A8新媒体集团

A8 NEW MEDIA GROUP

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 00800

ANNUAL REPORT

2015


A8音乐

CONTENTS

Corporate Information

EXECUTIVE DIRECTORS
Mr. Liu Xiaosong
Mr. Liu Pun Leung

INDEPENDENT NON-EXECUTIVE DIRECTORS
Mr. Chan Yiu Kwong
Ms. Wu Shihong
Mr. Song Ke

AUDIT COMMITTEE
Mr. Chan Yiu Kwong *(Chairman)*
Ms. Wu Shihong
Mr. Song Ke

NOMINATION COMMITTEE
Mr. Liu Xiaosong *(Chairman)*
Ms. Wu Shihong
Mr. Song Ke

REMUNERATION COMMITTEE
Ms. Wu Shihong *(Chairman)*
Mr. Liu Xiaosong
Mr. Song Ke

AUTHORISED REPRESENTATIVES
Mr. Liu Xiaosong
Ms. Gao Keying

JOINT COMPANY SECRETARIES
Mr. Liu Pun Leung
Ms. Gao Keying

AUDITORS
Ernst & Young

PRINCIPAL BANKERS
China Merchants Bank Co., Ltd.
Industrial Bank Co., Ltd.
Standard Chartered Bank (Hong Kong) Limited
Credit Suisse, Hong Kong Branch

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BRANCH SHARE REGISTRAR AND TRANSFER OFFICE
Computershare Hong Kong Investor Services Limited
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STOCK CODE
00800

Financial Summary and Highlights

CONSOLIDATED RESULTS

	Year ended 31 December				
	2015	2014	2013	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**148,355**	205,617	189,736	345,093	483,587
Profit/(loss) before tax	**32,069**	43,016	21,220	(26,684)	18,156
Income tax expense	**(10,394)**	(33,363)	(12,747)	(3,328)	(5,241)
Profit/(loss) for the year	**21,675**	9,653	8,473	(30,012)	12,915
Attributable to:					
Owners of the Company	**22,006**	10,758	9,820	(29,868)	12,687
Non-controlling interests	**(331)**	(1,105)	(1,347)	(144)	228
	21,675	9,653	8,473	(30,012)	12,915

CONSOLIDATED ASSETS, LIABILITIES AND EQUITY

	As of 31 December				
	2015	2014	2013	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**1,277,834**	975,926	935,353	709,839	668,352
Total liabilities	**(228,491)**	(177,515)	(149,467)	(194,573)	(127,574)
Non-controlling interests	**697**	366	1,241	(106)	–
	1,050,040	798,777	787,127	515,160	540,778

The consolidated results of A8 New Media Group Limited (the "Company") and its subsidiaries (together the "Group") for the year ended 31 December 2015 and the consolidated assets, liabilities and equity of the Group as at 31 December 2015 are those set out in the audited financial statements.

Chairman's Statement

BUSINESS REVIEW FOR 2015

According to the information published by China Internet Network Information Center in January 2016, China's mobile internet population had reached 620 million as at December 2015, representing an increase of 63 million as compared with the end of 2014 and had reached 90.1% of the China's internet total population. Along with the increasing mobile screen sizes and user experiences on mobile application, mobile phone has further strengthened its position as the major access channel to Internet. Among the markets which the Group involves, mobile music and mobile games market continued to grow rapidly.

Prime mobile games publishing platform

In 2015, Finger Fun focused on the layout of prime copyrights, strengthened copyrights and games reserves, and continued to devote "Finger Fun" as a prime mobile games publishing platform following the continuing popularity of prime copyright market.

Strategic layout for prime copyrights

In 2015, followed by the acquisition of a prime copyright "Hunger for World Conquest" (「我欲封天」), which is a top-selling network literature written by an author named Ergen on Qidian Chinese Literature Platform, Finger Fun developed a number of game products of different types in collaboration with developers. Finger Fun also acquired the RPG mobile game edition right of an animation-and-comic "Monster Record" (「虎X鶴妖師錄」), which ranked top 5 of Class S animated comics and the simulation mobile game edition right of "Visit the Queen" (「拜見女皇陛下」), which ranked top 10 of Class S animated comics in the largest online original animated comic website (www.u17.com) (「有妖氣」) in China, as well as the HTML5 game edition right of "Great Bug" (「魁拔」), a renowned local animation-and-comic movie.

Game product reserves

In 2015, Finger Fun introduced a number of mobile games including "Release the General" (「關門放呂布」), "Trouble of Clans" (「部落特煩惱」) (formerly known as「巔峰王座」), "Ancient War" (「遠古紛爭」), "Burning Brother HTML5" (「燃燒吧二弟HTML5」) and "Lv Bu and Diao Chan HTML5" (「呂布戲貂嬋HTML5」). Of which, "Release the General" (「關門放呂布」) was released in October 2015, and the remaining games are expected to be released during 2016.

In 2015, as Finger Fun had acquired the prime copyright of "Hunger for World Conquest" (「我欲封天」), it developed a number of different game products in collaboration with developers, of which, "Hunger for World Conquest HTML5" (「我欲封天HTML5」) was released via iOS platform in September 2015. Furthermore, a game, based on the copyright of Hunger for World Conquest was jointly developed with Beijing Wali Network Technology Co. Ltd., a group company of Xiaomi Technology, was released in March 2016. Operating extensively on the prime copyrights along with the cooperation with mobile game developers on game development could not only recover the purchase cost of copyright and thus reduce the operational risk, but also facilitate the interactive and sustainable development of prime copyrights.

Precise management on mobile game publishing business

In 2015, Finger Fun continued to operate "PaPa Three Kingdoms" (「啪啪三國」) on android platforms. Our operation team strived to attract existing users and maximize the exposure to new users through six version of updates by adding more interactive functions and over 260 promotion activities during the reporting period, the monthly active users maintained at around 150,000 stably and accumulated nearly 10 million registered users. Benefited from the precise management, the monthly turnover of "PaPa Three Kingdoms" (「啪啪三國」) maintained at stable level with minor growth even after its launch for nearly 3 years and has contributed revenue of over RMB130 million which is beyond our expectation.

In 2015, Finger Fun has launched a number of new mobile games including "Arcade Heroes" (「街機群英傳」), "Strategic Three Kingdoms" (「神機三國」) (originally known as "Counselor Save Me" (「軍師救我」)), "Release the General" (「關門放呂布」) and "Hunger for World Conquest HTML5" (「我欲封天HTML5」), which were broadly recommended by distribution channels during the promotion period and have started to generate revenues for the Company. Of which, "Release the General" (「關門放呂布」) and "Hunger for World Conquest HTML5" (「我欲封天HTML5」) achieved remarkable performances. "Release the General" (「關門放呂布」) ranked number one on the free billbord and ranked number eleven on the best selling billboard on App Store shortly after their releases. The iOS version of "Hunger for World Conquest HTML5" (「我欲封天HTML5」) was released in September 2015 and had reached monthly turnover of nearly RMB1 million. Becoming a hit prime copyright, it ranked among the ten best selling HTML5 games steadily. It has also obtained a number of important awards in the industry, such as the "Most Popular HTML5 Game of the Year" (年度最受歡迎HTML5遊戲) under the Golden Pocket Award, (「金口袋獎」), as well as the "Best Novel IP Mobile Game of the Year" (「年度最佳小説IP移動遊戲」) under the Golden Key Award (「金鑰獎」).

The Company continues to operate the game publishing business under precise management strategy through the establishment of strict internal online standard and continuing improvement on below-standard mobile game before its launch. Accordingly, the launch of certain mobile games was postponed which in turn resulted in the lower than expected revenue contributed from the prime mobile game business.

Strategic layout through equity investments

In 2015, the Company equity-invested in three quality mobile game developers, whose products include "Dream Raiders" (「盜夢英雄」), "Release the General" (「關門放呂布」) and "Trouble of Clans" (「部落特煩惱」). The Company has acquired the exclusive publishing right for "Release the General" (「關門放呂布」) in mainland China and Hong Kong, and the same for "Trouble of Clans" (「部落特煩惱」) in mainland China. "Release the General" (「關門放呂布」) was published in the mainland China in the second half of 2015, and has been scheduled to release in Hong Kong in the first half of 2016. "Trouble of Clans" (「部落特煩惱」) has been scheduled to release in the mainland China in the second half of 2016.

Music-based entertainment industry chain based on mobile internet

China's mobile music commercialization will be accelerated and the music scale will grow steadily with the enhanced music copyright supervision.

Offline live music performance brand "A8Live" is operated together with the LiveHouse Theater located in the podium of the A8 Music Building, its business functions include live music performance, maker café, professional studio, band rehearsal rooms and music education center. A8Live has held approximately 50 activities during 2015 with diversified activity styles such as artists or band performances, concerts, fans meeting, press releases, charitable activities and live broadcasts, etc. Artists invited are becoming more international which include Starsailor from England, a famous Korean girls pop group named Stellar, Totfamily from Taiwan and several groups of artists or brands from Hong Kong and Mainland China. Operating models include self-organized activities, facility rental and ticket sharing. Going onwards, celebrities having performances in small venues such as LiveHouse will become a trend. Interactive performances within short distance will also become a selling point for LiveHouse to attract audience. Through these activities, the team has accumulated extensive experiences. The enhanced brand will facilitate the subsequent exploration of the operations of LiveHouse and O2O model to a larger extent. For the second half of 2015, A8Live also conducted trial cooperation with renowned platforms such as LeTV, iQIYI and YY to participate in live contents production.

In 2015, the Group hosted the "SING China's original pop music competition" with Nanshan District Government of Shenzhen. Our online content collection platform A8.com continued to provide services to original music musicians, which facilitates the development of original music collection and development.

Duomi Music has been preparing for the listing of Beijing Caiyun Online Technologies Co. Ltd (「北京彩雲在線技術開發有限公司」, "Beijing Caiyun") on the National Equities Exchange and Quotations System, and undergoing a group reorganization and new investors introduction during 2015. In 2015, Duomi Music started to explore business transformation in order to reduce the dependence on copyrights and shifted its focus to vertical operation, O2O activities, and fans accessories market. Duomi Music has adopted a new internet+ entertainment business model, and devoted to build the largest fans platform through its App "oops" (「偶扑」). Released in August 2015, "oops" fans platform aims to attract a vast number of fans through organizing different activities such as being the sole official mobile voting platform for MAMA, the epic music event in Korea, and live broadcast of MAMA music award, as well as being the fans voting platform of the Golden Record Ceremony in Korea and Jiangsu TV, etc. "oops" platform has becoming fully functional few months after its launch, which equips with the functions of idea exchange among fans, voting, live broadcasting and ticketing. It has also established a certain level of brand awareness among the fans community.

A8 Music Building

A8 Music Building is located near the Central Business District of Nanshan District, Shenzhen, which belongs to the Software Industry Park area. The total building area of A8 Music Building is approximately 50,000 square meters which include commercial office, commercial retail and parking slot areas. The property investment of A8 Music Building has been re-designated as the principal business of the Group since the interim report of 2015. A8 Music Building has contributed an overall income of over RMB50 million in 2015, representing an increase of 100% as compared to that of the same period last year.

BUSINESS OUTLOOK IN 2016

The Company has been exploring the industry development of "Internet + Culture" for long time. In 2015, the Company's business model was highly appraised by the government officials from national, provincial and regional levels during their visits. Their visits were broadly reported by the media, which helped the Group promote its brand and increase our confidence and determination in implementing the Company future strategies. In 2016, the Company will continue to build the music-based entertainment industry chain and prime game publishing platform, and at the same time to strengthen the layout of upstream and downstream in the copyrights industry chain, as well as to seek the incubation and operations of copyrights.

Prime games publishing platform

Strengthening the layout of prime copyrights

Following the continuing popularity of prime copyright market, Finger Fun continues to strengthen its layout of prime copyrights. It will further increase copyright reserves in 2016 to introduce the exclusive license of prime copyright in mobile game sector, deeper excavate and maximize the values of copyright, and expand to accessory market based on prime copyrights. In the meantime, Finger Fun will further identify innovative mobile games with originality and characteristics in order to further increase its market share by precise operations and strong distribution capabilities, and targeted marketing tactics.

