A8新媒体集团
A8 NEW MEDIA GROUP

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 00800

ANNUAL REPORT 2016


A8

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Corporate Information

EXECUTIVE DIRECTORS
Mr. Liu Xiaosong
Mr. Liu Pun Leung

INDEPENDENT NON-EXECUTIVE DIRECTORS
Mr. Chan Yiu Kwong
Ms. Wu Shihong
Mr. Li Feng

AUDIT COMMITTEE
Mr. Chan Yiu Kwong *(Chairman)*
Ms. Wu Shihong
Mr. Li Feng

NOMINATION COMMITTEE
Mr. Liu Xiaosong *(Chairman)*
Ms. Wu Shihong
Mr. Li Feng

REMUNERATION COMMITTEE
Ms. Wu Shihong *(Chairman)*
Mr. Liu Xiaosong
Mr. Li Feng

AUTHORISED REPRESENTATIVES
Mr. Liu Xiaosong
Mr. Liu Pun Leung

COMPANY SECRETARY
Mr. Liu Pun Leung

AUDITORS
Ernst & Young

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

REGISTERED OFFICE
Cricket Square
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Grand Cayman KY1-1111
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Shenzhen
Guangdong Province
The PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG
Suites 06-12, 33/F,
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BRANCH SHARE REGISTRAR AND TRANSFER OFFICE
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STOCK CODE
00800

Financial Summary and Highlights

CONSOLIDATED RESULTS

	Year ended 31 December				
	2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000	2012 RMB'000
Revenue	**148,468**	148,355	205,617	189,736	345,093
Profit/(loss) before tax	**31,862**	32,069	43,016	21,220	(26,684)
Income tax expense	**(7,722)**	(10,394)	(33,363)	(12,747)	(3,328)
Profit/(loss) for the year	**24,140**	21,675	9,653	8,473	(30,012)
Attributable to:					
Owners of the Company	**24,145**	22,006	10,758	9,820	(29,868)
Non-controlling interests	**(5)**	(331)	(1,105)	(1,347)	(144)
	24,140	21,675	9,653	8,473	(30,012)

CONSOLIDATED ASSETS, LIABILITIES AND EQUITY

	As of 31 December				
	2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000	2012 RMB'000
Total assets	**1,368,034**	1,277,834	975,926	935,353	709,839
Total liabilities	**(278,126)**	(228,491)	(177,515)	(149,467)	(194,573)
Non-controlling interests	**702**	697	366	1,241	(106)
	1,090,610	1,050,040	798,777	787,127	515,160

The consolidated results of A8 New Media Group Limited (the "Company") and its subsidiaries (together the "Group") for the year ended 31 December 2016 and the consolidated assets, liabilities and equity of the Group as at 31 December 2016 are those set out in the audited financial statements.

Chairman's Statement

BUSINESS REVIEW FOR 2016

In 2016, the Group continued to deeply cultivate the industries of music and game. Through the investment in the internet literature company to increase our Intellectual Property (IP) reserve, the Group has started the setting in the industry chain of pan-entertainment field. From 2011 to 2015, the core business of pan-entertainment field has experienced a lengthy upward trend, with aggregate production value increasing from RMB188.8 billion to RMB422.9 billion and CAGR up to 22.3%[1].

Among the pan-entertainment industry, mobile game industry is a segment with accelerating growth and strong realization. According to the China Mobile Games Industry Research Report 2016 published by iResearch, the mobile game industry in China is expected to maintain growth rate of 20.9% and 13.8% in 2017 and 2018, respectively.

According to the Scale Forecast of China's Music Market and Development Trend of the Industry in 2017 (《2017年中國音樂市場規模預測及行業發展趨勢》) published by the website of China Industries Development Research (中國產業發展研究網), the scale of the core music market, including physical records, digital music, concerts and Internet entertainment, amounted to RMB25.56 billion, and it is expected that the market scale will reach RMB76.28 billion in 2020, representing a CAGR of 25%.

At the present stage, the monthly number of users of Chinese online literature from both PC and mobile side is up to 141,000,000 and 148,000,000[2] respectively. According to the White Book on Digital Reading of China 2015 published by China Association of Audio & Video and Digital Publishing, the annual compound growth rate from 2011 to 2015 is 36%.

In 2016, for pan-entertainment field, the Group has achieved in game business with a stable development and launched "Live 4 LIVE" (「尖叫現場」), a music performance business and formulated our internet literature IP business. Meanwhile, the Guangdong National Music Industry Park – A8 Music Building business achieved a stable development.

Prime mobile games publishing platform

In 2016, the overall mobile game industry experienced tremendous changes. On 4 February 2016, The Provisions on the Administration of Online Publishing Services clarified that online games should be regulated as internet publications, "Online Publishing Service Licence" (《網絡出版服務許可證》), the English name is for identification purposes only, issued by related Publication admission department are required for internet game companies. With mandatory regulation that internet games should contain serial numbers in terms of policy aspect, that all internet game publishers are given 3-month lag period while publishing new products. This led to a slowdown in both publishing quantity and pace in the overall mobile game industry in 2016. In order to cater for the changes in both industry and policy, Finger Fun, a game publishing platform of the Company, has undergone comprehensive business integration in 2016.

1. Precise management

Following the increasing maturity in mobile game industry and users becoming more rational, the advertising level of infamous products in the channel for users has also shrunken away and become more dependent on marketing strategy apparently. For the bottom publishing framework of Finger Fun, Finger Fun has established massive fundamental construction and integration from the development of BI information analysis system, rational information prediction and estimation of inputs and outputs to connection of products and the environment. Currently, new BI System (Game data analysis system) of the Group facilitates the assessment of operational direction of products with higher efficiency and integrates recommendations, which allows our operation to cater for users'

Notes:

1. Source from China Pan-Entertainment Industry White Paper in 2017 issued by MIIT.

2. Source: iUser Tracker "Research of Online Literature of China in 2016"

needs and focus on production integration. A brand new information derivation model helps the marketing budgets become more scientific and revenue estimation more reasonable. This can further reduce the marketing budgets and stabilize our production revenue.

