation of prime copyrights. Subsequent to the end of the reporting period on 12 August 2016, the Group has obtained approval from shareholders of the Company at an extraordinary general meeting for the acquisition. The transaction has not been completed as at the date of approval of this unaudited interim financial information.

22. APPROVAL OF THE UNAUDITED INTERIM FINANCIAL INFORMATION

The unaudited interim financial information was approved by the Board on 24 August 2016.

2. INDEBTEDNESS OF THE GROUP

As at the close of business on 30 November 2016, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Group's aggregate outstanding bank borrowings were as follows:

	Balance as at 30 November 2016 <i>RMB'million</i>
Secured bank borrowings (<i>Note (i)</i>)	18.9
Unsecured bank borrowings (<i>Note (ii)</i>)	8.5
Total borrowings	<u>27.4</u>

Notes:

- (i) This borrowing was secured by the Group's pledged deposit of RMB30 million.
- (ii) This borrowing was guaranteed by corporate guarantee provided by a group company.

Contingent liabilities

As at the close of business on 30 November 2016, the Directors considered there were no material contingent liabilities for the Group and the Company.

Save as aforesaid and apart from intra-group liabilities, at the close of business on 30 November 2016, the Group did not have any loan capital issued and outstanding or agreed to be issued, other debt securities or other similar indebtedness, liabilities under acceptance (other than normal trade bills and payables) or acceptance credits, debentures, mortgages, charges, hire purchase or other finance lease commitments, guarantees or other contingent liabilities.

The Directors confirmed that there has been no material change in the indebtedness and contingent liabilities of the Group since 30 November 2016 and up to and including the Latest Practicable Date.

3. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

In 2016, the Group will continue to enhance the digital entertainment services including music-based entertainment industry chain based on mobile internet and the prime game publishing platform, and property investment business.

Music-based entertainment industry chain based on mobile internet

The Group will put more emphasis on live music performance business and the interaction between offline and online contents. The Group will introduce more social elements to its products to improve interaction among users, interaction between users and musicians in order to differentiate its products and strengthen its monetisation capacity. The Group will continue to strengthen the sourcing of music content through music competitions.

In terms of live music performance business, the Group will continue to explore the Live house business model through the brand A8 Live, enlarge the number of performances and enrich performance content. It will also promote the brands through enrichment of online and offline contents and extensive cooperation with the media. It aims at creating an ecosystem and a resources sharing platform in terms of content, business opportunities and users by integrating fans, musicians and music accessories.

Prime games publishing platform

In terms of new mobile games introduction, the Group will introduce mobile games with innovation on core game structure and high quality product. Meanwhile, the Group will keep alert on popular literatures which are suitable for mobile game edition. According to market research, the conversion rate (being the ratio of mobile games users converting into paid users of mobile games) and revenue scale of mobile games edited from a popular intellectual property are much higher than average conversion rate and revenue scale of mobile games not edited from a popular intellectual property.

In terms of mobile games publishing and operation business, the Group will continue to mainly focus on the China market whilst at the same time begin attempts to expand to overseas markets. Its operation team will enhance user conversion rate and paid rates through refined operation according to users' need. In addition, the Group will also publish console games by utilising its existing distribution channel through mobile operators.

In terms of strategic layout on mobile games industry, the Group will continue to cooperate with leading developers through business cooperation or equity investment.

4. MATERIAL CHANGE

As at the Latest Practicable Date, the Directors confirm that there had been no material change in the financial or trading position or outlook of the Group since 31 December 2015 (being the date to which the latest published audited financial statements of the Group were made up), and up to and including the Latest Practicable Date.

As at the Latest Practicable Date, the Directors confirm that there had been no material adverse change in the financial or trading position of the Group since 31 December 2015 (being the date to which the latest published audited financial statements of the Group were made up), and up to and including the Latest Practicable Date.

The following is the text of letter and valuation certificate prepared for the purpose of incorporation in this circular, received from Grant Sherman Appraisal Limited, an independent property valuer, in connection with their valuation as at 30 November 2016 of the property interest held by the Group in the PRC.



Unit 1005, 10/F., AXA Centre,
151 Gloucester Road,
Wanchai,
Hong Kong

25 January 2017

The Directors
A8 New Media Group Limited
24/F, A8 Music Building,
No. 1002 Keyuan Road,
Hi-Tech Park,
Nanshan District, Shenzhen City,
Guangdong Province, the People's Republic of China

Dear Sirs,

RE: A8 Music Building, No. 1002 Keyuan Road, Hi-Tech Park, Nanshan District, Shenzhen City, Guangdong Province, the People's Republic of China (the "Property")

In accordance with your instructions for us to value the property interest held by A8 New Media Group Limited (the "**Company**") and its subsidiaries (together referred to as the "**Group**") in the People's Republic of China ("**the PRC**"), we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of such property interests as at the 30 November 2016 ("**date of valuation**") for inclusion in the circular issued by the Company.

Our valuation is our opinion of the market value of the property interests where we would define market value as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

Market Value is understood as the value of a property estimated without regard to costs of sale or purchase (or transaction) and without offset for any associated taxes or potential taxes.

In valuing the property interest, we have adopted the investment approach (income approach) by taking into account the current rent passing of the property interest and the reversionary potential of the tenancy(ies). In determining the reversionary potential of the tenancy(ies), we have adopted the market approach with reference to the recent proposed leasing and sale transactions for similar premises in the proximity.

Our valuation has been made on the assumption that the owner sells the property interest on the open market in its existing state without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to increase the value of the property interest. In addition, no forced sale situation in any manner is assumed in our valuation.

No allowance has been made in our valuation for any charge, mortgage or amount owing on the property nor for any expenses or taxation which may be incurred in effecting a sale. It is assumed that the property is free from encumbrances, restrictions and outgoings of an onerous nature which could affect its value.

In valuing the property interest, we have assumed that the owner has free and uninterrupted rights to use the property for the whole of the unexpired term as granted and is entitled to transfer the property with the residual term without payment of any further premium to the government authorities or any third parties.

We have assumed that all consents, approvals and licenses from relevant government authorities for the property have been granted without any onerous conditions or undue time delay which might affect its value. It is assumed that all applicable zoning and use regulations and restrictions have been complied with unless nonconformity has been stated, defined, and considered in the valuation certificates. Moreover, we have assumed that the utilization of the Properties and improvements is within the boundaries of the property described and that no encroachment or trespass exists, unless noted in the valuation certificate.

We have been provided with copies of extracts of title documents relating to the property. However, we have not caused title searches to be made for the property interest at the relevant government bureaus in the PRC and we have not inspected the original documents to verify the ownership, encumbrances or the existence of any subsequent amendments which may not appear on the copies handed to us. In undertaking our valuation for the property interest in the PRC, we have relied on the legal opinion (“**the PRC legal opinion**”) dated 25 January 2017 provided by the Group’s PRC legal adviser, King & Wood Mallesons.