In 2015, Finger Fun established a joint venture, namely Beijing Grass Entertainment Culture Co., Ltd (the "Grass Entertainment") with Beijing Vasoon Animation Co., Ltd (the "Vasoon"), a famous original animation-and-comic production company with over 20 years of operations in China. In 2016, Grass Entertainment will endeavor to strengthen the layout of prime copyrights and introduce a a mobile game based on Grass Entertainment's signature copyright, "Crazy Journey to the West" (「狠西遊」), and try to extend the copyright to the production of movie in collaboration with the production crew.

Game publishing business focusing on HTML5 and pilot overseas publishing

In 2016, in addition to its continuous operations of "PaPa Three Kingdoms" (「啪啪三國」) on android platforms, as well as the published games including "Release the General" (「關門放呂布」) and "Hunger for World Conquest HTML5" (「我欲封天HTML5」), Finger Fun plans to publish a number of games including the customer-end games "Trouble of Clans" (「部落特煩惱」), "Ancient War" (「遠古紛爭」) and "Crazy Journey to the West" (「狠西遊」). Moreover, on the basis of the experience accumulated from the successful operations of "Hunger for World Conquest HTML5" (「我欲封天HTML5」) in 2015, HTML5 games will be the focus and a series of HTML5 games including "Great Bug HTML5" (「魁拔HTML5」), "Burning Brother HTML5" (「燃燒吧二弟HTML5」) and "Lv Bu and Diao Chan HTML5" (「呂布戲貂嬋HTML5」) will be published in 2016.

At the same time, Finger Fun plans to expand the publishing region to overseas markets, in an attempt to publish the prime mobile games overseas. "Release the General" (「關門放呂布」) will be pilot published in Hong Kong during the first half of 2016.

Music-based entertainment industry chain based on mobile internet

In 2016, the Company will continue to develop our music performance business on A8Live, reinforce the branding promotion and strengthen its industry influence. A8Live will continue to introduce sophisticated contents to reward our audience. As at the date of this report, a number of well-known music celebrities including MIKA, a UK-based music genius, and Liu Weinam, a protege in the television music program "the Voice of China" (「中國好聲音」) have performed on the stage of A8Live. A8Live will further be operated in terms of performers by inviting the artists who are most desirable and favorite to the audience. In 2016, A8Live Music Training Center will commence operations and recruit students, providing a platform to learn, exchange and grow for original musicians and grass-rooted musicians. In the mean time, outstanding students will receive trainings, develop towards the direction as an artist, produce their own songs, MV, and short-films which further creating the values of copyrights.

In 2016, the Company will also integrate the online and offline resources from A8Live and A8.com platforms to collect, select and produce high quality contents, create our own copyrights and monetize them through online distribution platforms based on the accumulated performance resources from A8Live, technical crews, professional studio equipment and A8.com original music platform. Self-produced contents will become more diversified, which include different types of online live broadcasts and recording, artist interviews, live shows, and music education, etc.

For Duomi Music, efforts will be continued to devote to enhancing the operations of Duomi Music on one hand, and adopting a new internet+ entertainment business model on the other. Integrating the advantageous entertainment resources of the upstream and downstream in the entertainment industry chain as owned by the Company, "oops" (「偶扑」) platform is targeted to be built as the biggest platform for fans interaction in China, satisfying the fans' organization in terms of fans recruitment, fund-raising, management of fans group, support, and live broadcasts. At the same time, the strategic cooperation with Migu Culture and Technology Co., Ltd. (「咪咕文化科技有限公司」), "Migu Culture"), a wholly owned subsidiary of China Mobile Group will be fully initiated to facilitate the development of the Company's business. In addition, upon completion of the reorganization of Duomi Music Group, the new listing matters of Beijing Caiyun, its operating entity in China, will be continued and scheduled to be completed in 2016.

Strategic Layout through Equity Investment

As at the end of 2015, the Company had a total cash and bank balance and highly liquid short term assets of approximately RMB497.1 million. The Company intends to capture the increased demand in both the mobile game and mobile music markets by means of strategic expansion in upstream or downstream of the industry chain such as mobile game developer, mobile game related intelligence property content developer/platform, music content developer/platform, online distribution channel and other cultural and entertainment platform, etc.

A8 Music Building

In 2016, as the Shenzhen property market rebounds and the rental increases steadily. In particular, the auxiliary facilities in the regions where the buildings are located are becoming mature, and the traffic is increased driven by the moving-in of a large number of renowned enterprises. It is expected that the increase of rental income of the buildings will remain stable. At the same time, the Group will also continue to enhance the property management level of the building and to provide better services to our tenants in order to contribute a consistent and stable cash flow for the Group.

Management Discussion and Analysis

FINANCIAL REVIEW

During the year, considering the continuing and stable contribution from the property investment after its commencement in 2014, the Group re-designated such business as one of the principal business activities, together with the digital entertainment service business which engages in the provision of music-based entertainment and game-related services.

Revenue and profit attributable to owners of the Company

For the year ended 31 December 2015, the revenue of the Group amounted to approximately RMB148.4 million, representing a decrease of 36.0% as compared with 2014 (2014: approximately RMB231.9 million, as restated).

Digital entertainment services

For the year ended 31 December 2015, the revenue of digital entertainment services of the Group amounted to approximately RMB96.0 million, representing a decrease of approximately 53.3% as compared with 2014 (2014: approximately RMB205.6 million). The decrease was resulted from the shrunken of the traditional wireless music-based entertainment services following the strategic transformation of the Company to dispose certain traditional wireless value-added business as disclosed in the 2012 annual report, and the delay in launching several mobile games which resulted in lower than expected performance of the mobile game publishing business.

Property investment business

For the year ended 31 December 2015, the revenue of property investment business derived from the rental and management fee amounted to approximately RMB52.4 million, representing a significant increase of approximately 99.4% as compared with 2014 (2014: approximately RMB26.3 million, as restated). The increase was mainly due to the increase in occupancy rate and unit price resulted from the high quality property management service after its commencement in 2014.

For the year ended 31 December 2015, the profit attributable to equity holders of the Company amounted to approximately RMB22.0 million (2014: approximately RMB10.8 million). The increase was mainly due to the gain on redemption of the First Tranche Convertible Notes of Duomi Music Holding Limited ("Duomi Music") held by the Group during the year amounted to approximately RMB53.7 million.

Cost of services provided

For the year ended 31 December 2015, cost of services provided by the Group amounted to approximately RMB99.8 million, representing a decrease of approximately 39.6% as compared with 2014 (2014: approximately RMB165.4 million, as restated).

Digital entertainment services

For the year ended 31 December 2015, the cost of services provided of digital entertainment services amounted to approximately RMB85.0 million, decreased by approximately 44.4% as compared with 2014 (2014: approximately RMB153.0 million, as restated). It mainly comprises revenue shared with mobile operators, distribution channels, business alliances and other costs such as music copyrights, game copyrights and direct labor costs.

Revenue shared with mobile operators and distribution channels mainly ranged from 30% to 50% of total digital entertainment services revenue received from mobile users and it averaged at approximately 42.0% for the year ended 31 December 2015 (2014: approximately 41.4%), while revenue shared with business alliances averaged at approximately 24.0% of total digital entertainment services revenue for the year ended 31 December 2015 (2014: approximately 24.0%, as restated).

Property investment business

For the year ended 31 December 2015, the cost of services provided of property investment business amounted to approximately RMB14.8 million, increased by approximately 20.0% as compared with 2014 (2014: approximately RMB12.4 million, as restated). It mainly comprises employee's compensation, utility charges and other maintenance costs in relation to the investment properties.

Gross profit

For the year ended 31 December 2015, the gross profit of the Group amounted to approximately RMB45.7 million, representing a decrease of approximately 29.0% as compared with 2014 (2014: approximately RMB64.4 million, as restated). The overall gross margin ratio of the Group was approximately 30.8%, as compared with approximately 27.8% as restated for the year ended 31 December 2014. The slight increase of gross profit margin ratio was mainly attributable to the contribution from the property investment business which generated a higher gross profit margin for the year ended 31 December 2015.

Other income and gains, net

For the year ended 31 December 2015, the other income and gains of the Group were approximately RMB125.6 million, representing an increase of approximately 15.1% as compared with a net gain of approximately RMB109.1 million as restated for the year ended 31 December 2014.

The increase was mainly due to the gain on redemption of convertible notes and increase of the imputed interest income generated from the preferred shares and convertible notes amounted to approximately RMB53.7 million and RMB8.9 million, respectively, which were partly offset by the decrease in fair value gains on investment properties amounted to approximately RMB48.3 million.

Selling and marketing expenses

For the year ended 31 December 2015, the selling and marketing expenses of the Group amounted to approximately RMB55.9 million, representing an increase of approximately 69.7% as compared with 2014 and approximately 58.3% of the digital entertainment services revenue (2014: approximately RMB33.0 million, representing approximately 16.1% of digital entertainment services revenue). The increase in selling and marketing expenses and its ratio to the related revenue were mainly due to the increase in marketing and promotion expenses amounted to approximately RMB23.9 million arising from promotion activities for various mobile games during their launch stage in the second half of 2015.

Administrative expenses

For the year ended 31 December 2015, the administrative expenses of the Group amounted to approximately RMB40.4 million, representing a decrease of 12.5% as compared with 2014 (2014: approximately RMB46.1 million, as restated), which resulted from cost control activities carried out during the year.

Other expenses, net

For the year ended 31 December 2015, the other expenses, net of the Group amounted to approximately RMB16.0 million, representing an increase of approximately 60.1% as compared with approximately RMB10.0 million in 2014. The increase was mainly due to the increase of fair value loss of conversion option embedded in preferred shares and convertible notes amounted to approximately RMB10.9 million, which were partly offset by the decrease of the impairment of an associate and joint ventures amounted to approximately RMB4.9 million.

Share of losses of associates

For the year ended 31 December 2015, the Group shared losses of associates amounted to approximately RMB25.2 million, representing a decrease of approximately 38.4% as compared with approximately RMB40.9 million in 2014, among which approximately RMB10.9 million was derived from share losses of prior years, which mainly represented share of loss of Duomi Music.

Income tax

For the year ended 31 December 2015, the income tax expenses of the Group amounted to approximately RMB10.4 million, representing a decrease of approximately 68.8% as compared with approximately RMB33.4 million in 2014.

The effective tax rate of the Group was 32.4% in 2015 (2014: approximately 77.6%). As a result of the new Corporate Income Tax Law in China, the statutory tax rates are 15% and 25% in the respective operating subsidiaries of the Group in 2015. The tax expenses were mainly derived from deferred tax liability related to the appreciation of investment property of approximately RMB9.8 million in 2015, representing a decrease of 68.2% as compared with approximately RMB30.8million in 2014 which was mainly due to the decrease in fair value gain on investment properties amounted to approximately RMB48.3 million.

Liquidity and Financial Resources

As at 31 December 2015, cash and bank balances and highly liquid short term assets of the Group including cash and cash equivalents, restricted cash, and investments at fair value through profit or loss amounted to approximately RMB497.1 million (2014: approximately RMB320.8 million). Among which, approximately RMB353.3 million, or approximately 71% was denominated in RMB.

As at 31 December 2015, the Group did not have any borrowings or debts. Accordingly, the gearing ratio which is measured by the net borrowings over the total assets is not applicable.

The Group's exposure to changes in interest rate is mainly attributable to its deposits placed with banks. The Group mainly operates in the Mainland China with most of the transactions settled in RMB.

As at 31 December 2015, the Group did not have any derivatives for hedging against both the interest and exchange rate risks.

Non-current Assets

As at 31 December 2015, the total non-current assets of the Group amounted to approximately RMB642.8 million (2014: approximately RMB608.7 million). The increase was mainly due to the increase of available-for-sale investments, fair value increase of investment properties of A8 Music Building and increase in investments in associates amounted to approximately RMB41.0 million, RMB39.0 million and RMB27.2 million, respectively, which were partly offset by the decrease of the convertible notes of Duomi Music and intangible assets amounted to approximately RMB62.2 million and RMB6.6 million, respectively.