2. *Prime product strategies*

In 2016, "PaPa Three Kingdoms" (「啪啪三國」) on android platforms has been launched for three years. Eight version updates were introduced during the reporting period. New users are attracted by version update and recurring users with stable marketing, as well as greater exposure. Benefited from precise management and continued long-term publishing strategies, "PaPa Three Kingdoms" (「啪啪三國」) experienced unexpected operating results, with stable number of active users and payment information. Monthly turnover maintains a level of around RMB3 million after publishing for 3 years. Our capability of long-term product operation has also become one of the unique competitiveness of Finger Fun. The product strategic orientation of Finger Fun will be of fine quality, with emphasis on superior specific segment. Drawing experience from publishing products like "PaPa Three Kingdoms" (「啪啪三國」) and other cases, Finger Fun was able to evaluate our fine quality products from more dimensions.

In 2016, as the products were at lead time, the priority of the Group was steady development. The Group has received a number of awards, such as Mobile Game Billboard, Golden Mouth, Youding, Golden Apple and Golden Play in 2016.

Online and offline music industry chain

In 2016, Beijing Duomi Online Technology Co., Ltd ("Beijing Duomi") put a large effort on strengthening the operation of Beijing Duomi platform on one hand, the integration of online and offline music, while strengthening more than 4,000 fans groups have been entered into the "Oops" platform, with 90% coverage of mainstream fans groups in China and more than hundreds of prime fans groups active in the platform. The number of registered users has accumulated to more than 5 million, in which "Oops" platform has been one of the most influential fans platform in China.

On the other hand, the Group continued to reinforce the integration of online music and live music. Beijing Duomi started the musical performance business – Live 4 LIVE (「尖叫現場」), devoting to creating China's most valuable brand of live music performance. As a first scaled brand of musical performance, the Live 4 LIVE project plans to host 80 musical performances in 2017.

Moreover, in 2016, 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 by Beijing Duomi to facilitate the development of the Company's business. Beijing Duomi and Migu Music have established a comprehensive corporation in performance market. Leveraging the advantages of "Oops" platform and fans cohesion and feature of vertical users, a full range of synergies are made with Migu Music in various aspects such as performance promotion, advertising and ticket selling, with 50 performance shows jointly hosted.

Beijing Duomi has finally listed in the National Equities Exchange and Quotations System ("NEEQ") (stock abbreviation: 「多米股份」, stock code: 839256) on 31 October 2016, which became the first music-based stock of NEEQ in China. The listing allows to provide a better platform for financing for subsequent developments of Beijing Duomi.

Guangdong National Music Industry Park – A8 Music Building

National Music Industry Park – A8 Music Building is located at prime area of Nanshan District Shenzhen Bay area of Shenzhen, which is next to Shenzhen Software Industrial Park. It is close to Qianhai and Houhai with superior location. The total building area is more than 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 mid-2015. A8 Music Building has generated an overall income of RMB58.5 million in 2016, representing an increase of 11.7% as compared to that of the same period last year.

Furthermore, 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 cafe, professional studio, band rehearsal rooms and music education center. A8Live has held about 100 performance activities during 2016 with diversified activity styles such as artists or band performance, concerts, fans meeting, press releases, charitable activities and live broadcast, etc. Artists invited are becoming more international which include Andy Timmons, Grammy Master, Nightwish from Finland and a number of artists and bands from Hong Kong and Mainland China. Going onwards, celebrities having performances in 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.

Intellectual property reserve

The Group entered internet literature industry in 2016, which has good profit making business model, and can provide IP reserve from industry upstream for the game business of the Group. A foundation of pan entertainment industry of the Group was set, including IP reserve of the game business development of the Group. In May 2016, the Group acquired 35% equity interests in Beijing Zhangwen Information Technology Co., Ltd. ("Beijing Zhangwen") for a consideration of RMB192.5 million. Beijing Zhangwen is mainly engaged in the incubation and operations of IP and provision of online book reading with more than 60,000 exclusive original collections.

Issue of new shares

On 19 December 2016, the Company announced the issuance of 931,800,000 shares through Ever Novel Holdings Limited ("Ever Novel") and obtained gross proceeds amounted to approximately HK$382.0 million. The proceeds from the subscription is proposed to be used for further investments of the Group as and when appropriate, which provided adequate capital reserves for outward development of the Group.

BUSINESS OUTLOOK IN 2017

Currently, the national industrial policies have provided cultural strategies, such as supports, incentives and protection on pan-entertainment industry. Pan-entertainment industry has been under a rapid developing in 2015 and reach the golden age in the coming 20 years, and achieved gross output value of RMB415.5 billion in 2016. This number is expected to surpass RMB480 billion in 2017, with anticipated increase rate at more than 15%.[1] The Group has reserved a large number of music, literature and game resources in pan-entertainment area and starting from 2017, we will enter pan-entertainment industry and continue to develop our competitive IP. In 2017, the Group will focus on the following developments:

1. Continuously developing internet literature business with increasing number of premium literature resources as the foundation for our development of film and television projects. The Group will build its own film and television company in 2017, starting IP incubation for the new generations with the majority of the 90s.

Note 1: Source from China Pan-Entertainment Industry White Paper in 2017 issued by MIIT.

2. Continuously focusing on long-term prime product strategy and building publising platform for prime games, as well as the newly-incubated IP by the film and television company under the Group and arrangement of game development and publishing.

3. Strongly developing Live 4 LIVE, a performance IP for new generations that is performed by interaction and promotion between offline performance and online fans engagement. It is planned to organize more than 80 performance shows across the PRC and gradually build up an entertainment brand for the new generations.