We have relied to a considerable extent on information provided by the Group and have accepted advice given to us by the Group on such matters as planning approvals or statutory notices, easements, tenure, occupancy, lettings, site and floor areas and in the identification of the property and other relevant matter. We have no reason to doubt the truth and accuracy of the information provided to us by the Company which is material to the valuation. We have also been advised by the Group that no material facts had been concealed or omitted in the information provided to us and have no reason to suspect that any material information has been withheld. All documents have been used for reference only. We consider that we have been provided with sufficient information to reach an informed view.

We have inspected the exteriors and interiors of the property. However, no structural survey has been made and we are therefore unable to report as to whether the property is or not free of rot, infestation or any other structural defects. No tests have been carried out on any of the services. Neither have we carried out site investigation to determine the suitability of the ground conditions or the services for any property development thereon. Our valuations are on the basis that these aspects are satisfactory and that no extraordinary expense or delay will be incurred during the construction period. No structural survey has been carried out and it was not possible to inspect the wood work and other parts of the structures which were covered, unexposed or inaccessible. We are therefore, unable to report that the property is free of rot, infestation or any structural defects. No tests have been carried out on any of the building services.

All dimensions, measurements and areas included in the valuation certificate is based on information contained in the documents provided to us by the Group and are approximations only. No on-site measurement has been taken.

In valuing the property interests, we have fully complied with the HKIS Valuation Standards (2012 Edition) published by The Hong Kong Institute of Surveyors (HKIS) and the requirements set out in Chapter 5 of and Practice Note 12 to the Rule Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited and the Code on Takeovers and Mergers.

For the purpose of compliance with Rule 11.3 of the Code on Takeovers and Mergers and as advised by the Company, the potential tax liabilities which may arise from the sale of the properties in the PRC include: (i) PRC business tax (equivalent to 5% of sales revenue), (ii) PRC land appreciation tax (equivalent to 30%-60% of the net appreciation amount) and (iii) PRC corporate income tax (25%). It is unlikely that such tax liability will be crystallised in the recent future as the Group has no intention to dispose of or transfer the relevant property interests. According to our established practice, in the course of our valuation, we have neither verified nor taken into account such tax liability.

Unless otherwise stated, all property values are denominated in Renminbi (RMB). The exchange rate adopted in valuing the property interest in the PRC as at 30 November 2016 was HK\$1: RMB0.887. There has been no significant fluctuation in the exchange rate for this currency against Hong Kong Dollars between that date and the date of this letter.

As confirmed by the Company, the Property is the only property interest held by the Group both inside and outside the PRC as at the date of valuation.

We enclose herewith the valuation certificate.

Respectfully submitted,
For and on behalf of
GRANT SHERMAN APPRAISAL LIMITED
Lawrence Chan Ka Wah
MRICS MHKIS RPS (GP) MHIREA
Director
Real Estate Group

Note:

Mr. Lawrence Chan Ka Wah is a member of the Royal Institution of Chartered Surveyors, a member of the Hong Kong institute of Surveyors and Registered Professional Surveyors in the General Practice Section, who has over 13 years' experience in the valuation of properties in Hong Kong, Macau, the PRC and the Asian Rim.

VALUATION CERTIFICATE

Property interest held by the Group for investment purpose in the PRC

Property	Description and Tenure	Particulars of Occupancy	Market Value in existing state as at 30 November 2016
A8 Music Building, No. 1002 Keyuan Road, Hi-Tech Park, Nanshan District, Shenzhen City, Guangdong Province, the PRC	<p>The property comprises a 25-storey commercial building (exclusive of 3-storey basement), which is completed in about 2014.</p> <p>The site area and total gross floor area of the property are approximately 4,745.49 sq.m. and 41,018.89 sq.m. respectively.</p> <p>The land use rights of the property were granted for a term expiring on 5 November 2058 for industrial use.</p>	<p>According to the tenancy schedule provided by the Company, the property is subject to various tenancy agreements with the latest expiry date on 30 September 2024 at an aggregate monthly rental of approximately RMB4,652,503 exclusive of management fee and other operating outgoings.</p> <p>Portion of the property was occupied by the tenants for office and retail uses, portion of the property was vacant and portion of the property was occupied by the Company for office and ancillary uses.</p>	<p>RMB906,000,000 (equivalent to HK\$1,021,000,000)</p>

Notes:

- Pursuant to a State-owned Land Use Rights Grant Contract (Document No.: Shen De He Zi (2008) No. 105) entered into between the State-owned Land Resources and Building Management Bureau of Shenzhen City (Party A) and Shenzhen Huadong Feitian Network Development Co., Ltd. (Party B) dated 6 November 2008, the land use rights of the property with a site area of approximately 4,745.49 sq.m. were granted from Party A to Party B for a term of 50 years commencing on the date the handover of the land parcel of the property at a consideration of RMB29,265,400 for industrial use. The relevant development limitation of the land parcel of the property are summarized as below:

Permitted Land Use	:	Industrial and Research
Plot Ratio	:	Less than or equal to 8.6
Site Coverage	:	Less than or equal to 70%
Height Restriction	:	not higher than 100 meters

- Pursuant to a Supplementary State-owned Land Use Rights Grant Contract (Document No.: Shen De He Zi (2008) No. 105) entered into between the Planning and State-owned Land Resources Committee 2nd Management Bureau of Shenzhen City (Party A) and Shenzhen Huadong Feitian Network Development Co., Ltd. (Party B) dated 21 April 2015, the permitted gross floor area of the property is amended as follows, for a consideration of RMB148,357:

Permitted Uses	Approximate Gross Floor Area (sq.m.)
Commercial	1,330.23
Industrial and Research	38,619.34
Canteen	1,069.32
	<hr/>
Total:	41,018.89
	<hr/> <hr/>

3. Pursuant to a State-owned Land Use Certificate (Document No.: Shen Feng De Zi No. 4000417876), the land use rights of the property with a site area of approximately 4,745.49 sq.m. were granted to Shenzhen Huadong Feitian Network Development Co., Ltd. for a term expiring on 5 November 2058 for industrial use.
4. According to a Real Estate Ownership Certificate (Document No.: Yue (2015) Shen Zhen Shi Bu Dong Chan Quan Zheng No. 0019537), the ownership of the Property with total gross floor area of approximately 41,018.89 sq.m. is vested in Shenzhen Huadong Feitian Network Development Co., Ltd. for industrial and research, commercial and canteen uses
5. As advised by the Company, the property facilitates a total of about 250 covered car parking spaces on basement levels 1 to 3.
6. We have been provided with a legal opinion on the property dated 25 January 2017 prepared by the Group's PRC legal adviser, King & Wood Mallesons, which contains, inter alia, the following information:
 - (a) Shenzhen Huadong Feitian Network Development Co., Ltd. was granted with the land use rights of the land parcel of the property. The land use rights are entitled to be occupied and mortgaged;
 - (b) The ownership of the Property was vested in Shenzhen Huadong Feitian Network Development Co., Ltd.;
 - (c) The property is free from any mortgages, charges and legal encumbrances which may cause adverse effects on the ownership of the property; and
 - (d) The following legal documents were obtained.