Current Assets and Current Liabilities

As at 31 December 2015, the total current assets of the Group amounted to approximately RMB635.1 million (2014: approximately RMB367.3 million). The increase was mainly due to the increase of cash and cash equivalents amounted to approximately RMB113.3 million, resulted from the net proceeds from the two placing of new shares completed on 27 April 2015 and 22 July 2015 amounted to approximately RMB215.6 million in aggregate, which was partly offset by the net cash outflow from operating activities and investing activities of approximately RMB110.7 million. The increase was also due to the increase of prepayments, deposits and other receivables amounted to approximately RMB100.6 million, resulted from the recognition of receivables from repayment of principal and interest of convertible notes of Duomi Music. Trade receivables amounted to approximately RMB23.1 million (2014: approximately RMB32.2 million), and the turnover days of trade receivables was approximately 67 days (2014: approximately 65 days, as restated).

As at 31 December 2015, the total current liabilities of the Group amounted to approximately RMB163.9 million (2014: approximately RMB122.5 million). The increase was mainly due to the increase of other payables and accruals and deferred income amounted to approximately RMB38.0 million and RMB8.5 million, respectively, which were partly offset by the decrease of trade payables of approximately RMB6.1 million.

Cash Flow

Net cash outflow from operating activities of the Group for the year ended 31 December 2015 was approximately RMB13.4 million, resulted from cash outflow generated from operations of approximately RMB11.9 million and the tax paid of approximately RMB1.5 million.

Net cash outflow from investing activities of the Group for the year ended 31 December 2015 was approximately RMB97.3 million, resulted from the cash outflow for acquisition of available-for-sale investments, purchase of shareholding in associates and joint ventures, purchases of items of property, plant and equipment,and purchase of intangible assets amounted to approximately RMB27.6 million, RMB33.8 million, RMB30.8 million and RMB11.7 million, respectively, which were partly offset by interest received of approximately RMB9.2 million.

Net cash inflow from financing activities of the Group for the year ended 31 December 2015 was approximately RMB215.5 million, resulted from the two placing of new shares which were completed on 27 April 2015 and 22 July 2015.

Contingent Liabilities

As at 31 December 2015, the Group did not have any material contingent liabilities.

Human Resources

As at 31 December 2015, the Group employed 160 employees (2014: 148 employees). However, the average headcounts of year 2015 was 165 while it was 177 in year 2014. The Group determines the remuneration of its employees based on various factors such as responsibilities, qualifications and years of experience. Total employee costs for the year ended 31 December 2015, including directors' emoluments, amounted to approximately RMB31.9 million, representing a decrease of approximately 14.0% as compared with 2014 (2014: approximately RMB37.1 million), which was mainly due to the combined effect of labor adjustment in relation to business restructure, wage growth and severance for dismissed employees during 2015.

Environment and compliance with laws

The Group is committed to and has implemented certain policies to minimise the impact on the environment from our business activities. As far as the Board is aware, the Group has complied with the relevant laws and regulations that have a significant impact on the Group in all material respects.

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 amounted to approximately US$16 million (equivalent to approximately RMB101 million) and refunded the collateral security of RMB60 million to Duomi Music in January 2016.

Directors and Senior Management

DIRECTORS

Executive Directors

Mr. Liu Xiaosong, aged 50, an executive Director, the Chairman and the Chief Executive Officer of the Company.

Mr. Liu graduated from Hunan University in the PRC in 1984, with a Bachelor's degree in Electrical Engineering. In 1987, Mr. Liu graduated from China Electric Power Research Institute in the PRC with a Master's degree in Engineering. In 1991, he studied at Tsinghua University as a PhD research student. He has diversified experience in the technology, media and telecommunications industry. He is one of the co-founders of Tencent Holdings Limited, a company listed on the Main Board of Stock Exchange with the Stock Code: 00700.HK. In 2004, Mr. Liu was admitted to the Shenzhen Experts Working Union. Mr. Liu was appointed as the Vice President of the Copyright Union of the Internet Society of China and the Copyright Society of China in August 2007 and September 2007 respectively. He is also the Vice President of the Shenzhen Hi-tech Association. He is a founder of the Group and was appointed as a Director on 2 October 2007. Mr. Liu is currently responsible for the overall strategic planning and the whole business operation and management of the Group.

Mr. Liu is a director of Duomi Music Holding Ltd., which is an associate of the Company. He also acts as the director of A8 Music Group Limited, Total Plus Limited, Phoenix Success Limited, Cash River information Technology (Shenzhen) Co., Ltd., Shenzhen Huadong Feitian Network Development Co., Ltd, and Shenzhen Kuaitonglian Technology Co., Ltd., which are subsidiaries of the Company.

Mr. Liu is the director of Knight Bridge Holdings Limited, Ever Novel Holdings Limited and Prime Century Technology Limited, all of which have interest in the shares of the Company discloseable under the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong).

Mr. Liu Pun Leung, aged 37, an executive Director, the Chief Financial Officer and a joint company secretary of the Company. Mr. Liu Pun Leung has served various financial management and consulting roles in China and Hong Kong for 14 years. He has extensive knowledge in accounting, auditing, taxation, financial management, risk management and internal control relating to Hong Kong and China businesses. Prior to joining the Company, he served as the Chief Risk Officer and the Vice President of Finance and Investor Relation at 500.com Limited (NYSE:WBAI). He has also served various auditing and consulting positions at Ernst & Young China and Hong Kong since 2000, and the last position he held with Ernst & Young was Senior Manager. Mr. Liu Pun Leung holds a Bachelor of Business Administration (Honours) degree in accountancy. He is a member of the Hong Kong Institute of Certified Public Accountants and Institute of Internal Auditors. Mr. Liu Pun Leung was appointed as the Chief Financial Officer of the Company with effect from 15 July 2014, and was appointed as an executive director of the Company and also appointed as a joint company secretary of the Company with effect from 27 November 2014.

Independent Non-executive Directors

Mr. Chan Yiu Kwong, aged 51, is an independent non-executive Director. Mr. Chan graduated from the University of Hong Kong with a Bachelor's degree in Social Sciences in 1988. He was admitted as a fellow member of the Association of Chartered Certified Accountants and a fellow member of the Hong Kong Institute of Certified Public Accountants in 1999 and 2005 respectively. From June 2004 to July 2006, Mr. Chan served as an independent non-executive director of Beijing Enterprises Water Group Limited (formerly known as "Shang Hua Holding Limited"), a company listed on the Main Board of the Stock Exchange (Stock Code: 00371.HK). From March 2001 to December 2007, Mr. Chan served as an executive director of Hi Sun Technology (China) Limited ("Hi Sun"), a company listed on the Main Board of the Stock Exchange (Stock Code: 00818.HK). Between 2005 and 2010, Mr. Chan served as an independent non-executive director of Biosino Bio-Technology and Science Incorporation, a company listed on the Growth Enterprises Market of the Stock Exchange (Stock Code: 08247.HK). Mr. Chan currently serves as a joint company secretary of Hi Sun and a joint company secretary of PAX Global Technology Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 00327.HK). He has years of diversified experience in auditing, business advisory and corporate management. He was appointed as an independent non-executive Director on 9 November 2007.

Ms. Wu Shihong, aged 58. Ms. Wu has extensive experience in the information technology industry. She joined IBM China in 1985 and held the position of General Manager for channel management of IBM China from May 1997 to February 1998. She then acted as the General Manager of Microsoft China Co. Ltd. until August 1999. From December 1999 to December 2002, she was a Vice President of TCL Corporation as well as the General Manager of TCL Information Technology Industrial (Group) Co. Limited. She is an independent non-executive director of TCL Multimedia Technology Holdings Limited (Stock Code: 01070.HK) since June 2007, and she was appointed as an Executive Director of TCL Cooperation Company limited (Stock Code: 000100.SZ) in August 2015. Ms. Wu founded Shanghai Blackspace Info. Tech. Co. Limited in May 2008 and has been the Chairman and Chief Executive Officer since then until February 2012. Ms. Wu was appointed as an independent non-executive Director on 27 March 2012.

Mr. Song Ke, aged 50, is a famous music producer in China. He has nearly twenty years of professional experience in the music industry. Mr. Song graduated from Tsinghua University in 1988 with a Bachelor's degree in environmental engineering, and during the period from 1990 to 1992 studied at Texas A&M University in USA. Mr. Song came back in 1996 and founded the Maitian Music Creation Company. During the period from 2000 to 2015, he served as the Deputy General Manager and Musical Director in Warner Music Company China District, the Deputy General Manager in Taihe Media Investment Co. Ltd., the Managing Director in Beijing Taihe Rye Music Co., Ltd. and the Chairman in Henda Music Company. Since July 2015, Mr. Song acts as CEO in Ali Music. Mr. Song also acts as the Vice President of the Record Working Committee in China Audio & Video Association, and the Vice President of Popular Music Society in China Musicians Association. Mr. Song was appointed as an independent non-executive Director on 30 May 2013.

SENIOR MANAGEMENT OF THE GROUP

Mr. Su Wei, aged 40, the Chief Investment Officer of the Group. He graduated from the Shanghai University of Finance and Economics with a Bachelor's degree in Money and Banking in 1998 and further obtained a Master Business Administration degree from Donghua University in 2006. Mr. Su has years of diversified working experience in corporate internal management, investments, mergers and acquisitions, project financing, reorganization, and has in-depth knowledge in the internet industry. He has worked for Shanghai Pudong Road & Bridge Construction Co., Ltd (Shanghai Stock Exchange: 600284), Shanda Computer (Shanghai) Co., Ltd., etc. Mr. Su joined the Group in March 2010 and he is now responsible for the Group's strategy, investment, operation management and informatization. Mr. Su also acts as a director of Duomi Music Holding Ltd., which is an associate of the Company. He also acts as the director of Beijing Tianlai Cultural Broadcasting Co., Ltd.,which is subsidiary of the Company.

Mr. Liu Xiaosong and Mr. Liu Pun Leung are also the Senior Management of the Group, please refer to page 13 for their resume.

Directors' Report

The board (the "Board") of directors (the "Directors") presents their report and the audited financial statements of the Group for the year ended 31 December 2015.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 1 to the financial statements. Apart from the re-designation of property investment business as one of the principal activities of the Group, there were no significant changes in the nature of the Group's principal activities during the year.

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2015 is set out in the section headed "Chairman's Statement" on pages 4 to 7 of this annual report.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2015 and the Group's financial position at that date are set out in the financial statements on pages 47 to 50.

No interim dividend was declared for the six months ended 30 June 2015 and the Board does not recommend the payment of final dividend for the year ended 31 December 2015.

FINANCIAL SUMMARY AND HIGHLIGHT

A summary of the published results, assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements, is set out on page 3. This summary does not form part of the audited financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year ended 31 December 2015 are set out in notes 29 and 30 to the financial statements, respectively.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association (the "Articles") or the laws of the Cayman Islands, the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to the existing shareholders of the Company.

TAX RELIEF AND EXEMPTION

The Company is not aware of any tax relief and exemption available to the shareholders of the Company by reason of their holding of the Company's securities.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year of 2015, neither the Company, nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities.

DISTRIBUTABLE RESERVES

As at 31 December 2015, the Company's reserves available for distribution amounted to approximately RMB681,106,000.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2015, revenues from the five largest customers of the Group accounted for approximately 37% of the Group's total revenues while revenues from the largest customer for the Group accounted for approximately 9% of the Group's total revenues. In addition, for the year ended 31 December 2015, purchases from the Group's five largest suppliers accounted for less than 30% of the Group's total purchases.

None of the Directors nor any of their respective associates (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")) or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) of the Company had any beneficial interest in the Group's five largest customers or suppliers.

DIRECTORS

The Directors during the year and up to the date of this report were:

Executive Directors: Mr. Liu Xiaosong and Mr. Liu Pun Leung

Independent non-executive Directors: Mr. Chan Yiu Kwong, Ms. Wu Shihong and Mr. Song Ke

In accordance with article 87(1) of the Articles, one third of the Directors will retire and, being eligible, for re-election as Directors at the forthcoming annual general meeting of the Company.

The Company has received annual confirmations of independence pursuant to Rule 3.13 of the Listing Rules from Mr. Chan Yiu Kwong, Ms. Wu Shihong and Mr. Song Ke. As at the date of this report, the Company still considers these independent non-executive Directors to be independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and senior management of the Group are set out on pages 13 to 14 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the Directors has entered into a service contract or an appointment letter (as the case may be) with the Company for an initial fixed term of three years commencing from their appointment or re-designation, subject to retirement by rotation and re-election at annual general meetings of the Company pursuant to Articles, and will continue thereafter until terminated by (i) in cases of executive Directors and independent non-executive Directors, not less than three months' notice in writing served by either party on the other or payment in lieu of such notice, or (ii) in case of non-executive Directors, not less than one month's notice in writing by the non-executive Director or the written notice issued by the Company with immediate effect.