4. Deeply cultivate the business model of culture industry park, Guangdong National Music Industry Park, to create more content brands.

5. Actively seeking pan-entertainment investment opportunities from aboard and in the PRC, to accelerate the development of the Company through external expansion.

In 2017, some major business segment strategies of the Group are as follows:

Prime games publishing platform

Following the popularity in 2014, mobile game market began its rational growth. Operating costs maintain an ongoing increase along with the research and development. We will deeper excavate users' values and upgrade game quality. Precise management has become the main development approach for mobile game publishers at the current stage. Finger Fun will continue to maintain the current segmented prime games publishing strategy, while exploring a new "Blue Ocean Area Prime product" approach for game industry. For market development, Finger Fun will adjust the cross-resource integration of the Group under the setting of pan-entertainment in future.

Strategies and setting in product level

1. Deep cultivation of IP customization

Leveraging the prime IP resources from Beijing Zhangwen, we will strive to seek appropriate developers to conduct a deep cultivation of IP customization approach. After the confirmation of prime and highly-efficient developers and entering into IP corporations, we are able to efficiently prevent IP hoarding and inappropriate IP development.

2. Fragmentation of precise products and Blue Ocean Area Lines

It has become more imminent and strong for the needs of precise products in the prevailing market. In line with the philosophy of "putting quality before quantity", as well as the preference of AB-typed product strategy, Finger Fun will control the quantity and increase the quality with efficiency. A-typed products are relatively scarce with higher quality according to game ranking standards. While making decision for A-typed products, the Company will also select a B-typed product for prevention of any vacancy slots.

For the aspect of product strategy, we maintain strategies of "fragmentation of precise products" and "Blue Ocean Area Lines", that "fragmentation of precise products" will be categorized with more detailed fragments as the starting point with various innovational aspects, including drawing style, aesthetic style and gameplay. "Blue Ocean Area Lines" are categorized with products of strong interaction in pan-gaming field and the sectors not yet accessed by other large developers as our "new product line for seizing the opportunities to accelerate the growth", for example, the segmentation of interaction and gaming in The Werewolves is not distinct, but it can be utilized as our new precise product line for growth accelerating currently, in order to achieve in advance which is not formulated by other game developers.

3. *Setting in resource level and integration strategies*

   Various resources of the Group, such as entertainment, literature IP and music, etc are capable of contributing stimulation and influences on publishing ecosystem in game publishing area. Entertainment resources can help generate more user number in business development of channeling resources, while literature IP can cultivate deep cooperations in aspect of research and development. And overall pan-entertainment resources can accelerate game promotion and publishing.

Online and offline music industry chain

For Beijing Duomi, efforts will be continued to devote to commencing the music performance business. It is planned to have over 80 serial music concerts held in 2017, to strive for building up the first brand of music performance in China. We will continue to reinforce the operations of "Oops" platform and Duomi Music platform while strengthening the commercial model of "Oops" fans economic platform with the connection of Duomi Music platform and "Oops" platform. We will strive to enter into a leading position in the industry with drivers of online music, offline performance, membership and fans economy. In the meantime, we will establish a deeper and more comprehensive corporation with Migu Culture in aspects of capital and business operation.

Guangdong National Music Industry Park – A8 Music Building

In 2017, the Group will continue to explore the performance business of "A8Live", enhance the brand promotion and strengthen our influence in the industry. A8Live is planned to launch cooperations with giant performance brands, such as Sony, Letv, HipHop Festival and iQiyi, and continue to introduce high-quality performances for enriching the performance contents. In 2017, A8Live is planned to increase the performance shows from 100 in 2016 to 120. Through upgrading the performance contents and increasing the numbers of performance shows, we can accelerate the revenue from performance shows.

In 2017, as the auxiliary facilities in the regions where the building is located are becoming mature, and the traffic is increasingly driven by the moving-in of a large number of renowned enterprises, it is expected that the further increase of rental income of the building 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

Revenue and profit attributable to owners of the Company

For the year ended 31 December 2016, the revenue of the Group (excluding business tax) amounted to approximately RMB148.5 million, remained at the same level as compared with 2015 (2015: approximately RMB148.4 million).

Digital entertainment services

For the year ended 31 December 2016, the revenue of digital entertainment services of the Group amounted to approximately RMB90.0 million, representing a decrease of approximately 6.3% as compared with 2015 (2015: approximately RMB96.0 million). The slight decrease was resulted from the further shrunken of the traditional wireless music-based entertainment services following the strategic transformation of the Company to dispose certain traditional wireless value-added business.

Property investment business

For the year ended 31 December 2016, the revenue of property investment business derived from the rental and management fee amounted to approximately RMB58.5 million, representing an increase of approximately 11.7% as compared with 2015 (2015: approximately RMB52.4 million). The increase was mainly due to the increase in occupancy rate and unit price resulted from the high quality property management service.

For the year ended 31 December 2016, the profit attributable to equity holders of the Company amounted to approximately RMB24.1 million (2015: approximately RMB22.0 million), representing an increase of approximately 9.7% as compared with 2015.

Cost of services provided

For the year ended 31 December 2016, cost of services provided by the Group amounted to approximately RMB81.4 million, representing a decrease of approximately 18.5% as compared with 2015 (2015: approximately RMB99.8 million).

Digital entertainment services

For the year ended 31 December 2016, the cost of services provided of digital entertainment services amounted to approximately RMB64.2 million, decreased by approximately 24.5% as compared with 2015 (2015: approximately RMB85.0 million). 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 60% of total digital entertainment services revenue received from mobile users and it averaged at approximately 48.6% for the year ended 31 December 2016 (2015: approximately 42.0%), while revenue shared with business alliances averaged at approximately 16.0% of total digital entertainment services revenue for the year ended 31 December 2016 (2015: approximately 24.0%).