(i)	State-owned Land Use Certificate	Yes
(ii)	Real Estate Ownership Certificate	Yes
7. Our Mr Lawrence Chan Ka Wah (MRICS MHKIS RPS (GP) MHIREA) inspected the property on 8 December 2016, the external condition of the property was reasonable.
8. According to the information provided by the Company, Shenzhen Huadong Feitian Network Development Co., Ltd. is an indirect wholly-owned subsidiary of A8 New Media Group Limited.
9. The property is situated in Hi-Tech Park of Nanshan District, buildings in the locality are medium to high rise commercial buildings and industrial buildings. Shenzhen Metro Keyuan Station is about 15-minute walking distance from the property. Taxis and buses are accessible to the property.
10. According to the tenancy schedule provided by the Company, the property is subject to various tenancy agreements with the latest expiry date on 30 September 2024 at an aggregate monthly rental of RMB4,652,503 exclusive of management fee and other operating outgoings. The existing monthly unit rent for office and retail portions is in the range of RMB92 per sq.m. to RMB200 per sq.m. and RMB90 per sq.m. to RMB300 per sq.m. respectively.

The average monthly unit rent of similar office premises in the locality as at the date of valuation is in the range of RMB70 per sq.m. to RMB150 per sq.m. The average monthly unit rent of similar retail premises in the locality as at the date of valuation is in the range of RMB200 per sq.m. to RMB270 sq.m.
11. As advised by the Company, the tenants of the property are independent third parties which are not connected with and are independent of, any of the directors, or any of their respective associates of the Group.

1. SHARE CAPITAL AND SHARE OPTIONS

(a) Share Capital

The authorised and issued share capital of the Company (i) as at the Latest Practicable Date; and (ii) immediately following the Completion were/will be as follows:

(i) As at the Latest Practicable Date

<i>Authorised:</i>		<i>HK\$</i>
<u>3,000,000,000</u>	Shares of HK\$0.01 each	<u>30,000,000.00</u>
<i>Issued and fully paid or credited as fully paid:</i>		
<u>1,835,192,628</u>	Shares	<u>18,351,926.28</u>

(ii) Immediately following the Completion

<i>Authorised:</i>		<i>HK\$</i>
<u>3,000,000,000</u>	Shares of HK\$0.01 each	<u>30,000,000.00</u>
<i>Issued and fully paid or credited as fully paid:</i>		
1,835,192,628	Shares as at the Latest Practicable Date	18,351,926.28
<u>931,800,000</u>	Subscription Shares to be allotted and issued under the Subscription Agreement	<u>9,318,000.00</u>
<u>2,766,992,628</u>	Shares in issue upon completion of the Subscription	<u>27,669,926.28</u>

All the issued Shares rank equally with each other in all respects including the rights in respect of capital, dividend and voting.

The Shares are listed and traded on the Main Board of the Stock Exchange. No Shares are listed on or dealt in, nor is any listing of or permission to deal in the Shares being, or proposed to be, sought on any other stock exchange.

There had been no alteration to the authorised share capital and the issued share capital of the Company since 31 December 2015, being the date on which the latest audited financial statements of the Company were made up, and up to the Latest Practicable Date.

(b) Share Option Scheme

As at the Latest Practicable Date, the Company had outstanding Share Options granted under the Share Option Scheme entitling the holders thereof to subscribe for an aggregate of 46,382,338 Shares, the details of which are set out below:

Holders of outstanding Share Options	As at Latest Practicable Date	Date of grant	Vesting period	End of exercise period	Exercise price (HK\$ per Share)
Directors					
Mr. Liu	21,914,910				
<i>including:</i>	597,310	5 October 2009	One-third of the Share Options will be vested every 12-month period starting from 5 October 2010	26 May 2018	2.4156
	7,600,000	23 April 2014	One-fourth of the Share Options will be vested every 12-month period starting from 23 April 2015	23 April 2021	0.650
	4,807,600	14 May 2015	One-fourth of the Share Options will be vested every 12-month period starting from 14 May 2016	14 May 2022	1.040
	8,910,000	16 May 2016	One-third of the Share Options will be vested every 12-month period starting from 16 May 2017	16 May 2023	0.560
Mr. Liu Pun Leung	1,250,000	23 April 2014	One-fourth of the Share Options will be vested every 12-month period starting from 15 October 2015	23 April 2021	0.650

Holders of outstanding Share Options	As at Latest Practicable Date	Date of grant	Vesting period	End of exercise period	Exercise price (HK\$ per Share)
Mr. Chan Yiu Kwong	315,000	23 April 2014	One-fourth of the Share Options will be vested every 12-month period starting from 23 April 2015	23 April 2021	0.650
Ms. Wu Shihong	420,000	23 April 2014	One-fourth of the Share Options will be vested every 12-month period starting from 23 April 2015	23 April 2021	0.650
Subtotal	<u>23,899,910</u>				
Senior Management of the Group	3,177,500	24 January 2014	One-fourth of the Share Options will be vested every 12-month period starting from 24 January 2015	14 January 2021	0.684
	9,222,000	23 April 2014	One-fourth of the Share Options will be vested every 12-month period starting from 23 April 2015	23 April 2021	0.65
Subtotal	<u>12,399,500</u>				

Holders of outstanding Share Options	As at Latest Practicable Date	Date of grant	Vesting period	End of exercise period	Exercise price (HK\$ per Share)
Other employees and eligible persons	2,888,762	15 October 2008	One-fourth of the Share Options will be vested every 12-month period starting from 15 October 2009	14 October 2018	0.9028
	321,612	5 October 2009	One-third of the Share Options will be vested every 12-month period starting from 5 October 2010	26 May 2018	2.4156
	1,500,000	14 January 2014	One-fourth of the Share Options will be vested every 12-month period starting from 14 January 2015	14 January 2019	0.69
	4,952,554	23 April 2014	One-fourth of the Share Options will be vested every 12-month period starting from 23 April 2015	23 April 2021	0.65
	420,000	23 April 2014	One-fourth of the Share Options will be vested every 12-month period starting from 23 April 2015	23 April 2021	0.65
Subtotal	<u>10,082,928</u>				
Total	<u>46,382,338</u>				

As at the Latest Practicable Date, other than the Share Options and the Subscription, the Company had no outstanding convertible securities, options, warrants or conversion rights which affect the Shares.

2. DISCLOSURE OF INTEREST

(a) Directors and chief executive of the Company

As at the Latest Practicable Date, the interests or short position of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Long position in the Shares and Underlying Shares

Name of Director	Nature of interest	Ordinary Shares	Underlying Shares (under equity derivatives of the Company) <i>(Note 3)</i>	Approximate percentage of shareholding <i>(Note 1)</i>
Mr. Liu	Founder of trust	1,455,867,398 <i>(Note 2)</i>	Nil	79.33%
	Beneficial owner	5,766,000	21,914,910	1.51%
Mr. Liu Pun Leung	Beneficial owner	Nil	1,250,000	0.07%
Mr. Chan Yiu Kwong	Beneficial owner	105,000	315,000	0.02%
Ms. Wu Shihong	Beneficial owner	Nil	420,000	0.02%

Notes:

- (1) The total number of Shares in issue as at the Latest Practicable Date (i.e. 1,835,192,628 Shares) has been used for the calculation of the approximate percentage.
- (2) Mr. Liu is the founder of a family trust which is deemed under SFO to be interested in all the Shares held by the Subscriber and Prime Century in the Company. These Shares comprised 379,496,303 Shares and 144,571,095 Shares directly held by Prime Century and the Subscriber respectively and 931,800,000 Subscription Shares to be allotted and issued to the Subscriber upon Completion.
- (3) Details of Share Options held by the Directors are shown in the section “1(b) Share Option Scheme” in this appendix above.