Apart from the foregoing, no Director has a service contract with the Company or any of its subsidiaries which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

The Directors' fees are subject to shareholders' approval at general meetings of the Company. Other emoluments are determined by the Board with reference to Directors' duties, responsibilities and performance and the results of the Group.

PERMITTED INDEMNITY PROVISION

During the year ended 31 December 2015 and up to the date of this annual report, there was or is permitted indemnity provision (within the meaning in section 469 of the Hong Kong Companies Ordinance) in the articles of association of the Company being in force.

The Company has taken out and maintained directors' and officers' liability insurance throughout the year, which provides appropriate cover certain legal actions brought against its directors and officers.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed in note 35 to the financial statements and in the section headed "Connected transactions" in this report, no Director nor a connected entity of a director had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which any of the Company's subsidiaries was a party subsisting during or at the year ended 31 December 2015.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2015.

Save as disclosed in note 35 to the financial statements and in the section headed "Connected transactions" in this report, no contract of significance had been entered into between the Company or any of its subsidiaries and the controlling shareholders (as defined in the Listing Rules) of the Company or any of its subsidiaries.

Save as disclosed in note 35 to the financial statements, no contract of significance for the provision of services to the Group by the controlling shareholders of the Company or any of its subsidiaries was entered into.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2015, the Directors and chief executive of the Company and their associates had the following interests in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap.571 of the Laws of Hong Kong) ("SFO")), as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Listing Rules and the Company's own code of conduct regarding Directors' dealings in the Company's securities ("Own Code"):

Long positions in shares of the Company

		Number of shares		
Name of Director	**Nature of interest**	**Ordinary shares**	**Underlying Shares (under equity derivatives of the Company)**	**Approximate percentage of interest in the Company's issued share capital**[1]
Mr. Liu Xiaosong[2]	Founder of trust[3]	516,055,398	Nil	28.12%
	Beneficial Owner	5,766,000	13,004,910[4]	1.02%
Mr. Liu Pun Leung	Beneficial Owner	Nil	5,000,000[4]	0.27%
Mr. Chan Yiu Kwong	Beneficial Owner	105,000	315,000[4]	0.02%
Ms. Wu Shihong	Beneficial Owner	Nil	420,000[4]	0.02%
Mr. Song Ke	Beneficial Owner	Nil	420,000[4]	0.02%

Notes:

1) The percentage of interest in the Company is calculated by reference to the number of Shares in issue as at 31 December 2015 (i.e. 1,835,192,628 Shares).

2) As at 4 January 2016, Grand Idea Holdings Limited ("Grand Idea"), a party acting in concert with Mr. Liu Xiaosong, had acquired 23,080,000 Shares at a price of HK$0.66 per Share in block trade transactions. As at the date of this annual report, the total number of Shares that Mr. Liu and his parties acting in concert (including but not limited to Grand Idea) held 609,701,398 Shares of the Company, representing approximately 33.22% of the total issued share capital of the Company.

3) Mr. Liu Xiaosong is the founder of a family trust which is deemed under SFO to be interested in all the shares held by Ever Novel and Prime Century in the Company. As at 31 December 2015, Prime Century directly held 371,484,303 shares and Ever Novel directly held 144,571,095 shares in the Company.

4) Details of share options held by the Directors are shown in the section of "Share Option Schemes".

Long positions in 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
Huadong Feitian①	Mr. Liu	Beneficial owner	RMB21,510,000③	75%
Duomi Music②	Mr. Liu	Interest of controlled corporation	35,435,640④	30.13%
Beijing Caiyan⑤	Mr. Liu	Beneficial owner	RMB23,637,000⑥	27.08%

Notes:

1) 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.

2) Duomi Music is a company incorporated in the Cayman Islands with limited liability. As at 31 December 2015, the Company was interested in approximately 42.73% of the issued share capital of Duomi Music (assuming after conversion of all the outstanding Preferred Shares 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 ("Fortune Light"), held approximately 30.13% of the issued share capital of Duomi Music.

3) This represents the amount of registered capital of Huadong Feitian held by Mr. Liu.

4) This represents the number of shares of Duomi Music held by Mr. Liu.

5) Beijing Caiyun Online Technologies Co. Ltd is a company incorporated in the PRC with limited liability. As at 8 April 2016, the Company was interested in approximately 22.80% of the registered capital of Beijing Caiyun through its wholly-owned subsidiary, Kuaitonglian technology, and therefore Beijing Caiyun is an associated corporation of the Company. Mr. Liu was interested in approximately 27.08% of the registered capital of Beijing.

6) This represents the amount of registered capital of Beijing Caiyun held by Mr. Liu.

Save as disclosed, as at 31 December 2015, none of the Directors, chief executives and their respective associates had any interest or short positions in the Shares, underlying Shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required 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 is taken or deemed to have under such provisions of the SFO); or are required, pursuant to section 352 of the SFO to be entered into the register referred to therein; or are required, pursuant to the Model Code to be notified to the Company and the Stock Exchange.

SHARE OPTION SCHEMES

On 26 May 2008, the shareholders of the Company adopted two share option schemes for the purpose of providing incentives and rewards to its Directors, executive officers, employees and other eligible persons. Further details of the share option schemes are disclosed in note 30 to the financial statements.

The exercise period of the Company's share options outstanding under the Pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") had ended in 21 May 2012, and no further share option will be granted under the Pre-IPO Share Option Scheme. During the year ended 31 December 2015, no share option granted under this Scheme was exercised or cancelled.

The following table discloses movements in the Company's share options outstanding under share option scheme (the "Share Option Scheme") during the year:

Name/ category of participants	At 1 January 2015	Exercised during the period	Granted during the period	Lapsed/ forfeited during the period	At 31 December 2015	Date of grant of share options	Vesting period of share options	End of exercise period	Exercise price of share options HK$ per share	Closing price of shares immediately before date of grant HK$ per share
Directors of the Company										
Mr. Liu Xiaosong	8,197,310	–	4,807,600	–	13,004,910					
Including:	597,310	–	–	–	597,310	5 October 2009	one-third of the share options granted will be vested every 12-month period starting from 5 October 2010	26 May 2018	2.4156	2.98
	7,600,000	–	–	–	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	0.65	0.65
	–	–	4,807,600	–	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	1.04	1.04
Mr. Liu Pun Leung	5,000,000	–	–	–	5,000,000	23 April 2014	One-fourth of the Share Options willbe vested every 12-month period starting from 15 October 2015	23 April 2021	0.65	0.65

Name/ category of participants	At 1 January 2015	Exercised during the period	Granted during the period	Lapsed/ forfeited during the period	At 31 December 2015	Date of grant of share options	Vesting period of share options	End of exercise period	Exercise price of share options HK$ per share	Closing price of shares immediately before date of grant HK$ per share
Mr. Chan Yiu Kwong	420,000	105,000	–	–	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	0.65	0.65
Ms. Wu Shihong	420,000	–	–	–	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	0.65
Mr. Song Ke	420,000	–	–	–	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	0.65
Subtotal	**14,457,310**	**105,000**	**4,807,600**	**-**	**19,159,910**					
Senior Management of the Group										
	786,900	–	–	–	786,900	25 March 2011	One-fourth of 600,000 Share Options will be vested every 12-month period starting from 20 September 2011	24 March 2016	1.8376	2.26
	524,600	–	–	–	524,600	18 August 2011	One-fourth of the Share Options will be vested every 12-month period starting from 9 August 2012	17 August 2016	0.9150	1.27
	3,177,500	–	–	–	3,177,500	24 January 2014	One-fourth of the Share Options will be vested every 12-month period starting from 14 January 2015	24 January 2021	0.684	0.68

Directors' Report

Name/ category of participants	At 1 January 2015	Exercised during the period	Granted during the period	Lapsed/ forfeited during the period	At 31 December 2015	Date of grant of share options	Vesting period of share options	End of exercise period	Exercise price of share options HK$ per share	Closing price of shares immediately before date of grant HK$ per share
	9,222,000	–	–	–	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	0.65
Subtotal	**13, 711,000**	**-**	**-**	**-**	**13, 711,000**					
Other employees and eligible persons of the Group										
	2,888,762	–	–	–	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	1.15
	321,612	–	–	–	321,612	5 October 2009	one-third of the share options granted will be vested every 12-month period starting from 5 October 2010	26 May 2018	2.4156	2.98
	19,672	–	–	19,672	–	24 December 2009	Minimum of 2 years and maximum of 4 years	24 December 2014	2.4400	3.13
	4,217,782	–	–	865,588	3,352,194	25 March 2011	One-fourth of 600,000 Share Options willbe vested every 12-month period starting from 20 September 2012	24 March 2016	1.8376	2.26
	2,400,000	150,000	–	300,000	1,950,000	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	0.66

Name/ category of participants	At 1 January 2015	Exercised during the period	Granted during the period	Lapsed/ forfeited during the period	At 31 December 2015	Date of grant of share options	Vesting period of share options	End of exercise period	Exercise price of share options HK$ per share	Closing price of shares immediately before date of grant HK$ per share
	9,188,000	322,500	–	470,000	8,395,500	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	0.65
Subtotal	**19,035,828**	**472,500**	**-**	**1,655,260**	**16,908,068**					
TOTAL	**47,204,138**	**577,500**	**4,807,600**	**1,655,260**	**49,778,978**					

During the year ended 31 December 2015, 4,807,600 share options was granted under the Share Option Scheme, 577,500 share options granted under the Share Option Scheme was exercised, and 1,655,260 share options granted under the Share Option Scheme were lapsed following the resignation of the relevant employees and eligible persons.

As at the date of approval of these financial statements, there were 47,431,031 outstanding share options under the Share Option Scheme, representing an aggregate of approximately 2.58% of the issued share capital of the Company.

Please refer to note 30 to the financial statements for further information of the Share Option Scheme and the value of share options granted.

SHARE AWARD SCHEME

The Board has approved the adoption of a share award scheme (the "Share Award Scheme") on 16 August 2010 ("Adoption Date") for the purpose of providing incentives and rewards to its Directors, executive officers, employees and other eligible persons. Law Debenture Trust (Asia) Limited (the "Trustee") acts as the trustee for the Share Award Scheme. The Share Award Scheme will operate in parallel with the Company's Pre-IPO Share Option Scheme and the Share Option Scheme.

During the year ended 31 December 2015, no awarded shares were granted under the Share Award Scheme, the Trustee has not purchased any of the Company's existing Shares on the market for the purpose of the Share Award Scheme, 1,531,950 awarded shares were released to awarders, 60,000 awarded shares were lapsed following the resignations of the relevant employees and eligible persons.

Further details of the Scheme are disclosed in note 31 to the financial statements.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31 December 2015, the persons or corporations (other than a Director or chief executive of the Company) who have interest or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO or have otherwise notified to the Company are as follows:

Name of substantial shareholder	Nature of interest	Number of Ordinary shares (long positions)	Approximate percentage of interest in the Company's issued share capital (note 1)
HSBC International	Trustee (other than a bare trustee) (note 2)	580,855,398	31.65%
River Road	Interest in controlled corporation (note 2)	516,055,398	28.12%
Knight Bridge	Interest in controlled corporation (note 2)	516,055,398	28.12%
Ever Novel	Interest in controlled corporation (note 3)	371,484,303	20.24%
	Beneficial Owner (note 3)	144,571,095	7.88%
Prime Century	Beneficial Owner (note 3)	371,484,303	20.24%

Notes:

1. The percentage of interest in the Company is calculated by reference to the number of Shares in issue as at 31 December 2015 (i.e. 1,835,192,628 Shares).

2. HSBC International Trustee Limited ("HSBC International") is the trustee of family trusts of Mr. Liu Xiaosong, which, through intermediate holding companies (including but not exclusively River Road, Knight Bridge, Ever Novel 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 (580,855,398 Shares in total).

3. As at 31 December 2015, Prime Century directly held 371,484,303 shares and Ever Novel directly held 144,571,095 shares in the Company. Ever Novel 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 371,484,303 shares in the Company held directly by Prime Century.