Property investment business

For the year ended 31 December 2016, the cost of services provided of property investment business amounted to approximately RMB17.2 million, increased by approximately 15.6% as compared with 2015 (2015: approximately RMB14.8 million). It mainly comprises employees' compensation, utility charges and other maintenance costs in relation to the investment properties.

Gross profit

For the year ended 31 December 2016, the gross profit of the Group amounted to approximately RMB65.9 million, representing an increase of approximately 44.1% as compared with 2015 (2015: approximately RMB45.7 million). The overall gross margin ratio of the Group (which is calculated based on gross revenue divided by gross profit) was approximately 44.4%, as compared with approximately 30.8% for the year ended 31 December 2015. The increase of gross profit margin ratio was mainly resulted from the increase in contribution of digital entertainment services.

Other income and gains, net

For the year ended 31 December 2016, the other income and gains of the Group were approximately RMB33.9 million, representing a significant decrease of approximately 73.0% as compared with a net gain of approximately RMB125.6 million for the year ended 31 December 2015.

The decrease was mainly due to the decrease of gain on redemption of convertible notes, imputed interest income generated from the preferred shares and convertible notes and fair value gains on investment properties amounted to approximately RMB53.7 million, RMB19.6 million and RMB18.0 million, respectively.

Selling and marketing expenses

For the year ended 31 December 2016, the selling and marketing expenses of the Group amounted to approximately RMB13.8 million, representing a decrease of approximately 75.3% as compared with 2015 and approximately 15.3% of the digital entertainment services revenue (2015: approximately RMB55.9 million, representing approximately 58.3% of digital entertainment services revenue). The decrease in selling and marketing expenses and its ratio to the related revenue were mainly due to the decrease in marketing and promotion expenses amounted to approximately RMB38.4 million for the promotion activities for various mobile games.

Administrative expenses

For the year ended 31 December 2016, the administrative expenses of the Group amounted to approximately RMB31.6 million, representing a decrease of 21.7% as compared with 2015 (2015: approximately RMB40.4 million), which resulted from cost control activities carried out during the year.

Other expenses, net

For the year ended 31 December 2016, the other expenses, net of the Group amounted to approximately RMB80,000, representing a significant decrease of approximately 99.5% as compared with approximately RMB16.0 million in 2015. The decrease was mainly due to the decrease of fair value loss of conversion option embedded in preferred shares and convertible notes amounted to approximately RMB14.7 million.

Share of losses of associates

For the year ended 31 December 2016, the Group shared losses of associates amounted to approximately RMB16.0 million, representing a decrease of approximately 36.4% as compared with approximately RMB25.2 million in 2015, resulting from the decrease of shared losses of Beijing Duomi of approximately RMB16.8 million, which was partly offset by the increase of shared losses of other associates amounted to approximately RMB7.6 million in aggregate.

Income tax

For the year ended 31 December 2016, the income tax expenses of the Group amounted to approximately RMB7.7 million, representing a decrease of approximately 25.7% as compared with approximately RMB10.4 million in 2015, which was mainly due from the decrease of deferred tax liability related to the appreciation of investment properties.

The effective tax rate of the Group was 24.2% in 2016 (2015: approximately 32.4%). 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 2016.

Liquidity and Financial Resources

As at 31 December 2016, cash and bank balances and highly liquid short term assets of the Group including cash and cash equivalents, restricted cash, available-for-sale investments and investments at fair value through profit or loss amounted to approximately RMB489.6 million (2015: approximately RMB497.1 million). Among which, approximately RMB246.0 million, or approximately 50.2% was denominated in RMB.

As at 31 December 2016, the Group have short-term interest-bearing bank borrowings amounted to approximately RMB26.9 million in aggregate, and the gearing ratio which is measured by the net borrowings over the total assets is 2.0%.

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 2016, the Group did not have any derivatives for hedging against both the interest and exchange rate risks.

Non-current Assets

As at 31 December 2016, the total non-current assets of the Group amounted to approximately RMB661.7 million (2015: approximately RMB642.8 million). The increase was mainly due to the increase of fair value of investment properties of A8 Music Building and increase of available-for-sale investments, which amounted to approximately RMB21.0 million and RMB14.0 million, respectively, which were partly offset by the decrease of investment in joint ventures, intangible assets and conversion option embedded in preference shares of approximately RMB8.4 million, RMB7.3 million and RMB6.3 million, respectively.

Current Assets and Current Liabilities

As at 31 December 2016, the total current assets of the Group amounted to approximately RMB706.4 million (2015: approximately RMB635.1 million). The increase was mainly due to the increase of non-current asset held for sale which related to the 35% equity interests in Beijing Zhangwen amounted to approximately RMB192.6 million, which was partly offset by the decrease of prepayments, deposits and other receivables amounted to approximately RMB99.3 million resulted from the recovery of the principal and interest of convertible notes of Duomi Music. Trade receivables amounted to approximately RMB8.6 million (2015: approximately RMB23.1 million), and the turnover days of trade receivables was approximately 39 days (2015: approximately 67 days).

As at 31 December 2016, the total current liabilities of the Group amounted to approximately RMB194.2 million (2015: approximately RMB163.9 million). The increase was mainly due to the increase of interest-bearing bank borrowings and other payables and accruals amounted to approximately RMB26.9 million and RMB20.4 million, respectively, which were partly offset by the decrease of deferred income and trade payables of approximately RMB9.1 million and RMB8.4 million, respectively.

Cash Flow

Net cash inflow from operating activities of the Group for the year ended 31 December 2016 was approximately RMB37.2 million, resulted from cash inflow generated from operations of approximately RMB38.0 million and the tax paid of approximately RMB0.8 million.