(b) Long positions in shares of the associated corporations of the Company

Name of associated Corporation	Name of Director	Nature of Interest	Registered capital/no. of shares held	Approximate percentage of interest
Shenzhen Huadong Feitian Network Development Co., Ltd. (“ Huadong Feitian ”) (Note 1)	Mr. Liu	Beneficial owner	RMB28,680,000 (Note 3)	75%
Duomi Music Holding Ltd (“ Duomi Music ”) (Note 2)	Mr. Liu	Interest of controlled corporation	35,435,640 (Note 4)	33.94%
北京多米在綫科技股份有限公司 (Beijing Duomi Online Technology Co., Ltd.) (formerly known as Beijing Caiyun Online Technologies Co. Ltd.) (“ Beijing Duomi ”) (Note 5)	Mr. Liu	Beneficial owner	RMB23,638,132	27.08%

Notes:

- Huadong Feitian is a limited liability company incorporated in the PRC whose financial results are, through a number of structure contracts, consolidated into the financial statements of the Company and therefore an associated corporation of the Company.
- Duomi Music is a company incorporated in the Cayman Islands with limited liability. As at the Latest Practicable Date, the Company was interested in approximately 48.13% of the issued share capital of Duomi Music (assuming after conversion of all the outstanding preferred A shares of Duomi Music in full and no option of Duomi Music has been exercised) through its wholly-owned subsidiary, Phoenix Success Limited, and therefore Duomi Music is an associated corporation of the Company. Mr. Liu, through his wholly-owned company, Fortune Light Investments Limited, held approximately 33.94% of the issued share capital of Duomi Music.
- This represents the amount of registered capital of Huadong Feitian held by Mr. Liu.
- This represents the number of shares of Duomi Music held by Mr. Liu.
- Beijing Duomi is a company incorporated in the PRC with limited liability. As at the Latest Practicable Date, the Company was interested in approximately 22.80% of the registered capital of Beijing Duomi through its wholly-owned subsidiary, Shenzhen Kwaitonglian Technology Co., Ltd. (“**Kwaitonglian**”), and therefore Beijing Duomi is an associated corporation of the Company.

Save as disclosed above and in the section headed “1(b) Share Option Scheme” above in this appendix, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interest or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO to be entered into the register referred to therein; or (c) pursuant to the Model Code of Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange.

(c) Substantial Shareholders

As at the Latest Practicable Date, the following persons (other than a Director or chief executive of the Company) had an interest or short position in the Shares and underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO:

Name of substantial Shareholder	Nature of interest	Long positions in the Shares	Approximate percentage of shareholding (Note 1)
HSBC International Trustee Limited (“ HSBC International ”)	Trustee (other than a bare trustee)	1,543,747,398 (Note 2)	84.12%
River Road Investment Limited (“ River Road ”)	Interest of controlled corporation	1,455,867,398 (Note 2)	79.33%
Knight Bridge Holdings Limited (“ Knight Bridge ”)	Interest of controlled corporation	1,455,867,398 (Note 2)	79.33%
The Subscriber	Interest of controlled corporation	379,496,303 (Note 3)	20.68%
	Beneficial owner	1,076,371,095 (Note 3)	58.65%
Prime Century	Beneficial owner	379,496,303 (Note 3)	20.68%

Notes:

- (1) The total number of Shares in issue as at the Latest Practicable Date (i.e. 1,835,192,628 Shares) has been used for the calculation of the approximate percentage.
- (2) HSBC International is the trustee of family trusts of Mr. Liu, which, through intermediate holding companies (including but not exclusively River Road, Knight Bridge, the Subscriber and Prime

Century), exercise or control the exercise of one third or more voting power at the general meetings of such companies and is deemed under the SFO to be interested in the shares of the Company held by such companies (1,543,747,398 Shares in total).

- (3) As at the Latest Practicable Date, Prime Century directly held 379,496,303 Shares and the Subscriber directly held 144,571,095 Shares. The Subscriber was also interested in the 931,800,000 Subscription Shares to be allotted and issued upon Completion. The Subscriber was entitled to exercise or control the exercise of one third or more of the voting power at the general meetings of Prime Century and was deemed to be interested in the 379,496,303 Shares in the Company held directly by Prime Century.

Save as disclosed above, as at the Latest Practicable Date, there was no other person (other than a Director or chief executive of the Company) had an interest or a short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO.

As at the Latest Practicable Date, save for Mr. Liu who is a director of the Subscriber, Prime Century and Knight Bridge, none of the Directors is a director of a company which had an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO.

3. ADDITIONAL DISCLOSURE UNDER TAKEOVERS CODE

- (a) As at the Latest Practicable Date, save for the Subscription, interests of Mr. Liu disclosed in the sections headed “1. Share Capital and Share Options” and “2. Disclosure of Interest” in this appendix, neither the Subscriber nor any parties acting in concert with it (including Mr. Liu, Prime Century, Grand Idea, Ms. Xie Yuanbi and Ms. Wang Gang) held any securities, options, warrants, convertible securities and derivatives of the Company or had dealt in the securities, options, warrants, convertible securities and derivatives of the Company during the Relevant Period.
- (b) Save for the Subscription Agreement entered into by the Subscriber, the interests disclosed in the sections headed “1. Share Capital and Share Options” and “2. Disclosure of Interest” in this appendix, the sole director of the Subscriber is not interested in any securities, options, warrants, convertible securities and derivatives of the Company and he had not dealt for value in any securities, options, warrants, convertible securities and derivatives of the Company during the Relevant Period.
- (c) No Shares acquired by the Subscriber and any person acting in concert with it (including Mr. Liu, Prime Century, Grand Idea, Ms. Xie Yuanbi and Ms. Wang Gang) in pursuance of the Subscription will be transferred, charged or pledged to any other persons.
- (d) As at the Latest Practicable Date, no person had irrevocably committed themselves to vote for or against the resolution to be proposed at the EGM to approve the Subscription and the Whitewash Waiver.