Save as disclosed above, as at 31 December 2015, the Directors are not aware of any other person or corporation other than the Directors or chief executive of the Company whose interests are set out in the section "Directors' and chief executive's interests in shares and underlying shares" above having an interest or short position in the shares or underlying shares of the Company representing 5% or more of the issued share capital of the Company which is required to be recorded pursuant to section 336 of the SFO.

CONNECTED TRANSACTIONS

The contractual arrangements

Due to restrictions in the PRC laws and regulations on foreign investment in businesses providing telecommunications value-added services in the PRC, the Group has entered into a number of contracts ("Structure Contracts") with certain PRC operating companies ("OPCOs") solely for the purpose of operating the Group's relevant businesses in the PRC ("Contractual Arrangement"). The Structure Contracts are designed to provide the Company with effective control over and (to the extent permitted by the PRC laws) the right to acquire the equity interests in and/or assets of the OPCOs. The original contracts relating to the Contractual Arrangement were entered into in 2004. In light of the new requirements of the Stock Exchange and, to keep align with the recent practices commonly adopted by other listed companies in relation to the terms and conditions of the structure contracts to strengthen the control of the Company over the OPCOs, the Group has entered into new contracts to replace its existing Contractual Arrangement in order to align with such new regulatory requirements and the recent practices.

In compliance with the disclosure requirements on the contract-based arrangements or structures pursuant to the updated guidance letter issued by the Stock Exchange (HKEx-GL77-14), the Group provides a summary of the Group's business which is operated through the OPCOs.

1. *Particulars of OPCO and its registered owners*

   深圳市華動飛天網絡技術開發有限公司 ("Huadong Feitian")

   Huadong Feitian is a limited liability company established in the PRC on 22 May 2000. The registered shareholders of Huadong Feitian are Mr. Liu Xiaosong (75%) and Ms. Cui Jingtao (25%).

   深圳市快通聯科技有限公司 ("Kuaitonglian")

   Kuaitonglian is a limited liability company established in the PRC on 10 May 2004. The registered shareholders of Kuaitonglian are Mr. Zhang Shouqi (80%) and Ms. Ma Hongxia (20%).

   深圳市雲海情天文化傳播有限公司 ("Yunhai Qingtian")

   Yunhai Qingtian is a limited liability company established in the PRC on 9 December 2004. The sole registered shareholder is Mr. Cao Aiguo (100%).

2. *Description of OPCOs' business*

   Huadong Feitian and its subsidiaries are principally engaged in the provision of telecommunications instant messaging and value-added services.

   Kuaitonglian and its subsidiaries are principally engaged in the provision of mobile value-added services.

   Yunhai Qingtian and its subsidiaries are principally engaged in the provision of game publishing services and value-added telecommunication services.

3. *Summary of the Major Terms of the Underlying Contracts of the Contractual Arrangement*

Several Structure Contracts of similar terms were made:

(i) between 佳仕域信息科技(深圳)有限公司 ("Cash River") and (i) Huadong Feitian and its registered shareholders, and (ii) Kuaitonglian and its registered shareholders, respectively; and

(ii) between 深圳市指游方寸網絡科技有限公司 ("Finger Fun") Yunhai Qingtian and its registered shareholder,

which allows Cash River/Finger Fun to exercise control and enjoy economic benefit generated from the OPCOs. Each of Cash River and Finger Fun is a wholly-owned subsidiary of the Company.

The major terms of these Structure Contracts are summarised 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 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 date 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 date 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 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.

All Structure Contracts contain a similar dispute resolution clause which provides that:

(1) any dispute arising from the interpretation and implementation of the Contractual Arrangement between the parties should first be resolved through negotiation, failing which any party may submit the said dispute to the South China International Economic and Trade Arbitration Commission ("SCIA") in Shenzhen for arbitration in accordance with their arbitration rules and the results of the arbitration shall be final and binding on all relevant parties;

(2) the arbitrators may award remedies over the shares or land assets of OPCO, injunctive relief (e.g. for the conduct of business or to compel the transfer of assets) or order the winding up of OPCO; and

(3) the courts of competent jurisdictions have the power to grant interim remedies in support of the arbitration pending formation of the arbitral tribunal or in appropriate cases. The courts of Cayman Islands, the OPCO's place of incorporation, and the place where the Company or OPCO's principal assets are located have jurisdiction for this purpose.

4. *Revenue and Assets Subject to the Contractual Arrangements*

The consolidated total revenue, the consolidated total assets and the consolidated total net assets of the OPCOs and their subsidiaries for the year ended 31 December 2015 were approximately RMB148,355,000, RMB663,128,000 and RMB514,829,000, respectively.

The revenue of Huadong Feitian, Yunhai Qingtian and Kuaitonglian amounted to approximately RMB65,748,000, RMB73,925,000 and RMB8,682,000, respectively, representing approximately 44%, 50% and 6% of the consolidated total revenue of the Group, respectively.

5. *Risks Relating to the Contractual Arrangements*

The board of directors of the Company wishes to emphasize that the Group relies on the Contractual Arrangements to control and obtain the economic benefits from the OPCOs, which may not be as effective in providing operational control as direct ownership. In addition, if the PRC government finds that the agreements that establish the structure for operating the value-added telecommunication business of the OPCOs in the PRC do not comply with applicable PRC laws and regulations, (e.g. the Circular regarding the Consistent Implementation of the "Stipulations on 'Three Provisions'" of the State Council and the Relevant Interpretations of the State Commission Office for Public Sector Reform and the Further Strengthening of the Administration of Pre-examination and Approval of Internet Games and the Examination and Approval of Imported Internet Games Xin Chu Lian No.13 [2009], issued by the PRC General Administration for Press and Publication and the PRC State Copyright Administration dated 28 September 2009, which prohibits foreign investors from gaining control over or participating in PRC operating companies' online game operations through indirect way), or if these regulations or their interpretations change in the future, the Group could be subject to severe consequences, including the nullification of the Contractual Arrangements and the relinquishment of the Group's interest therein.

A PRC legal opinion has been obtained by the Company, pursuant to which the PRC lawyers confirm that the Structure Contracts under the Contractual Arrangement would not be void under the PRC laws, as the Structure Contracts do not violate any mandatory provisions in PRC laws and regulations nor would be deemed as "concealing illegal intention with a lawful form" and the PRC lawyers are not aware of any online game companies which use the same or similar contractual arrangements as the Company's having been penalised or ordered to terminate operation by PRC authorities claiming that the contractual arrangements constitute control over, or participation in the operation of, online game operating businesses through indirect means.

6. *Material Change*

Save as disclosed above, as at the date of this report, there is no material change in the Contractual Arrangements and/or the circumstances under which they were adopted.

7. *Unwinding of Structure Contracts*

As at the date of this report, there is no unwinding of any of the Structured Contracts or failure to unwind when the restrictions that led to the adoption of the Structured Contracts are removed.

CONTINUING CONNECTED TRANSACTIONS WITH XIAMEN MENGJIA

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. 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" (「狠西遊」) 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.

The following table sets out the proposed annual caps of the transactions contemplated under the Cooperation Agreement from 28 December 2015 to 31 December 2017.

	Annual Cap from 28 Dec 2015 to 31 Dec 2015 (RMB'000)	**Annual Cap from 1 Jan 2016 to 31 Dec 2016** (RMB'000)	**Annual Cap from 1 Jan 2017 to 31 Dec 2017** (RMB'000)
Entrusted development fees	1,500	1,500	–
Participation prepayment	500	500	–
Sharing of operating revenue	–	7,500	7,500
Total:	2,000	9,500	7,500

The above-mentioned annual caps were determined based with reference to: ① the progress of the payment of estimated entrusted development fees and the participation prepayment based on the development progress of the game; ② the game will be made available online in August 2016 and ③ the reasonable assessment of the market size of related games; ④ the historical revenue size of the mobile game products distributed by the Company; ⑤ the estimated revenue with reference to proportion of share as agreed under the cooperation agreement.

The above continuing connected transactions contemplated under Cooperation Agreement were nil during the year.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this annual report.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

None of the Directors or substantial shareholders of the Company or any of their respective associates has engaged in any business that competes or may compete with the business of the Group.

On 26 May 2008, each of the then controlling shareholders (within the meaning under the Listing Rules) of the Company, namely Mr. Liu Xiaosong, Prime Century, Ever Novel and Grand Idea Holdings Limited ("Grand Idea"), entered into a deed of non-competition dated 26 May 2008 (the "Deed of Non-competition") in favor of the Company (for itself and the benefits of other members of the Group), pursuant to which he/it has undertaken to the Company that he/it would not, and would procure that his/its associates would not, during the restricted period set out below, directly or indirectly, either on his/its own account or in conjunction with or on behalf of any person, firm or company, among other things, carry on, participate or be interested or engaged in or acquire or hold (in each case whether as a shareholder, partner, agent, employee or otherwise) any business which is or may be in competition with the business of any member of the Group from time to time. Details of the non-competition undertaking have been set out in the subsection headed "Non-competition undertaking" under the section headed "Relationship with Controlling Shareholders" of the Prospectus.

The "restricted period" stated in the Deed of Non-competition refers to the period during which:

(i) the shares of the Company remain listed on the Stock Exchange;

(ii) regarding any member of the then controlling shareholders, so long as he or his associates directly or indirectly holds an equity interest in the Group; and

(iii) the then controlling shareholders jointly are entitled to exercise or control the exercise of not less than 30% in aggregate of the voting power at general meetings of the Company.

As disclosed in the announcement of the Company dated 24 April 2009 and 9 July 2009, as a result of the reorganisation of the shareholdings in the Company by certain shareholders of the Company, Prime Century and Grand Idea have ceased to become the controlling shareholders of the Company respectively, but they remain to be bound by the provision of the deed of non-competition.

The Company has received the annual confirmations from each of the then controlling shareholders of the Company in respect of their respective compliance with the terms of the Deed of Non-competition.

FUND RAISING ACTIVITIES

On 16 April 2015, the Company and First Shanghai Securities Limited (the "Placing Agent") entered into the Placing Agreement, pursuant to which the Company has appointed the Placing Agent to procure, on a best effort basis, Placees to subscribe for up to 285,768,000 Placing Shares at a price of HK$0.73 per Placing Share. On 27 April 2015, an aggregate of 285,768,000 Placing Shares have been successfully placed to not less than six Placees at the Placing Price of HK$0.73 per Placing Share. The net proceeds from the Placing are approximately HK$205.3 million, which will be utilised as general working capital and/or future investment of the Group as and when opportunities arise.

On 13 July 2015, the Company and the Placing Agent entered into the Placing Agreement, pursuant to which the Company has appointed the Placing Agent to procure, on a best effort basis, Placees to subscribe for up to 120,000,000 Placing Shares at a price of HK$0.57 per Placing Share. On 22 July 2015, an aggregate of 120,000,000 Placing Shares have been successfully placed to not less than six Placees at the Placing Price of HK$0.57 per Placing Share. The net proceeds from the Placing are approximately HK$67 million, which will be utilised for future investment of the Group as and when opportunities arise, with the focus on mobile game industry chain and online to offline music industry chain consolidation.

AUDIT COMMITTEE

The Audit Committee of the Company, all members of which are independent non-executive Directors with the Chairman Mr. Chan Yiu Kwong having appropriate professional qualifications and experience in financial matters, has reviewed the accounting policies, accounting standards and practices adopted by the Group, discussed auditing, internal control and financial reporting matters, and reviewed the consolidated financial statements and results of the Group for the year ended 31 December 2015.

AUDITORS

The financial statements for the year ended 31 December 2015 have been audited by the Company's auditors, Ernst & Young, who will retire in the forthcoming annual general meeting. A resolution for their re-appointment as auditors of the Company will be proposed at the forthcoming annual general meeting of the Company.

There has been no change of the auditors of the Company since the listing of the Company's shares on the Stock Exchange on 12 June 2008.

ON BEHALF OF THE BOARD
Liu Xiaosong
Chairman

Hong Kong
23 March 2016

Corporate Governance Report

The Board of Directors ("Board") and the management of the Company are committed to the maintenance of good corporate governance practices and procedures. The Company believes that good corporate governance provides a framework that is essential for effective management, a healthy corporate culture, and successful business growth and enhancing shareholders' value.