Net cash outflow from investing activities of the Group for the year ended 31 December 2016 was approximately RMB89.1 million, resulted from the cash outflow for acquisition of non-current asset held for sale which related to the 35% of equity interests in Beijing Zhangwen, repayment of refundable collateral security, acquisition of available-for-sale investments, purchases of items of property, plant and equipment and increase in time deposits amounted to approximately RMB90.1 million, RMB60.0 million, RMB35.7 million, RMB8.8 million and RMB30.0 million, respectively, which were partly offset by recovery of principal and interest of convertible notes of Duomi Music, decrease in restricted cash and interest received of approximately RMB100.7 million, RMB33.3 million and RMB11.1 million, respectively.

Net cash inflow from financing activities of the Group for the year ended 31 December 2016 was approximately RMB26.3 million, mainly resulted from received of principal of new bank loans amounted to approximately RMB38.9 million which was partly offset by the repayment of principal and interest of the bank loans of approximately RMB12.6 million.

Contingent Liabilities

As at 31 December 2016, the Group did not have any material contingent liabilities.

Human Resources

As at 31 December 2016, the Group employed 100 employees (2015: 160 employees) and the average headcounts of year 2016 was 121 while it was 165 in year 2015. 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 2016, including directors' emoluments, amounted to approximately RMB25.5 million, representing a decrease of approximately 20.1% as compared with 2015 (2015: approximately RMB31.9 million), which was mainly due to the combined effect of labor adjustment in relation to business restructure, and wage growth during 2016.

Events after the reporting period

As at 19 December 2016, Ever Novel and the Company entered into a Subscription Agreement, Ever Novel agreed to subscribe for and the Company agreed to allot and issue 931,800,000 Shares of the Company at the Subscription Price of HK$0.41 per Share. The issued share capital of Ever Novel is 100% beneficially owned by a family trust set up by Mr. Liu Xiaosong ("Mr. Liu") for the benefit of his family members. All the conditions precedent to the Subscription were fulfilled and completion took place on 20 February 2017 in accordance with the terms and conditions of the Subscription Agreement. As at the date of this report, the total number of Shares that Mr. Liu and his parties acting in concert (including but not limited to Grand Idea) held 1,549,513,398 Shares of the Company, representing approximately 56.0% of the total issued share capital of the Company.

The gross proceeds and the net proceeds from the Subscription will be approximately HK$382.0 million and approximately HK$380.7 million respectively. It is intended that the net proceeds from the Subscription will be utilised as further investment of the Group as and when opportunities arise, with a focus on mobile game industry chain.

Directors and Senior Management

DIRECTORS

Executive Directors

Mr. Liu Xiaosong ("Mr. Liu"), aged 51, 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 internet technology, media and telecommunications industry. He is one of the co-founders of Tencent Holdings Limited, a company listed on the Main Board of the Stock Exchange of Hong Kong Limited ("the 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. ("Duomi Music"), which is an associate of the Company. He is also the chairman of Beijing Duomi, which is an associate of the Company. He also acts as the director of A8 Music Group Limited, Total Plus Limited, Smart Trick Global 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 and Prime Century Technology Limited ("Prime Century"), 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 38, an executive Director, and Company Secretary of the Company. Mr. Liu Pun Leung has served various financial management and consulting roles in China and Hong Kong for 16 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 acted as the Chief Financial Officer of the Company from 15 July 2014 to 31 August 2016. He also acted as a joint company secretary of the Company from 27 November 2014 to 31 May 2016.

He was appointed as the Company Secretary of the Company on 1 June 2016, and also appointed as an Executive Director of the Company on 27 November 2014.

Independent Non-executive Directors

Mr. Chan Yiu Kwong ("Mr. Chan"), aged 52, 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 ("Ms Wu"), aged 59. 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 2016. 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. Li Feng ("Mr. Li"), aged 49, has extensive experience in venture capital investment and enterprise management. Mr. Li graduated from Tsinghua University with a Bachelor's degree and Master's degree successively in 1991, and graduated from Massachusetts Institute of Technology with a Master's degree and Doctor's degree successively in 1999. Mr. Li co-founded Photonify Technologies, Inc. in 1999, and served as its Chairman and Chief Executive Officer. He co-founded EPIN Media Holdings, Ltd. in 2002, and served as its Chairman, President and Chief Executive Officer. During the period from 2009 to 2011, Mr. Li was a partner at VantagePoint Capital Partner. Since 2011, Mr. Li served as the founding partner at SummitView Capital which was a venture and private equity investment institution focusing on emerging industries. Mr. Li was appointed as an Independent non-executive Director on 30 May 2016.

SENIOR MANAGEMENT OF THE GROUP

Mr. Su Wei ("Mr. Su"), aged 41, 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, Stock Code: 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 is also a director of Beijing Duomi, which is an associate of the Company. He also acts as a director of Total Plus Limited and Beijing Tianlai Cultural Broadcasting Co., Ltd., which are subsidiaries of the Company.

Mr. Lin Qian ("Mr. Lin"), aged 34, graduated from Imperial College London in 2006 with a bachelor's degree in Materials Science and Engineering. Prior to joining the Company, he was an auditor at Ernst & Young from October 2006 to October 2009 and an investment manager at Shanghai Dong Fang Hui Jin (上海東方惠金文化產業投資有限公司) from October 2009 to May 2011. He was also a vice president of the investment banking department at Hua Tai United Securities Co., Ltd. (華泰聯合證券有限公司) from May 2011 to June 2014 and the chief investment officer at CVCapital (投中資本) from June 2014 to present. Mr. Lin has over 10 years of experience in capital operations and project management in relation to mergers and acquisitions and he is also familiar with capital markets in the People's Republic of China and is proficient in capital operations. Mr. Lin is also experienced in auditing, corporate internal control and team management. Mr. Lin was appointed as an Chief Financial Officer of the Company on 1 September 2016. Mr. Lin also acts as the director of Total Plus Limited, which is a subsidiary of the Company.

Mr. Liu Xiaosong is also the Senior Management of the Group, please refer to page 13 for his 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 2016.

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. 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 2016 is set out in the section headed "Chairman's Statement" on pages 4 to 6 of this annual report.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2016 and the Group's financial position at that date are set out in the financial statements on pages 52 to 55.