- (e) As at the Latest Practicable Date, no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code existed between the Subscriber or any party acting in concert with it (including Mr. Liu, Prime Century, Grand Idea, Ms. Xie Yuanbi and Ms. Wang Gang), and any other person.
- (f) As at the Latest Practicable Date, no agreement, arrangement or understanding (including any compensation arrangement) existed between (i) the Subscriber or any party acting in concert with it (including Mr. Liu, Prime Century, Grand Idea, Ms. Xie Yuanbi and Ms. Wang Gang); and (ii) any Director or Shareholder having any connection with or dependence upon the Subscription and/or the Whitewash Waiver.
- (g) As at the Latest Practicable Date, no agreement, arrangement or understanding (including any compensation arrangement) existed between (i) the Subscriber or any party acting in concert with it (including Mr. Liu, Prime Century, Grand Idea, Ms. Xie Yuanbi and Ms. Wang Gang) and (ii) any recent Directors or recent Shareholders having any connection with or dependence upon the Subscription and/or the Whitewash Waiver.
- (h) As at the Latest Practicable Date, there were no agreements or arrangements to which the Subscriber nor any of parties acting in concert with it (including Mr. Liu, Prime Century, Grand Idea, Ms. Xie Yuanbi and Ms. Wang Gang) is a party which relate to the circumstances in which any of them may or may not invoke or seek to invoke a pre-condition or a condition to the Subscription (save as the conditions precedent to the Subscription) and the consequences of its doing so, including details of any break fees payable as a result.
- (i) As at the Latest Practicable Date, the Company did not have any interest in the securities, options, warrants, convertible securities and derivatives of the Subscriber and had no dealings in the securities, options, warrants, convertible securities and derivatives of the Subscriber during the Relevant Period.
- (j) As at the Latest Practicable Date, save that Mr. Liu the sole director of the Subscriber whose issued share capital is 100% beneficially owned by a family trust set up by Mr. Liu for the benefit of his family members, none of the Directors had any interest in the securities, options, warrants, convertible securities and derivatives of the Subscriber.
- (k) None of the Directors had dealt for value in the securities, options, warrants, convertible securities and derivatives of the Company or the Subscriber during the Relevant Period.
- (l) As at the Latest Practicable Date, none of (i) the subsidiaries of the Company; (ii) the pension fund of the Company or of any of its subsidiaries; nor (iii) any adviser to the Company (as specified in class (2) of the definition of “associate” under the

Takeovers Code), had any interest in the securities, options, warrants, convertible securities and derivatives of the Company and/or had dealt in the securities, options, warrants, convertible securities and derivatives of the Company during the Relevant Period.

- (m) As at the Latest Practicable Date, no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of associate under the Takeovers Code.
- (n) As at the Latest Practicable Date, no securities, options, warrants, convertible securities and derivatives of the Company were managed on a discretionary basis by any fund managers connected with the Company, nor did any such fund managers deal in any securities, options, warrants, convertible securities and derivatives of the Company during the Relevant Period.
- (o) As at the Latest Practicable Date, save for the interests disclosed in the sections “1. Share Capital and Share Options” and “2. Disclosure of Interest” in this appendix, none of the Directors holds Shares of the Company.
- (p) As at the Latest Practicable Date and during the Relevant Period, no securities, options, warrants, convertible securities and derivatives of the Company had been borrowed or lent by any of the Directors or by the Company or by the Subscriber or any party acting in concert with it.
- (q) As at the Latest Practicable Date, there was no agreement or arrangement between any Director and any other person which was conditional or dependent upon the outcome of the Subscription and/or the Whitewash Waiver or otherwise connected with the Subscription and/or the Whitewash Waiver.
- (r) As at the Latest Practicable Date, no benefit had been given or will be given to any Director as compensation for loss of office or otherwise in connection with the Subscription and /or the Whitewash Waiver.
- (s) As at the Latest Practicable Date, other than the Subscription Agreement, there was no material contract entered into by the Subscriber or any party acting in concert with it (including Mr. Liu, Prime Century, Grand Idea, Ms. Xie Yuanbi and Ms. Wang Gang) in which any Director had a material personal interest.
- (t) Mr. Chan Yiu Kwong, an independent non-executive Director and the beneficial owner of 105,000 Shares as at the Latest Practicable Date, intended to vote in favour of the resolutions approving the Subscription and the Whitewash Waiver at the EGM in respect of his shareholdings in the Company.

4. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into any existing or proposed service contract with the Company, or any of its subsidiaries or associated companies which:

- (i) (including both continuous and fixed term contracts) had been entered into or amended within 6 months before the date of the Announcement;
- (ii) was a continuous contract with a notice period of 12 months or more;
- (iii) was a fixed term contract with more than 12 months to run irrespective of the notice period; or
- (iv) was not expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation).

5. DIRECTORS' INTERESTS IN THE GROUP'S ASSETS OR CONTRACTS OR ARRANGEMENT SIGNIFICANT TO THE GROUP

The contractual arrangements

For the purpose of operating the Group's relevant businesses in the PRC, the Group has entered into a number of contracts ("**Structure Contracts**") with certain PRC operating companies ("**OPCO(s)**") which are subsidiaries of the Company and/or held by the Directors. A summary of the Group's businesses operating through such OPCOs are set out below.

OPCOs

Huadong Feitian is a limited liability company established in the PRC whose financial results are, through a number of Structure Contracts, consolidated into the financial statements of the Company and therefore an associated corporation of the Company. The registered shareholders of Huadong Feitian include, among others, Mr. Liu who holds 75% of its equity interests.

Kuaitonglian is a limited liability company established in the PRC and a subsidiary of the Company.

Shenzhen Yunhai Qingtian Cultural Broadcasting Co., Ltd. ("**Yunhai Qingtian**") is a limited liability company established in the PRC and a subsidiary of the Company.

Major terms of the underlying contracts of the contractual arrangement

The following Structure Contracts were made:

- (i) between Cash River information Technology (Shenzhen) Co., Ltd. (“**Cash River**”), a wholly-owned subsidiary of the Company, and Huadong Feitian and its registered shareholders;
- (ii) between Cash River and Kwaitonglian and its registered shareholders; and
- (iii) between Shenzhen Finger Fun Network Technology Co., Ltd. (“**Finger Fun**”), a wholly-owned subsidiary of the Company, and Yunhai Qingtian and its registered shareholder.

The Structure Contracts allows Cash River/Finger Fun to exercise control and enjoy economic benefit generated from the OPCOs.

The major terms of the Structure Contracts are as follows:

a. Exclusive Business Cooperation and Service Agreement

The Exclusive Business Cooperation and Service Agreement provides that, among others:

- (1) the parties to the Exclusive Business Cooperation and Service Agreement shall cooperate with each other in technical support, business support and related consultancy services which include but are not limited to technical service, business consultation, equipment leasing, market consultation, system integration, product research and development and system maintenance, and intellectual property rights;
- (2) Cash River/Finger Fun shall provide certain technical and business support and the consultancy services to the OPCO in return for the service fee;
- (3) the OPCO shall not have any similar cooperation with any third party;
- (4) the OPCO shall not transfer any of its rights and/or obligations under the Exclusive Business Cooperation and Service Agreement without the prior consent of Cash River/Finger Fun; and
- (5) the OPCO grants Cash River/Finger Fun an irrevocable and exclusive right to purchase, or to designate any person to purchase on its behalf, all or part of its assets and business, including, among others, fixed assets, current assets, intellectual property rights, ownership of equity interests in any person within or outside the PRC and the benefit of all contracts entered into by the OPCO at the lowest purchase price as permitted by the PRC laws.