The corporate governance principles of the Company emphasize a quality Board, sound internal controls, and transparency and accountability to all shareholders. Throughout the year ended 31 December 2015, the Company has applied the principles and complied with all code provisions, and where applicable, the recommended best practices as set out in the Corporate Governance Code (the "CG Code"), except for the deviation from code provision A.2.1 as explained on page 38 in the section headed "Chairman and Chief Executive Officer".

The Company will continue to enhance its corporate governance practices appropriate to the conduct and growth of its business and to review its corporate governance practices from time to time to ensure that they comply with the statutory and professional standards and align with the latest developments.

THE BOARD

Responsibilities of the Board

The Board is responsible for the leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. The Board also oversees the Group's businesses, strategic decisions and performance as well as performs the corporate governance duties.

The Board has delegated to the senior management the authority and responsibilities for the day-to-day management and operations of the Group. In addition, the Board has established the Audit Committee, the Remuneration Committee and the Nomination Committee, and has delegated to these Board committees various responsibilities as set out in their respective terms of reference.

All Directors have full and timely access to the advice and services of the Company Secretary with a view to ensuring that Board procedures and all applicable rules and regulations are followed. The senior management of the Company provides all directors with monthly updates on the Company's performance, position and prospects in sufficient detail to enable the Board as a whole and each Director to discharge their duties. Each Director knows that he is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board.

All directors take decisions objectively in the interests of the Company and have carried out their duties in good faith and in compliance with the standards of applicable laws and regulations, and have acted in the interests of the Company and its shareholders at all times.

The Company has arranged for appropriate insurance cover for Directors' and officers' liabilities in respect of legal actions against its Directors and senior management arising out of corporate activities.

Delegation of Management Functions

The Board reserves for its decisions on all major matters of the Company, including the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflicts of interest), financial information, appointment of Directors and other significant financial and operational matters.

The day-to-day management, administration and operation of the Company are delegated to the CEO and the senior management. Approval has to be obtained from the Board prior to any significant transactions entered into by the aforesaid officers. The Board has given clear directions as to such officers's powers and responsibilities, and periodically reviews their delegated functions and work tasks to ensure such arrangements remain appropriate to the Company's needs. The Board has the full support of the CEO and the senior management to discharge its responsibilities.

Board Composition

The Board currently comprises 5 members, consisting of 2 executive Directors and 3 independent non-executive Directors. None of the members of the Board is related to one another.

Three Board Committees, namely, Audit Committee, Remuneration Committee and Nomination Committee, have been established with specific terms of reference which were posted on the websites of the Company and HKEx.

During the year ended 31 December 2015,the Board has at all time met the relevant requirements of the Listing Rules relating to having at least one-third of independent non-executive Directors, comprising at least three independent non-executive Directors and having one independent non-executive Director with the appropriate professional qualifications and accounting and related financial management expertise.

The list of all Directors is set out under "Corporate Information" on page 2 of this annual report and all corporate communications issued by the Company from time to time pursuant to the Listing Rules. The independent non-executive Directors are expressly identified in all corporate communications pursuant to the Listing Rules.

The Company has received written annual confirmation from each independent non-executive Director of his independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive Directors to be independent in accordance with the independence guidelines set out in the Listing Rules.

The non-executive Directors bring a wide range of business and financial expertise, experience and independent judgment to the Board. Through active participation in Board meetings, taking the lead in managing issues involving potential conflicts of interest and serving on Board committees, all non-executive Directors have made various contributions to the effective direction of the Company.

Appointment, Re-election and Removal of Directors

The procedures and process of appointment, re-election and removal of Directors are laid down in the Company's articles of association. The Nomination Committee as a whole is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of Directors, monitoring the appointment and succession planning of Directors and assessing the independence of independent non-executive Directors.

Each of the executive Directors is engaged on a service contract for a term of three years. The appointment may be terminated by not less than three months' written notice or payment in lieu of such notice.

Each of the independent non-executive Directors has entered into a service contract with the Company for a specific term of three years and is subject to retirement by rotation once every three years. And they should be re-appointed at any annual general meeting of the Company during their term of office. The appointment may be terminated by not less than three month's written notice or payment in lieu of such notice.

In accordance with the Company's articles of association which were amended by a written resolution dated 26 May 2008, all Directors of the Company are subject to retirement by rotation at least once every three years and any new director appointed to fill a causal vacancy or as an addition to the Board shall submit himself/herself for re-election by shareholders at the first general meeting or the first annual general meeting respectively after appointment.

The Nomination Committee reviews the structure, size and composition (including the skills, knowledge and experience) of the Board regularly to ensure that the Board has a balance of expertise, skills and experience appropriate for the requirements of the business of the Company.

Where vacancies on the Board exist, the Nomination Committee will carry out the selection process by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of the proposed candidates, the Company's needs and other relevant statutory requirements and regulations. An external recruitment agency may be engaged to carry out the recruitment and selection process where necessary. The recommendations of the Nomination Committee are then put to the full Board for decision.

The Nomination Committee recommended the re-appointment of the Directors Ms. Wu Shihong and Mr. Song Ke standing for re-election at the next forthcoming annual general meeting of the Company. The Company's circular dated 17 April 2016 contains detailed information of the directors standing for re-election.

Induction and Continuous Professional Development for Directors

Each newly appointed Director receives formal, tailored and comprehensive induction on the first occasion of his/her appointment, he/she will get a package setting out the duties and responsibilities of director under the Listing Rules, the Companies Ordinance and other related ordinances and relevant regulatory requirements of Hong Kong, including the Guidelines for Directors issued by the Hong Kong Companies Registry and the Hong Kong Institute of Directors, supported by lawyers explanation, so that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements. Meantime, he/she will have chance to communicate with executive directors as to ensure that he/she has appropriate understanding of the business and operations of the Company.

Development and training of Directors is an ongoing process. During the year, the Company Secretary unregularly circulates details of training courses which may be of interest to Directors. All Directors are encouraged to attend relevant training courses with appropriate emphasis on the roles, functions and duties of the Directors, at the Company's expense; the Company Secretary also occasionally send relative laws, regulations and latest cases to directors in order to assist the directors to perform their duties appropriately; the Company encourages the Directors to participate in continuing professional development training, the Company Secretary assists them to handle the relevant formalities, and the Company would bear all the relevant costs; the Company Secretary assists the directors in making continuing professional development training program.

The Company has received written confirmations from all of the Directors on their training records for the year ended 31 December 2015.

According to the aforementioned records, a summary of the training received by the Directors is set out as follows:–

Name of Directors	**Reading regulatory updates**	**Attending or participating briefings/seminars/ conferences/workshops relevant to the Company's businesses and directors' duties**
Executive Directors		
Mr. Liu Xiaosong	✓	✓
Mr. Liu Pun Leung	✓	✓
Independent non-executive Directors		
Mr. Chan Yiu Kwong	✓	✓
Ms. Wu Shihong	✓	✓
Mr. Song Ke	✓	✓

Board Meetings

Code provision A.1.1 prescribes that at least 4 regular Board meetings should be held in each year at approximately quarterly intervals with active participation of majority of Directors, either in person or through other electronic means of communication.

During the year ended 31 December 2015, seven Board meetings were held for reviewing and approving the financial and operating performance, grant of the share options, allot and issue the Subscription Shares under the Specific Mandate, and re-designate the property investment as one of the principal business activities of the Company. The attendance records of each Director at the Board meetings for the year ended 31 December 2015 are set out below:

Name of Directors	Number of Meetings and Directors' Attendance
Executive Directors	
Mr. Liu Xiaosong *(Chairman)*	7/7
Mr. Liu Pun Leung	7/7
Independent non-executive Directors	
Mr. Chan Yiu Kwong	7/7
Ms. Wu Shihong	7/7
Mr. Song Ke	7/7

Apart from the above mentioned regular Board meetings, a meeting between the Chairman and the non-executive Directors (including independent non-executive Directors) without the presence of executive Directors was also held during the year. The attendance rate of this meeting was 100%.

General Meetings

During the year ended 31 December 2015, two general meetings were held by the Company. The Chairman of the Board, Chairman of the Audit Committee and Chairman of the Remuneration Committee attended the annual general meeting in 21 May 2015, and were available to answer questions. The attendance records of each Director at the general meetings are set out below:

Members of the Board	Attendance
Executive Directors	
Liu Xiaosong *(Chairman of the Board)*	2/2
Mr. Liu Pun Leung	2/2
Independent Non-executive Directors	
Chan Yiu Kwong	2/2
Wu Shihong	0/2
Song Ke	0/2

Practices and Conduct of Meetings

Annual meeting schedules and draft agenda of each meeting are normally made available to Directors in advance. Notices of regular Board meetings are served to all Directors at least 14 days before the meetings. For other Board and committee meetings, reasonable notice is generally given.

Board papers together with all appropriate, complete and reliable information are sent to all Directors at least 3 days before each Board meeting or committee meeting to keep the Directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each Director also have separate and independent access to the senior management whenever necessary.

The senior management attend, where necessary, Board and committee meetings to advise on business developments, financial and accounting matters, statutory compliance, corporate governance and other major aspects of the Company.

Directors are normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board.

The Company Secretary is responsible to take and keep minutes of all Board meetings and committee meetings. Draft minutes are normally circulated to Directors for comment within a reasonable time after each meeting and the final version is open for Directors' inspection.

According to current Board practice, any material transaction, which involves a conflict of interest for a substantial shareholder or a Director, will be considered and dealt with by the Board at a duly convened Board meeting. The Company's articles of association contain provisions requiring Directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Directors or any of their associates have a material interest.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code provision A.2.1 in the CG Code stipulates that the roles of Chairman and CEO should be separate and should not be performed by the same individual. In the year ended 31 December 2015, the chairman and chief executive officer of the Company are both held by Mr. Liu Xiaosong, the Company did not comply with code provision A.2.1. Considering Mr. Liu Xiaosong has diversified experience in the technology, media and telecommunication industry and has been being responsible for overall management and strategic planning of the Group, the Board considered that Mr. Liu is able to lead the Board in making business decision for the Group. Therefore, Mr. Liu has had the dual roles of the Chairman and CEO of the Company despite deviation from code provision A.2.1 during the year ended 31 December 2015.

BOARD COMMITTEES

The Board has established three committees, namely, the Remuneration Committee, Audit Committee and Nomination Committee for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are posted on the website of the Stock Exchange www.hkexnews.hk and the Company's website www.a8.com and www.a8nmg.com.

The Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expense.

Remuneration Committee

The Remuneration Committee comprises 3 members, namely Ms. Wu Shihong (Chairman, independent non-executive Director), Mr. Liu Xiaosong (executive Director) and Mr. Song Ke (independent non-executive Director). The majority of them are independent non-executive Directors.

The primary objectives of the Remuneration Committee include:

- To make recommendations to the Board on the establishment of procedures for developing remuneration policy and structure for all Directors and the senior management;

- To determine and approve, with delegated responsibility, the remuneration packages of individual executive Directors and the senior management; and

- To make recommendations on the remuneration of the non-executive Directors by reference to the market practice and conditions as well as the time commitment and responsibilities devoted by the individual non-executive Directors.

The Human Resources Department is responsible for collection and administration of the human resources data and making recommendations to the Remuneration Committee for consideration.

For the year ended 31 December 2015, two meetings were held by the Remuneration Committee for considering and reviewing all Directors' and senior management remuneration with reference to the Group's and individual performance, grant of the share options. The attendance records of the Remuneration Committee are set out below:

Members of the Audit Committee	Attendance
Wu Shihong *(Chairman of the Remuneration Committee and Independent Non-executive Director)*	2/2
Liu Xiaosong	2/2
Song Ke	2/2

Audit Committee

The Audit Committee comprises three independent non-executive Directors, namely Mr. Chan Yiu Kwong (Chairman, independent non-executive Director), Ms. Wu Shihong (independent non-executive Director), and Mr. Song Ke (independent non-executive Director), which comprises one independent non-executive Director with the appropriate professional qualifications and accounting and related financial management expertise. None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

In accordance with the requirements of the CG Code, the terms of reference of the Audit Committee were revised from time to time in terms substantially the same as the provisions set out in the CG Code. The latest version of the terms of reference of the Audit Committee is available on the websites of the Company and HKEx. The principal duties of the Audit Committee include the review and supervision of the Group's financial reporting system and internal control procedures, review of the Group's financial information and review of the relationship with the external auditor of the Company. Regular meetings have been held by the Audit Committee since its establishment.