No interim dividend was declared for the six months ended 30 June 2016 and the Board does not recommend the payment of final dividend for the year ended 31 December 2016.

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 2016 are set out in notes 32 and 33 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 2016, 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 2016, the Company's reserves available for distribution amounted to approximately RMB681,106,000

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2016, revenues from the five largest customers of the Group accounted for approximately 33% of the Group's total revenues while revenues from the largest customer for the Group accounted for approximately 15% of the Group's total revenues. In addition, for the year ended 31 December 2016, 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. Li Feng

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, Mr. Li Feng and Ms. Wu Shihong. 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 15 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 2016 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 38 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 2016.

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 2016.

Save as disclosed in note 38 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 38 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 the date of this report, 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]	524,067,398	Nil	28.56%
	Beneficial Owner	5,766,000	21,914,910[4]	1.51%
Mr. Liu Pun Leung	Beneficial Owner	Nil	1,250,000[4]	0.07%
Mr. Chan Yiu Kwong	Beneficial Owner	105,000	315,000[4]	0.02%
Ms. Wu Shihong	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 2016 (i.e.1,835,192,628 Shares).

2. As at 19 December 2016, Ever Novel and the Company entered into a Subscription Agreement, Ever Novel agreed to subscribe for and the Company agreed to allot and issue 931,800,000 Shares of the Company at the Subscription Price of HK$0.41 per Share. All the conditions precedent to the Subscription were fulfilled and completion took place on 20 February 2017 in accordance with the terms and conditions of the Subscription Agreement. Upon completion of the Subscription, the total number of issued shares of the Company is 2,766,992,628. 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 1,549,513,398 Shares of the Company, representing approximately 56.00% 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 2016, Prime Century directly held 379,496,303 shares and Ever Novel directly held 144,571,095 shares in the Company. As at the date of this annual report, Prime Century directly held 379,496,303 shares and Ever Novel directly held 1,076,371,095 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 Feitian[1]	Mr. Liu	Beneficial owner	RMB28,680,000[3]	75%
Duomi Music[2]	Mr. Liu	Interest of controlled corporation	RMB35,435,640[4]	33.94%
北京多米在綫科技股份有限公司 (Beijing Duomi Online Technoogy Co., Ltd.) (formerly known as Beijng Caiyun Online Technologies Co. Ltd.) ("Beijing Duomi")[5]	Mr. Liu	Beneficial owner	RMB23,638,132[6]	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 2016, 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 Duomi 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 Duomi through its wholly-owned subsidiary, Kuaitonglian, and therefore Beijing Duomi is an associated corporation of the Company. Mr. Liu was interested in approximately 27.08% of the registered capital of Beijing Duomi.

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

Save as disclosed, as at 31 December 2016, 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 33 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 on 21 May 2012, and no further share option will be granted under the Pre-IPO Share Option Scheme. During the year ended 31 December 2016, 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:[1]

Name/ category of participants	At 1 January 2016	Exercised during the year	Granted during the year	Lapsed during the year	Canceled during the year	At 31 December 2016	Date of grant of share options	Vesting period of share options	End of exercise period	Original 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	13,004,910	–	8,910,000	–	–	21,914,910					
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
	–	–	8,910,000	–	–	8,910,000	16 May 2016	One-third of the Share Options will be vested every 12-month period starting from 16 May 2017	16 May 2023	0.56	0.54
Mr. Liu Pun Leung	5,000,000	–	–	3,750,000	–	1,250,000	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
Mr. Chan Yiu Kwong	315,000	–	–	–	–	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
Subtotal	**18,739,910**	**–**	**8,910,000**	**3,750,000**	**–**	**23,899,910**					

Directors' Report

Name/ category of participants	At 1 January 2016	Exercised during the year	Granted during the year	Lapsed during the year	Canceled during the year	At 31 December 2016	Date of grant of share options	Vesting period of share options	End of exercise period	Original Exercise price of share options HK$ per share	Closing price of shares immediately before date of grant HK$ per share
Senior Management of the Group											
	786,900	–	–	786,900	–	–	25 March 2011	One-fourth of 600,000 Share Options willbe 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 ShareOptions 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 24 January 2015	24 January 2021	0.684	0.68
	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**	**–**	**–**	**1,311,500**	**–**	**12,399,500**					
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
	3,352,194	–	–	283,283	3,068,910	–	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
	1,950,000	–	–	450,000	–	1,500,000	14 January 2014	One-fourth of the Share Options will be vested every 12-month period starting from 14 January 2015	14 January 2019	0.69	0.66
	8,815,500	–	–	1,095,000	2,347,946	5,372,554	23 April 2014	One-fourth of the Share Options will be vested every 12-month period starting from 23 April 2015	23 April 2021	0.65	0.65
Subtotal	**17,328,068**	**–**	**–**	**1,828,283**	**5,416,857**	**10,082,928**					
TOTAL	**49,778,978**	**–**	**8,910,000**	**6,889,783**	**5,416,857**	**46,382,338**					

During the year ended 31 December 2016, 8,910,000 share options was granted under the Share Option Scheme, no share options granted under the Share Option Scheme was exercised, and 12,306,640 share options granted under the Share Option Scheme were lapsed/cancelled following the resignation of the relevant employees and eligible persons or expiration date of the vesting period.

As at the date of approval of these financial statements, there were 46,382,338 outstanding share options under the Share Option Scheme, representing an aggregate of approximately 1.68% of the issued share capital of the Company.

Please refer to note 33 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 2016, 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, 1,030,800 awarded shares were released to awarders, no awarded shares were lapsed following the resignations of the relevant employees and eligible persons.