The Exclusive Business Cooperation and Service Agreement is valid for 20 years from their respective signing dates and Cash River/Finger Fun shall be entitled to renew the relevant Exclusive Business Cooperation and Service Agreement by written notice to OPCO.

b. Share Disposition and Exclusive Option to Purchase Agreement

Pursuant to the Share Disposition and Exclusive Option to Purchase Agreement:

- (1) the shareholder(s) of the OPCO grants Cash River/Finger Fun an irrevocable and exclusive right to purchase, or designate any person to purchase on its behalf, all or part of their respective equity interests in the respective OPCO, in one or more transfers as determined by Cash River/Finger Fun in its sole discretion at the purchase price(s) of RMB1.00 or such higher amount as required by the PRC laws;
- (2) the shareholder(s) of the OPCO covenants or where applicable, jointly and severally covenant that he/she will, among others, waive his/her right of first refusal or pre-emptive right to acquire any equity interests in the OPCO being transferred by another shareholder of the OPCO; and
- (3) the OPCO covenants that it will, among others, not distribute profits to its shareholders directly or indirectly, not acquire or make any investment in any person without the prior written consent of Cash River/Finger Fun.

Each of the Share Disposition and Exclusive Option to Purchase Agreements shall be effective from their respective dates of signing and remain in effect until all the equity interest held by the registered shareholder(s) of the OPCO has been legally transferred to Cash River/Finger Fun or its nominee(s) in accordance with the Share Disposition and Exclusive Option to Purchase Agreement.

c. Equity Interest Pledge Agreement

Pursuant to the Equity Interest Pledge Agreement:

- (1) the shareholder(s) of the OPCO granted to Cash River/Finger Fun a continuing security interest of first priority and subject to no other encumbrances in their respective equity interests in the OPCO, as collateral security for the prompt and full performance of the OPCO's shareholders' obligations under all the Structure Contracts; and
- (2) the registered shareholder(s) of the OPCO warranted to Cash River/Finger Fun that all appropriate arrangements had been made and all necessary documents had been executed to ensure that none of their successors, guardians, creditors, spouses and other third parties would adversely

impact or hinder the enforcement of the Equity Pledge Agreement in the event of death, loss of legal capacity, bankruptcy, divorce or any other situation of the registered shareholder(s) of the OPCO.

d. Proxy Agreement

The Proxy Agreement, among other things, provides that:

- (1) the registered shareholder(s) of the OPCO agrees to authorise Cash River/Finger Fun or the person(s) designated by Cash River/Finger Fun to exercise all of their rights and powers as shareholder, including convening and attending the shareholders' meeting, exercising the voting right and other shareholder's rights and powers, without seeking prior consent from the registered shareholder(s) of the relevant OPCO;
- (2) the registered shareholder(s) of the OPCO shall not revoke the authorisation and without the consent of Cash River/Finger Fun, shall not exercise the shareholder's rights and powers;
- (3) the OPCO shall inform Cash River/Finger Fun the relevant information relating to the exercise of the shareholder's rights and shall provide all necessary assistance; and
- (4) the OPCO and their respective registered shareholder(s) shall not be entitled to any indemnity or compensation under the Proxy Agreement.

The Proxy Agreements shall be effective from the date of signing until the registered shareholder(s) of the OPCO ceases to hold equity interests in the OPCO.

The Cooperation Agreement

Reference is made to the announcement of the Company dated 28 December 2015. On 28 December 2015, the Company entered into a Cooperation Agreement in respect of the entrusted development, distribution and operation of mobile games between the Company and Xiamen Mengjia Network Technology Co., Ltd. (“**Xiamen Mengjia**”). Pursuant to the Cooperation Agreement, the Company, through Finger Fun, would entrust Xiamen Mengjia to adapt and develop the animation “Crazy Journey to the West” (「**狼西游**」) into a mobile game. After the completion of the game development, Finger Fun would own the software copyrights of such game. At the same time, the Company would act as the exclusive agent for the global distribution and operation of such game through Yunhai Qingtian. Accordingly, the entrusted development fees to Xiamen Mengjia would be paid by the Company, and the operating revenue generated from such game will be shared between the parties of the Cooperation Agreement.

Given that (1) Mr. Liu is the executive Director of the Company and a substantial Shareholder and thus a connected person of the Company; and (2) Xiamen Mengjia is owned as to approximately 36.97% by Mr. Liu and thus an associate of Mr. Liu. Xiamen Mengjia is a connected person of the Company and the transactions conducted under the Cooperation Agreement constitute continuing connected transactions for the Company.

Save as disclosed above, none of the Directors had any direct or indirect interest in any assets which have, since 31 December 2015 (being the date to which the latest audited financial statements of the Group were made up) and up to the Latest Practicable Date, been acquired or disposed of by, or leased to, or are proposed to be acquired or disposed of by, or leased to any member of the Group.

As at the Latest Practicable Date, save as disclosed above and the Subscription Agreement, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group and subsisting which was significant in relation to the business of the Group.

6. COMPETING INTEREST

As at the Latest Practicable Date, none of the Directors nor their respective associates had any interests in other business, which competes or may compete, either directly or indirectly, with the business of the Group.

7. MATERIAL CONTRACTS

During the two years immediately preceding the date of the Announcement and up to and including the Latest Practicable Date, the following contracts, not being contracts entered into in the ordinary course of business carried on or intended to be carried on by the Group, had been entered into by the Group and are or may be material:

- (a) the placing agreement dated 16 April 2015 entered into between the Company as issuer and First Shanghai Securities Limited (“**First Shanghai**”) as placing agent, pursuant to which the Company had appointed First Shanghai to procure, on a best effort basis, places to subscribe for up to 285,768,000 placing shares at a price of HK\$0.73 per placing share, further details of which are set out in the announcements of the Company dated 16 April 2015 and 27 April 2015;
- (b) the placing agreement dated 13 July 2015 entered into between the Company as issuer and First Shanghai as placing agent, pursuant to which the Company had appointed First Shanghai to procure, on a best effort basis, places to subscribe for up to 120,000,000 placing shares at a price of HK\$0.57 per placing share, further details of which are set out in the announcements of the Company dated 13 July 2015, 15 July 2015 and 22 July 2015;