The main duties of the Audit Committee include the following:

- To review the financial statements and reports and consider any significant or unusual items raised by the staff responsible for the accounting and financial reporting function, compliance officer, internal auditor or external auditors before submission to the Board.

- To review the fees and terms of engagement of the external auditors by reference to the work performed by the auditors and make recommendation to the Board on the appointment, re-appointment and removal of external auditors.

- To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

For the year ended 31 December 2015, three meetings were held by the Audit Committee for considering and reviewing the financial results and reports, financial reporting and compliance procedures and the re-appointment of the external auditors. The external auditors were invited to attend the meetings to discuss with the Audit Committee issues arising from the audit and financial reporting matters.

The attendance records of the Audit Committee are set out below:

Members of the Audit Committee	**Attendance**
Chan Yiu Kwong *(Chairman of the Audit Committee and Independent Non-executive Director)*	3/3
Wu Shihong	3/3
Song Ke	3/3

The Company's annual results for the year ended 31 December 2015 have been reviewed by the Audit Committee.

Nomination Committee

The Nomination Committee comprises 3 members, namely Mr. Liu Xiaosong (Chairman, executive Director), Ms. Wu Shihong (independent non-executive Director) and Mr. Song Ke (independent non-executive Director). The majority of them are independent non-executive Directors.

The primary objectives of the Nomination Committee include:

- To review the structure, size and composition (including the skills, knowledge and experience) of the Board and make recommendations on any proposed changes to the Board to implement the Company's corporate strategy;
- To identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;
- To assess the independence of independent non-executive Directors; and
- To make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the Chairman and the chief executive.

During the reporting period, one meetings was held by the Nomination Committee, to review the structure, size and composition (including the skills, knowledge and experience) of the Board, assess the independence of independent non-executive Directors, recommend the Directors stand for re-election at the forth coming annual general meeting of the Company, etc.

The attendance record of such meeting is set out below:

Members of the Nomination Committee	**Attendance**
Liu Xiaosong *(Chairman of the Nomination Committee)*	1/1
Wu Shihong	1/1
Song Ke	1/1

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted its Own Code on terms no less exacting than the Model Code.

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Own Code and the Model Code throughout the year ended 31 December 2015.

The Company has also established written guidelines on no less exacting terms than the Model Code (the "Employees Written Guidelines") for securities transactions by employees who are likely to be in possession of inside information of the Company.

No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2015.

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements.

The senior management has provided such explanation and information to the Board as necessary to enable the Board to carry out an informed assessment of the financial and other information and position of the Company put to the Board for approval.

EXTERNAL AUDITORS AND AUDITORS' REMUNERATION

The statement of the external auditors of the Company about their reporting responsibilities for the financial statements is set out in the "Independent Auditors' Report" on page 46.

During the year ended 31 December 2015, the remuneration paid to the Company's external auditors, Ernst & Young, is set out below:

Category of services	**Fee paid/ payable** (RMB'000)
Audit services	1,530
Non-audit services	
– other services	209
Total	1,739

INTERNAL CONTROLS

During the year under review, the Board, through the Audit Committee, has conducted a review of the effectiveness of the internal control system of the Group including the efficiency of business operation, financial management and risk management of operating flow, etc.

The Company has developed its systems of internal control and risk management and will continue to review and assess procedures for their effectiveness.

The Audit Committee provides supervision of the internal control system of the Group, reports to the Board on any material issues and makes recommendations.

The internal control system of the Group is designed to facilitate effective and efficient operations, to ensure reliability of financial reporting and compliance with applicable laws and regulations, to identify and manage potential risks, and to safeguard assets of the Group. The internal audit department reviews and evaluates the control process, monitors any risk factors on a regular basis, and reports to the Audit Committee on any findings and measures to address variances and identified risks.

The key elements of the Group's internal control system include the following:

- The organisational structure is clearly defined with distinct lines of authority and control responsibilities.

- A comprehensive financial accounting system has been established to provide indicators for performance measurement and to ensure compliance with relevant rules.

- Plans for financial reporting, operations and compliance with reference to potential significant risks are prepared annually by the senior management.

- Unauthorised expenditures and release of confidential information are strictly prohibited.

- Proper policy is in place to ensure the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programmers and budget.

- The control process and risk factors are reviewed, evaluated, and monitored on a regular basis so that any findings and measures to address the variances and identified risks could be reported to the Audit Committee.

During the year under review, the Company engaged internal audit department to review and check internal control regularly and systematically. Report from internal audit department were presented to and reviewed by the Audit Committee.

SHAREHOLDER RIGHTS

Procedures for shareholders to convene EGM

Pursuant to Article 58 of the Articles, any one or more Shareholder holding at the date of deposit of the requisition not less than one-tenth (1/10) of the paid-up capital of the Company carrying the right of voting at the general meetings shall at all times have the right, by written requisition (the "Requisition", and for the Shareholder concerned, the "Requisitionist") to the Board or the Company, to require an EGM to be called by the Board for the transaction of any business specified in such requisition.

The Requisition must state the objects of the meeting, contain the full name(s) of the Requisitionist(s), his/her/their contact details and identification, be signed by the Requisitionist and be deposited at Suites 06-12, 33/F., Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong, the Company's principal place of business in Hong Kong, for the attention of the Company Secretary.

An EGM shall be held within two (2) months after the deposit of such Requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting, the Requisitionist(s) himself/herself (themselves) may do so in the same manner, and all reasonable expenses incurred by the Requisitionist(s) as a result of the failure of the Board shall be reimbursed to the Requisitionist(s) by the Company.

Procedures for Shareholders to put forward enquiries to the Board or put forward proposals at general meetings

To put forward enquiries to the Board, the Shareholders may either contact the Company Secretary through email at ir@a8.com, or submit a written notice of their enquiries with their detailed contact information to the Company Secretary at Suites 06-12, 33/F., Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong, the Company's principal place of business in Hong Kong, or directly raise questions at general meetings.

Procedures for Shareholders to propose a person for election as a Director

As regards the procedure for Shareholders to propose a person for election as a Director, Shareholders are requested to follow the requirements and procedures as set out in the Corporate Governance Section of the Company's website.

Voting by poll

To safeguard shareholder interests and rights, separate resolutions are proposed at shareholder meetings on each substantial issue, including the election of individual Directors.

All resolutions put forward at a shareholder meeting will be taken by poll pursuant to the Listing Rules and the poll results will be posted on the websites of the Company and of the Stock Exchange after the shareholder meeting.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Group pays much attention to maintaining good relationships with Shareholders and investors. The Group has set up a specialized department to deal with investor relationships affairs. We try to achieve two-way communication with Shareholders, investors and media through consistent, timely and transparent disclosure of information.

The Group strictly adheres to non-selective disclosure guidelines to ensure that communications with Shareholders, investors and the media are open and fair. No material, non-public information is made available to any individual on a selective basis. The Group experienced difficulties and faced various challenges during the past two years but we kept the consistent communication with the market through publishing results announcement and reports, holding investors conferences, arranging meetings with investors in person or via conference calls, participating in various investor forums, distributing press release etc. to provide necessary information to form their own judgments and provided feedback to management in order to improve operations and corporate governance of the Group.

Meanwhile, the Group continues to update the contents including business information, financial information, announcements, corporate governance etc. stated on the website of www.a8.com and www.a8nmg.com to improve transparency. The public can communicate with the Group through online communication column, phone call and ir's mailbox which are handled and replied by professional IR employees.

The general meetings of the Company provide a good opportunity for communication between the Board and the Shareholders. The Company considers the AGM as an important event and all Directors make efforts to attend. The Chairman of the Board as well as the chairman of each Board Committees will be available to communicate with the Shareholders face to face. A representative (usually the partner) of the external auditor also attends the AGM and will take questions from Shareholders relating to their audit of the Company's financial statements.

The Company understands that increasing transparency in capital market participants will improve corporate governance and be beneficial to the long-term development of the Company. The Company welcomes investors and Shareholders to share opinions and suggestions for the development of the Company to the Company's investor relation team via email or telephone.

23/F, A8 Music Building, No.1002 Keyuan Road,
Hi-tech Park, Nanshan District, Shenzhen, PRC.
Telephone: +86 755 3332 6316 Email: ir@a8.com
Website: www.a8nmg.com/www.a8.com

Company Secretary

During the year ended 31 December 2015, Mr. Liu Pun Leung (who is also an executive director and the Chief Financial Officer of the Company) and Ms. Gao Keying ("Ms. Gao", who is an employee of the Company) act as joint Company Secretaries for the Company.

The Directors all have access to the Company Secretaries who are responsible for ensuring that Board procedures, and all applicable law, rules and regulations are properly followed. The Company Secretaries also keep fully updating the Board with all legislative, regulatory and corporate governance developments.

During the year under review, both Mr. Liu Pun Leung and Ms. Gao have taken over 15 hours of relevant professional training to refresh their skills and knowledge.

Constitutional Documents

During the year under review, there was no change to the Articles of Association of the Company. A copy of the latest consolidated version of it is available on the websites of the Company and the Stock Exchange.

Independent Auditors' Report

EY 安永

To the shareholders of A8 New Media Group Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of A8 New Media Group Limited (the "Company") and its subsidiaries set out on pages 47 to 126, which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and its subsidiaries as at 31 December 2015, and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong
23 March 2016

Consolidated Statement of Profit or Loss

Year ended 31 December 2015

	Notes	2015 RMB'000	2014 RMB'000 (Restated)
REVENUE, net of business tax	6	**145,578**	229,738
Cost of services provided		**(99,841)**	(165,365)
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	**(1,733)**	(448)
PROFIT BEFORE TAX	7	**32,069**	43,016
Income tax expense	9	**(10,394)**	(33,363)
PROFIT FOR THE YEAR		**21,675**	9,653
Attributable to:			
Owners of the Company		**22,006**	10,758
Non-controlling interests		**(331)**	(1,105)
		21,675	9,653
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	11		
Basic (RMB per share)		**1.3 cents**	0.8 cents
Diluted (RMB per share)		**1.3 cents**	0.8 cents

Consolidated Statement of Comprehensive Income

Year ended 31 December 2015

	2015 RMB'000	2014 RMB'000
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	**8,475**	(1,655)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**30,150**	7,998
Attributable to:		
Owners of the Company	**30,481**	9,103
Non-controlling interests	**(331)**	(1,105)
	30,150	7,998

Consolidated Statement of Financial Position

31 December 2015

	Notes	2015 RMB'000	2014 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	148,413	150,049
Investment properties	13	349,000	310,000
Prepaid land lease payments	14	13,516	13,839
Goodwill	15	–	1,515
Prepayment for acquisition of items of property, plant and equipment		–	1,904
Intangible assets	16	15,831	22,433
Investments in associates	17	27,229	–
Investments in joint ventures	18	31,353	26,208
Available-for-sale investments	19	46,994	6,000
Deferred tax assets	26	4,136	2,294
Conversion option embedded in preferred shares	27	6,309	9,242
Debt portion of convertible notes	28	–	30,004
Conversion option embedded in convertible notes	28	–	32,176
Deposit for acquisition of an investment		–	3,000
Total non-current assets		642,781	608,664
CURRENT ASSETS			
Trade receivables	20	23,121	32,216
Prepayments, deposits and other receivables	21	114,855	14,260
Financial assets at fair value through profit or loss	22	342	443
Restricted cash balances	23	66,990	3,885
Cash and cash equivalents	23	429,745	316,458
Total current assets		635,053	367,262
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		17,267	8,758
Total current liabilities		163,906	122,493
NET CURRENT ASSETS		471,147	244,769
TOTAL ASSETS LESS CURRENT LIABILITIES		1,113,928	853,433
NON-CURRENT LIABILITIES			
Deferred tax liabilities	26	55,110	45,360
Deferred income		9,475	9,662
Total non-current liabilities		64,585	55,022
Net assets		1,049,343	798,411

Consolidated Statement of Financial Position (continued)