Further details of the Scheme are disclosed in note 34 to the financial statements.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31 December 2016, 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)	611,947,398	33.35%
River Road	Interest in controlled corporation (note 2)	524,067,398	28.56%
Knight Bridge	Interest in controlled corporation (note 2)	524,067,398	28.56%
Ever Novel	Interest in controlled corporation (note 3)	379,496,303	20.68%
	Beneficial Owner (note 3)	144,571,095	7.88%
Prime Century	Beneficial Owner (note 3)	379,496,303	20.68%

Notes:

1. The percentage of interest in the Company is calculated by reference to the number of Shares in issue as at 31 December 2016 (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 (as at 31 December 2016, 611,947,398 Shares in total). As at 19 December 2016, Ever Novel and the Company entered into a Subscription Agreement, Ever Novel agreed to subscribe for and the Company agreed to allot and issue 931,800,000 Shares of the Company at the Subscription Price of HK$0.41 per Share. All the conditions precedent to the Subscription were fulfilled and Completion took place on 20 February 2017 in accordance with the terms and conditions of the Subscription Agreement. As at the date of this annual report, the total number of Shares that HSBC International was interested were 1,543,747,398 Shares of the Company, representing approximately 55.79% of the total issued share capital of the Company.

3. As at 31 December 2016, Prime Century directly held 379,496,303 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 379,496,303 shares in the Company held directly by Prime Century. As at 19 December 2016, Ever Novel and the Company entered into a Subscription Agreement, Ever Novel agreed to subscribe for and the Company agreed to allot and issue 931,800,000 Shares of the Company at the Subscription Price of HK$0.41 per Share. All the conditions precedent to the Subscription were fulfilled and Completion took place on 20 February 2017 in accordance with the terms and conditions of the Subscription Agreement. As at the date of this annual report, Prime Century directly held 379,496,303 shares and Ever Novel directly held 1,076,371,095 shares in the Company.

Save as disclosed above, as at 31 December 2016, 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 internet information service, property investment and music performance.

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.

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 2016 were approximately RMB148,468,000, RMB744,543,000 and RMB546,523,000, respectively.

The revenue of Huadong Feitian, Yunhai Qingtian and Kuaitonglian amounted to approximately RMB65,899,000, RMB79,434,000 and RMB3,135,000, respectively, representing approximately 44%, 54% and 2% 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.

Connected transactions with Beijing Zhangwen

On 13 May 2016, 深圳市雲海情天文化傳播有限公司 (Shenzhen Yunhai Qingtian Cultural Broadcasting Co., Ltd., the English name is for identification purposes only, an indirect wholly-owned subsidiary of the Company) 和深圳市浩祥投資有限公司 (Shenzhen Haoxiang Investment Co.,Ltd., the English name is for identification purposes only), a company indirectly controlled by Mr. Liu, the Chairman of the Board and an executive Director of the Company, entered into a Share Purchase Agreement with previous shareholders of 北京掌文信息技術有限公司 (Beijing Zhangwen Information Technology Co., Ltd.) (the English name is for identification purposes only) ("Beijing Zhangwen"), a company established in the PRC with limited liability, to acquire 35% and 65% of the equity interest of the Beijing Zhangwen respectively, for the total cash consideration of RMB550 million. The vendors of equity interest of Beijing Zhangwen are: (i) Mr. Bi Jianwei, one of the Founders; (ii) Mr. Ni Kai, one of the Founders; (iii) Jingwei (Hangzhou) Venture Investment Partnership Enterprise (Limited Partnership)) (the English name is for identification purposes only), a limited partnership established in the PRC; and (iv) Beijing Hongshan Xinyuan Equity Investment Centre (Limited Partnership)) (the English name is for identification purposes only), a limited partnership established in the PRC.

Beijing Zhangwen is principally engaged in incubation and operation of prime copyrights, the provision of pay-to-read services on the company's websites;and the licensing of authorisation to use and adaptation to cartoons,comics, audio works,mobile games, network drama, television drama and movies. After Completion of the transaction, the Company will own 35% of the equity interest of Beijing Zhangwen for the cash consideration of RMB192.5 million, and the remaining 65% equity interest will be owned by Shenzhen Haoxiang Investment Co., Ltd..

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.

According to the above Agreements, entrusted development fees and participation prepayment were RMB3 million and RMB1 million, respectively. In 2016, entrusted development fees of RMB1.5 million and participation prepayment of RMB0.5 million were paid. No sharing of operating revenue was paid in 2016.

Independent non-executive Directors of the Company have reviewed and confirmed that the connected transactions of the Company under the contractual arrangements by the financial year ended 31 December 2016 continuing were 1) part of the daily operation of the Company, 2) of which the terms and conditions were determined by all parties negotiating according to general commercial clauses, 3) of which the terms are fair and reasonable and in the best interests of the Company and its shareholders, and 4) of which the amount of consideration under the contractual arrangements by the financial year ended 31 December 2016 is below the cap previously announced by the Company.

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

As at 19 December 2016, Ever Novel and the Company entered into a Subscription Agreement, Ever Novel agreed to subscribe for and the Company agreed to allot and issue 931,800,000 Shares of the Company at the Subscription Price of HK$0.41 per Share. All the conditions precedent to the Subscription were fulfilled and completion took place on 20 February 2017 in accordance with the terms and conditions of the Subscription Agreement. 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 1,549,513,398 Shares of the Company, representing approximately 56.00% of the total issued share capital of the Company. The gross proceeds and the net proceeds from the Subscription were approximately HK$382.0 million and HK$380.7 million respectively. The proceeds from the Subscription will be utilised as further investment of the Group as and when opportunities arise. The Company intends to use the entirety of the proceeds from the Subscription for the future acquisition of upstream and downstream mobile game industry chain company(ies).

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 2016.