- (c) the subscription agreement dated 14 July 2015 entered into between the Company and the Subscriber in relation to the subscription for 680,000,000 new Shares to be allotted and issued by the Company to the Subscriber at a subscription price of HK\$0.57 per Share, further details of which are set out in the announcements of the Company dated 16 July 2015, 11 September 2015, 24 September 2015 and 15 October 2015 and the circular of the Company dated 8 September 2015;
- (d) the joint venture agreement dated 12 October 2015 entered into between Yunhai Qingtian, a wholly-owned subsidiary of the Company, and 北京青青樹動漫科技有限公司 (Beijing Vasoon Animation Co., Ltd. (“**Vasoon**”)) to jointly establish a limited liability company with the proposed name of 北京青草娛樂文化有限公司 (Beijing Grass Entertainment Culture Co., Ltd.* (“**Grass Entertainment**”)). The mission of Grass Entertainment was to incubate copyright and develop its branding, then monetize through the development of peripheral products (including mobile games) and copyright authorisation (including animation, comic and movies). Grass Entertainment’s focus was on the incubation of several copyrights including the signature copyright “Crazy Journey to the West” (「**狼西遊**」) from Vasoon. The aggregate amount of capital contribution was RMB10 million, which was contributed as to RMB4.9 million by Yunhai Qingtian and as to RMB5.1 million by Vasoon, further details of which are set out in the announcement of the Company dated 3 December 2015;
- (e) the cooperation agreement in 2015 entered into by and among Xiamen Mengjia Network Technology Co., Ltd. (廈門夢加網路科技有限公司), Shenzhen Finger Fun Network Technology Co., Ltd. (深圳市指遊方寸網絡科技有限公司) and Shenzhen Yunhai Qingtian Cultural Broadcasting Co., Ltd. (深圳市雲海情天文化傳播有限公司) in relation to the entrusted development, distribution and operation of mobile games, further details of which are set out in the announcement of the Company dated 28 December 2015;
- (f) the termination agreement in 2015 entered into by and among 北京歡舞悅動網絡科技有限公司 (Beijing Huanwu Yuedong Network Technology Co. Ltd.* (“**Huanwu Yuedong**”)), 北京彩雲在線技術開發有限公司 (Beijing Caiyun Online Technologies Co. Ltd.* (“**Beijing Caiyun**”)) and the then shareholders of Beijing Caiyun (including Mr. Liu, 奉佑生, 黃勃, 辜煒東, 李永華, 許琳, 馮建康 and Kuaitonglian, a wholly-owned subsidiary of the Company), to terminate a series of structural agreements entered into by and among Huanwu Yuedong, Beijing Caiyun and the then shareholders of Beijing Caiyun in relation to the business of Duomi Music and its subsidiaries, further details of which are set out in the announcement of the Company dated 28 December 2015;

- (g) the agreement dated 13 May 2016 entered into by and among Shenzhen Yunhai Qingtian Cultural Broadcasting Co., Ltd. (深圳市雲海情天文化傳播有限公司) (a wholly-owned subsidiary of the Company) and Shenzhen Haoxiang Investment Co., Ltd. (深圳市浩祥投資有限公司) as purchasers, Mr. Bi Jianwei (畢建偉), Mr. Ni Kai (倪凱), Jingwei (Hangzhou) Venture Investment Partnership Enterprise (Limited Partnership) (經緯(杭州)創業投資合夥企業(有限合夥)) and Beijing Hongshan Xinyuan Equity Investment Centre (Limited Partnership) (北京紅杉信遠股權投資中心(有限合夥)) as vendors, Mr. Liu as the guarantor and Beijing Jiangwen Information Technology Co., Ltd. (北京掌文信息技術有限公司) (“**Beijing Jiangwen**”) as the target in relation to the sale and purchase of the entire equity interest of Beijing Jiangwen at an aggregate consideration of RMB550 million, further details of which are set out in the announcements of the Company dated 13 May 2016 and 12 August 2016 and the circular of the Company dated 27 July 2016; and
- (h) the Subscription Agreement.

8. MARKET PRICE

The table below sets out the closing prices of the Shares on the Stock Exchange (i) at the end of each of calendar months during the Relevant Period; (ii) on 19 December 2016 (being the Last Trading Day); and (iii) on the Latest Practicable Date.

Date	Closing Price of the Shares HK\$
30 June 2016	0.470
29 July 2016	0.450
31 August 2016	0.530
30 September 2016	0.510
31 October 2016	0.475
30 November 2016	0.490
19 December 2016 (<i>being the Last Trading Day</i>)	0.470
30 December 2016	0.450
Latest Practicable Date	0.450

The lowest and highest closing market prices of the Shares recorded on the Stock Exchange during the Relevant Period were HK\$0.435 on 4 January 2017 and HK\$0.570 on 6 September 2016 respectively.

9. MATERIAL LITIGATION

No member of the Group was engaged in any litigation or arbitration of material importance and there was no litigation or arbitration of material importance known to the Directors to be pending or threatened by or against any member of the Group as at the Latest Practicable Date.

10. EXPERTS AND CONSENTS

The following are the names and qualification of the experts who have given its opinions or advice which is included in this circular:

Name	Qualification
Donvex Capital Limited	a corporation licensed to carry on Type 6 (advising on corporate finance) regulated activity under the SFO
Grant Sherman Appraisal Limited	independent property valuer
King & Wood Mallesons	PRC legal adviser

As at the Latest Practicable Date, each of the experts named above:

- (a) had given and has not withdrawn its written consent to the issue of this circular with the inclusion of its advice, letter, report and/or summary of its opinions and references to its name and logo in the form and context in which they are included;
- (b) was not beneficially interested in the share capital of any member of the Group nor did it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and
- (c) did not have any direct or indirect interest in any assets which had since 31 December 2015 (being the date to which the latest published audited financial statements of the Group were made up) been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

11. MISCELLANEOUS INFORMATION

- (a) The registered office of the Company is at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, the Cayman Islands and the place of business in Hong Kong is situated at Suites 06–12, 33/F, Shui On Centre, 6–8 Harbour Road, Wanchai, Hong Kong.
- (b) The company secretary of the Company is Mr. Liu Pun Leung. Mr. Liu Pun Leung is a member of the Hong Kong Institute of Certified Public Accountants and Institute of Internal Auditors.

- (c) The address of the Subscriber is at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, the BVI and its correspondence address in Hong Kong is Room 1401, Java Commercial Centre, 128 Java Road, North Point, Hong Kong. HSBC International Trustee Limited, being the trustee of a family trust set up by Mr. Liu for the benefit of his family members, through intermediate holding companies, River Road and Knight Bridge, indirectly holds 100% of the issued share capital of the Subscriber. The settlor of this family trust is Mr. Liu. Mr. Liu is the sole director of the Subscriber.
- (d) The registered office of River Road is at Woodbourne Hall, P.O. Box 916, Road Town, Tortola, the BVI. It is owned as to 100% by HSBC International Trustee Limited, being the trustee of a family trust set up by Mr. Liu for the benefit of his family members. The settlor of this family trust is Mr. Liu. The director of River Road is Lion International Management Limited.
- (e) The registered office of Knight Bridge is at Woodbourne Hall, P.O. Box 916, Road Town, Tortola, the BVI. It is owned as to 100% by River Road. Mr. Liu is the sole director of Knight Bridge.
- (f) The registered office of Prime Century is at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, the BVI. It is owned as to 80.20% by the Subscriber and as to 19.80% by Ms. Wang Gang. Mr. Liu is the sole director of Prime Century.
- (g) The registered office of Grand Idea is at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, the BVI. HSBC International Trustee Limited, being the trustee of a family trust set up by Ms. Xie Yuanbi for the benefit of certain of her family members, through intermediate holding companies, Congenial Holdings Limited and Sunlight Star Assets Limited, indirectly holds 100% of the issued share capital of Grand Idea. The director of Grand Idea is Mr. Wang Daiqiang.
- (h) The Hong Kong branch share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited, at 46th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (i) The Independent Financial Adviser is Donvex Capital Limited whose address is Room 1305-1306, 13/F., Carpo Commercial Building, 18-20 Lyndhurst Terrace, Central, Hong Kong.
- (j) The independent property valuer is Grant Sherman Appraisal Limited whose address is Unit 1005, 10/F., AXA Centre, 151 Gloucester Road, Wanchai, Hong Kong.
- (k) The PRC legal adviser is King & Wood Mallesons whose address is 28/F, Landmark, 4028 Jintian Road, Futian District, Shenzhen, Guangdong, the PRC.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection (i) during normal business hours from 9:00 a.m. to 5:30 p.m. on any Business Day at the principal place of business of the Company in Hong Kong at Suites 06-12, 33/F., Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong, (ii) on the website of the Company (<http://ir.a8.com>), and (iii) on the website of the SFC (www.sfc.hk), from the date of this circular up to and including the date of the EGM:

- (i) the memorandum and articles of association of the Company;
- (ii) the annual reports of the Company for the financial years ended 31 December 2013, 31 December 2014 and 31 December 2015 and the interim report of the Company for the six months ended 30 June 2016;
- (iii) the letter from the Board, the text of which is set out on pages 6 to 19 of this circular;
- (iv) the letter from the Independent Board Committee, the text of which is set out on pages 20 to 21 of this circular;
- (v) the letter from the Independent Financial Adviser, the text of which is set out on pages 22 to 44 of this circular;
- (vi) the property valuation report as set out in Appendix II to this circular;
- (vii) the PRC legal opinion on the property interests held by the Group issued by King & Wood Mallesons;
- (viii) the material contracts referred to under the section headed “Material Contracts” in this appendix;
- (ix) the written consent referred to in the section headed “Experts and Consents” in this appendix; and
- (x) this circular.

13. GENERAL

The English text of this circular shall prevail over its Chinese text in case of inconsistencies.

NOTICE OF THE EGM



A8 New Media Group Limited **A8新媒體集團有限公司**

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 800)

NOTICE OF EGM

NOTICE IS HEREBY GIVEN that the extraordinary general meeting (the “**Meeting**”) of A8 New Media Group Limited (“**Company**”) will be held on Monday, 13 February 2017 at 10:30 a.m. at Suites 903–905, 9th Floor, Shui On Centre, 6–8 Harbour Road, Wanchai, Hong Kong to consider and, if thought fit, passing, with or without modification, each of the following resolutions as an ordinary resolution:

ORDINARY RESOLUTIONS

1. “**THAT:**

- (a) the Subscription Agreement (as defined in the circular of the Company dated 25 January 2017) (the “**Circular**”), a copy of which has been produced to this meeting marked “A” and signed by the chairman of this meeting for the purpose of identification) dated 19 December 2016 entered into by the Company (as issuer) and Ever Novel Holdings Limited (the “**Subscriber**”) (as subscriber) in respect of the subscription of 931,800,000 new ordinary shares (the “**Subscription Shares**”) of HK\$0.01 each in the Company by the Subscriber at the subscription price of HK\$0.41 per Subscription Share and the grant of the Specific Mandate (as defined in the Circular) be and are hereby approved, confirmed and ratified, and any one director of the Company be and is hereby authorised to do all such things and take all such actions (including but not limited to the allotment and issue of the Subscription Shares under the Specific Mandate) and execute all documents (including the affixation of the common seal of the Company where execution under seal is required) as he/she may consider to be necessary or desirable to implement any of the matters relating to or incidental to the Subscription Agreement and the Specific Mandate, and further to approve any changes and amendments thereto as he/she may consider necessary, desirable or appropriate; and
- (b) any one director of the Company be and is hereby authorised to do all such acts and things and execute such documents (including the affixation of the common seal of the Company where execution under seal is required) and take all steps which, in his/her opinion deemed necessary, desirable or expedient to implement and/or effect the transactions contemplated under the Subscription Agreement and the Specific Mandate for and on behalf of the Company.”

NOTICE OF THE EGM

2. “**THAT** subject to the Executive (as defined in the circular of the Company dated 25 January 2017) (the “**Circular**”), a copy of which has been produced to this meeting marked “A” and signed by the chairman of this meeting for the purpose of identification)) granting the Whitewash Waiver (as defined in the Circular) to the Subscriber (as defined in the Circular) and the satisfaction of any conditions attached to the Whitewash Waiver granted, the waiver pursuant to Note 1 on Dispensations from Rule 26 of the Hong Kong Code on Takeovers and Mergers (the “**Takeovers Code**”) waiving any obligation on the part of the Subscriber (as defined in the Circular) and parties acting in concert with it to make a mandatory general offer to the holders of securities of the Company to acquire securities of the Company other than those already owned or agreed to be purchased by the Subscriber and parties acting in concert with it which would otherwise arise under Rule 26.1 of the Takeovers Code as a result of the completion of the Subscription (as defined in the Circular), be and is hereby approved and **THAT** any one director of the Company be and is hereby authorised to do all acts and things and execute such documents (including the affixation of the common seal of the Company where execution under seal is required) and take all steps which, in his/her opinion deem necessary, desirable or expedient to carry out or to give effect to any matters relating to or in connection with the Whitewash Waiver.”

On behalf of the Board
A8 New Media Group Limited
Chairman and Executive Director
Liu Xiaosong

25 January 2017

Registered office:

Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

Principal Place of Business in Hong Kong:

Suites 06–12, 33/F.
Shui On Centre
6–8 Harbour Road, Wanchai
Hong Kong

Notes:

- (a) Any member of the Company entitled to attend and vote at the Meeting is entitled to appoint a proxy to attend and vote instead of him. A proxy need not be a member of the Company. A member who is the holder of two or more shares of the Company may appoint more than one proxy to represent him to attend and vote on his behalf. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.
- (b) In the case of joint holders of a share, either in person or by proxy, in respect of such shares as if he/she/it were solely entitled thereto, but if more than one of such joint holders be present at any meeting the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand on the register of members of the Company in respect of the joint holding.

NOTICE OF THE EGM

- (c) To be effective, a form of proxy together with the power of attorney or other authority, if any, under which it is signed or a certified copy of that power or authority, must be deposited at the branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited at 46th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for the holding of the Meeting or any adjournment thereof. Delivery of the form of proxy shall not preclude a member of the Company from attending and voting in person at the Meeting and, in such event, the instrument appointing a proxy shall be deemed to be revoked.
- (d) The resolutions at the Meeting will be taken by poll.

As at the date of this notice, the board of directors of the Company comprises:

- (1) *executive directors namely Mr. Liu Xiaosong and Mr. Liu Pun Leung; and*
- (2) *independent non-executive directors namely Mr. Chan Yiu Kwong, Ms. Wu Shihong and Mr. Li Feng.*