31 December 2015

	Notes	2015 RMB'000	2014 RMB'000
EQUITY			
Equity attributable to owners of the Company			
Issued capital	29	15,123	11,914
Reserves	32	1,034,917	786,863
		1,050,040	798,777
Non-controlling interests		(697)	(366)
Total equity		1,049,343	798,411

Liu Xiaosong
Director

Liu Pun Leung
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2015

	Attributable to owners of the Company													
	Issued capital RMB'000 (note 29)	Share premium account RMB'000 (note 29)	Shares held under share award scheme RMB'000 (note 31)	Merger reserve RMB'000 (note 32)	Surplus contributions RMB'000 (note 32)	Employee share-based compensation reserve RMB'000	Exchange fluctuation reserve RMB'000	Capital reserve RMB'000	Statutory reserve funds RMB'000 (note 32)	Reserve fund RMB'000 (note 32)	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
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

Consolidated Statement of Changes in Equity (continued)

Year ended 31 December 2015

	Attributable to owners of the Company													
	Issued capital RMB'000 (note 29)	Share premium account RMB'000 (note 29)	Shares held under share award scheme RMB'000 (note 31)	Merger reserve RMB'000 (note 32)	Surplus contributions RMB'000 (note 32)	Employee share-based compensation reserve RMB'000	Exchange fluctuation reserve RMB'000	Capital reserve RMB'000	Statutory reserve funds RMB'000 (note 32)	Reserve fund RMB'000 (note 32)	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity 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 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

	Notes	2015 RMB'000	2014 RMB'000
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)	–
		(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		8,322	(2,150)
Cash (used in)/generated from operations		(11,868)	7,327
Tax paid		(1,519)	(391)
Net cash flows (used in)/from operating activities		(13,387)	6,936

Consolidated Statement of Cash Flows (continued)

Year ended 31 December 2015

	Notes	2015 RMB'000	2014 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of available-for-sale investments		(27,592)	(6,000)
Additions to investment properties	13	–	(11,879)
Additions to prepaid land lease payments	14	–	(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		(63,105)	12,591
Net cash flows used in investing activities		(97,319)	(138,094)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from placement of shares	29(b), (c)	218,759	–
Proceeds from issue of shares		301	–
Share issues expenses		(3,542)	–
Capital contribution from non-controlling shareholders		–	320
Net cash flows from financing activities		215,518	320
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		8,475	(1,861)
CASH AND CASH EQUIVALENTS AT END OF YEAR		429,745	316,458
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	23	222,731	48,436
Cash and cash equivalents as stated in the consolidated statement of financial position and the consolidated statement of cash flows		429,745	316,458

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 Direct	Indirect	Principal activities
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
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

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

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

Company name	Place of incorporation/ establishment	Issued ordinary/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
深圳市快通聯科技有限公司 Shenzhen Kuaitonglian Technology Co., Ltd. ("Kuaitonglian") (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
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

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

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

Company name	Place of incorporation/ establishment	Issued ordinary/ registered capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
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
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
茂御有限公司 Phoenix Success Limited ("Phoenix Success")	Hong Kong	HK$1 Issued capital	100	–	Investment holding
北京悦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
深圳市指游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.

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

(a) (continued)

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.

2. BASIS OF PREPARATION (continued)

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

3.2 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

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.

3.2 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

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.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

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.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

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.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

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.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill) (continued)

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.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

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.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Available-for-sale financial investments (continued)

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.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

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.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Game publishing services (continued)

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.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Music-related services (continued)

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.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

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 Opinion 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.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

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.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

(i) Judgements (continued)

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	**10,903**	51,942	**34,834**	12,431	**45,737**	64,373
Segment results	**(17,693)**	(24,830)	**75,599**	99,752	**57,906**	74,922
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					**21,675**	9,653

5. OPERATING SEGMENT INFORMATION (continued)

For the year ended 31 December (continued)

	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)
Other segment information						
Depreciation and amortisation						
– operating segments	**12,607**	10,739	**–**	–	**12,607**	10,739
– corporate					**4,276**	2,026
					16,883	12,765
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
					4,399	3,860
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 RMB'000	2014 RMB'000 (Restated)
Revenue		
Digital entertainment		
Game-related revenue	79,401	133,736
Music-based entertainment	16,583	71,881
Sub-total	95,984	205,617
Property investment		
Rental and management fee income	52,371	26,268
	148,355	231,885
Less: Business tax	(2,777)	(2,147)
Net revenue	145,578	229,738
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
	125,592	109,090

7. PROFIT BEFORE TAX

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

	Notes	2015 RMB'000	2014 RMB'000
Depreciation	12	**6,969**	3,159
Amortisation of intangible assets	16	**9,592**	9,288
Amortisation of prepaid land lease payments#	14	**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 (note 8)):			
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
		36,331	39,876
(Write-back of impairment)/impairment of trade receivables**	20	**(1,615)**	683
Write-off of trade receivables**		**–**	67
Impairment of prepayments**	21	**8,513**	2,019
Write-back of impairment of other receivables**	21	**–**	(1,430)
Impairment of intangible assets*	16	**10,451**	2,762
Write-off of an intangible asset*	16	**1,009**	–
Impairment of goodwill**	15	**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)

7. PROFIT BEFORE TAX (continued)

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 RMB'000	2014 RMB'000
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.

8. DIRECTORS' REMUNERATION AND THE FIVE HIGHEST PAID INDIVIDUALS (continued)

(a) *Directors' remuneration (continued)*

(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**
	289	**141**	**430**
2014			
Independent non-executive directors:			
Mr. Chan Yiu Kwong	143	47	190
Mr. Song Ke	71	47	118
Ms. Wu Shihong	71	47	118
	285	141	426

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

8. DIRECTORS' REMUNERATION AND THE FIVE HIGHEST PAID INDIVIDUALS (continued)

(a) Directors' remuneration (continued)

(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**
	–	**1,107**	**211**	**2,089**	**74**	**3,481**
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.

8. DIRECTORS' REMUNERATION AND THE FIVE HIGHEST PAID INDIVIDUALS (continued)

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

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

9. INCOME TAX EXPENSE (continued)

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	**32,069**		43,016	
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	**8,911**	**27.8**	4,336	10.1
Tax charge at the Group's effective rate	**10,394**	**32.4**	33,363	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 RMB'000	Computer equipment RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Leasehold improve-ments RMB'000	Construction in progress RMB'000	Total RMB'000
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	135,489	2,604	7,412	–	157	4,387	150,049
At 1 January 2015, net of accumulated 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	127,829	6,224	6,888	–	7,472	–	148,413
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	127,829	6,224	6,888	–	7,472	–	148,413

12. PROPERTY, PLANT AND EQUIPMENT (continued)

	Building RMB'000	Computer equipment RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Leasehold improve-ments RMB'000	Construction in progress RMB'000	Total RMB'000
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 RMB'000	Under construction RMB'000	Total RMB'000
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.

13. INVESTMENT PROPERTIES (continued)

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) RMB'000	**Significant observable inputs (Level 2) RMB'000**	**Significant unobservable inputs (Level 3) RMB'000**	**Total RMB'000**
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) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
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).

13. INVESTMENT PROPERTIES (continued)

Fair value hierarchy (continued)

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

	Completed RMB'000	Under construction RMB'000	Total RMB'000
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

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

15. GOODWILL

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

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 RMB'000	Music copyrights RMB'000	Mobile game licences RMB'000	Total RMB'000
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 (Note)	**–**	**–**	**(10,451)**	**(10,451)**
At 31 December 2015	**1,077**	**38**	**14,716**	**15,831**
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	**1,077**	**38**	**14,716**	**15,831**
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 (Note)	–	–	(2,762)	(2,762)
At 31 December 2014	1,448	1,149	19,836	22,433
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	1,448	1,149	19,836	22,433

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).

Notes to Financial Statements

31 December 2015

17. INVESTMENTS IN ASSOCIATES

	2015 RMB'000	2014 RMB'000
Share of net assets	**4,395**	190
Goodwill on acquisition	**22,834**	2,642
	27,229	2,832
Impairment (Note)	**–**	(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 RMB'000	2014 RMB'000
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 RMB'000	2014 RMB'000
Share of net assets	**9,997**	5,736
Goodwill on acquisition	**22,621**	23,843
	32,618	29,579
Impairment (Note)	**(1,265)**	(3,371)
	31,353	26,208

18. INVESTMENTS IN JOINT VENTURES (continued)

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 RMB'000	2014 RMB'000
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	31,353	26,208

19. AVAILABLE-FOR-SALE INVESTMENTS

	2015 RMB'000	2014 RMB'000
Unlisted equity investments, at cost	46,994	6,000

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 RMB'000	2014 RMB'000
Trade receivables	24,135	35,069
Impairment	(1,014)	(2,853)
	23,121	32,216

20. TRADE RECEIVABLES (continued)

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 RMB'000	2014 RMB'000
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
	10,729	10,968
Unbilled	12,392	21,248
	23,121	32,216

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

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

20. TRADE RECEIVABLES (continued)

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 RMB'000	2014 RMB'000
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
	10,729	10,968

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

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (continued)

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

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 RMB'000	2014 RMB'000
Listed equity investments, at fair value	**342**	443

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

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 RMB'000	2014 RMB'000
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
	29,305	35,391

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 RMB'000	2014 RMB'000
Other payables	**92,975**	47,102
Accruals	**15,989**	23,427
Receipt in advance	**599**	1,011
	109,563	71,540

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

Deferred tax liabilities

	Transfer of profit derived from contractual agreements RMB'000	Fair value adjustments arising from acquisition of subsidiaries RMB'000	Gain on investments at fair value through profit or loss RMB'000	Revaluation of investment properties RMB'000	Total RMB'000
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	(813)	–	(177)	(54,120)	(55,110)

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.

26. DEFERRED TAX (continued)

Deferred tax liabilities (continued)

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).

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

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 RMB'000
31 December 2015		
PS combined factors	10	289
PS combined factors	(10)	(233)
31 December 2014		
PS combined factors	10	778
PS combined factors	(10)	(845)

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

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.

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

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)

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	**26,513**	26,513
Issued and fully paid:		
1,835,192,628 (2014: 1,428,847,128) ordinary shares of HK$0.01 each	**15,123**	11,914

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		1,835,192,628	18,352	806,797	15,123	663,208	678,331

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.

30. SHARE OPTION SCHEMES (continued)

(a) *Share option scheme (continued)*

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

	2015 Weighted average exercise price HK$ per share	2015 Number of options '000	2014 Weighted average exercise price HK$ per share	2014 Number of options '000
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**	**49,779**	0.83	47,204

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 '000	Exercise price* HK$ per share	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
49,779		

30. SHARE OPTION SCHEMES (continued)

(a) Share option scheme (continued)

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
47,204		

* 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)	1.04	0.65–0.69

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.

30. SHARE OPTION SCHEMES (continued)

(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.

31. SHARE AWARD SCHEME (continued)

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

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

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

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 RMB'000	2014 RMB'000
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 RMB'000	2014 RMB'000
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 RMB'000	2014 RMB'000
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 RMB'000	2014 RMB'000
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
Total compensation paid to key management personnel	6,054	5,633

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) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Financial assets at fair value through profit or loss	**342**	**–**	**–**	**342**
Conversion option embedded in preferred shares	**–**	**–**	**6,309**	**6,309**
	342	**–**	**6,309**	**6,651**

As at 31 December 2014

	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
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
	443	–	41,418	41,861

37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy (continued)

Assets measured at fair value (continued)

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

	Conversion option embedded in preferred shares RMB'000	**Conversion option embedded in convertible notes** RMB'000
At 1 January 2014	13,015	30,393
Fair value (loss)/gain on conversion option	(3,773)	1,783
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	–	(20,425)
At 31 December 2015	6,309	–

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.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(a) Credit risk (continued)

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

(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.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(c) Capital management (continued)

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

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 RMB'000	2014 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	111,165	107,432
Total non-current assets	111,165	107,432
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	578,662	381,253
CURRENT LIABILITIES		
Other payables and accruals	2,589	1,957
Total current liabilities	2,589	1,957
NET CURRENT ASSETS	576,073	379,296
Net assets	687,238	486,728
EQUITY		
Issued capital	15,123	11,914
Reserves (note)	672,115	474,814
Total equity	687,238	486,728

41. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

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/ (accumulated losses) 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	672,137	(4,942)	8,969	4,320	22,436	(30,805)	672,115

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.