AUDITORS

The financial statements for the year ended 31 December 2016 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
29 March 2017

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 2016, 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 2016, 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 Mr. Liu Xiaosong, Mr. Li Feng and Mr. Chan Yiu Kwong standing for re-election at the next forthcoming annual general meeting of the Company. The Company's circular dated 18 April 2017 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, (1) 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; (2) the Company Secretary also unregularly send relative laws, regulations and latest cases to directors in order to assist the directors to perform their duties appropriately; (3) 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; (4) 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 2016; the Board has reviewed and evaluated such training records in the board meeting dated 29 March 2017.

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	✓	✓
Mr. Li Feng	✓	✓

Board Meetings

Code provision A.1.1 prescribes that at least 4 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 period ended 31 December 2016, six Board meetings were held for reviewing and approving the financial and operating performance, acquiring 35% shares of Beijing Zhangwen, changing of Independent Non-executive Director, joint company secretary and authorised representative of the Company and issuing the Subscription Shares under the Specific Mandate etc. The attendance records of each Director at the Board meetings for the period ended 31 December 2016 are set out below:

Name of Directors	Number of Meetings and Directors' Attendance
Executive Directors	
Mr. Liu Xiaosong *(Chairman)*	6/6
Mr. Liu Pun Leung	6/6
Independent non-executive Directors	
Mr. Chan Yiu Kwong	6/6
Ms. Wu Shihong	5/6
Mr. Song Ke	3/6
Mr. Li Feng	3/6

Apart from the abovementioned 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 80%.

General Meetings

During the period ended 31 December 2016, 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 2016, 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	
Mr. Liu Xiaosong *(Chairman of the Board)*	2/2
Mr. Liu Pun Leung	2/2
Independent Non-executive Directors	
Mr. Chan Yiu Kwong	2/2
Ms. Wu Shihong	0/2
Mr. Song Ke	0/2
Mr. Li Feng	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 attends, 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 2016, the chairman and chief executive officer of the Company are both held by Mr. Liu Xiaosong, the Company did not complied 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 2016.

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 three members, namely Ms. Wu Shihong (Chairman, independent non-executive Director), Mr. Liu Xiaosong (executive Director) and Mr. Li Feng (independent non-executive Director), Mr. Song Ke resigned as a member of the Remuneration Committee of the Company on 30 May 2016. 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 2016, four 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 suggesting remuneration of a non-executive Director and Chief Financial Offier. 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)*	4/4
Liu Xiaosong	4/4
Song Ke	3/4
Li Feng	1/4

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. Li Feng (independent non-executive Director), which comprises one independent non-executive Director with the appropriate professional qualifications and accounting and related financial management expertise. Mr. Song Ke resigned as a member of the Audit Committee of the Company on 30 May 2016. 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 2016, 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	2/3
Li Feng	1/3

The Company's annual results for the year ended 31 December 2016 have been reviewed by the Audit Committee.

Nomination Committee

The Nomination Committee comprises three members, namely Mr. Liu Xiaosong (Chairman, executive Director), Ms. Wu Shihong (independent non-executive Director) and Mr. Li Feng (independent non-executive Director). Mr. Song Ke resigned as a member of the Nomination Committee of the Company on 30 May 2016. 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, three 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)*	3/3
Wu Shihong	3/3
Song Ke	2/3
Li Feng	1/3

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 2016.

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 2016.

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 AUDITOR'S REMUNERATION

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

During the year ended 31 December 2016, 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	1,654
Non-audit services	
– other services	120
Total	1,774

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.a8nmg.com to improve transparency. The public can communicate with the Group through 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.

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Telephone: +86 755 3332 63333–8002
Email: ir@a8.com
Website: www.a8nmg.com

Company Secretary

During the year ended 31 December 2016, Mr. Liu Pun Leung (who is an Executive Director of the Company) acts as Company Secretary for the Company. Ms. Gao Keying resigned as a joint Company Secretary of the Company on 1 June 2016.

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, Mr. Liu Pun Leung has 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 Auditor's Report

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

OPINION

We have audited the consolidated financial statements of A8 New Media Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 52 to 130, which comprise the consolidated statement of financial position as at 31 December 2016, 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 notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs") issued by the International Auditing and Assurance Standards Board (the "IAASB"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the Hong Kong Institute of Certified Public Accountants' *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

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

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Revenue recognition of mobile game publishing services	
Revenue recognition of mobile game publishing business of RMB82 million, representing 56% of the Group's total revenue, is significant to the financial statements based on the quantitative materiality and the degree of management judgement required to account for mobile game publishing services, principally on the application of the user-based revenue model which recognised revenue over the estimated average user life of paying players. The accounting policy and the accounting judgements and estimates related to revenue recognition of mobile game publishing services, and disclosures of the revenue recognition of mobile game publishing services are included in notes 3.3, 4 and 6 to the consolidated financial statements.	Our audit procedures included, amongst others, considering the appropriateness of the Group's revenue recognition accounting policies. We tested the Group's manual controls and the Information Technology general controls in relation to systems over the calculation of revenue and deferred income and the timing of revenue recognition. We also assessed the estimated average user life of paying players by checking the accuracy of the underlying historical operating data used for the estimation. We performed analytical review procedures to consider any unusual trends that could indicate a material misstatement of revenue recognition. Moreover, we sample checked the Group's monthly reconciliations with the game developers and mobile-based publishing platforms together with related bank advices. Furthermore, we assessed the adequacy of the disclosures of the revenue recognition of mobile game publishing services.

Independent Auditor's Report

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

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of mobile game licences	
The Group's mobile game licences of RMB8 million provided the Group with numerous exclusive publication rights on mobile games which are usually granted by game developers for a specified number of years. The Group usually pays licence fees in advance. These mobile game licence fees are stated at cost less any impairment and are amortised on the straight-line basis over the estimated useful lives or the licence period, whichever is shorter. The Group is required to assess whether impairment indicators existed for the mobile game licence fees at the end of each reporting period based on the subjective judgements and expectations made by management about the popularity and life cycle of the mobile games when they were formally launched to the market. We focused on this area because of the significant management judgement and estimates involved and the significant amount of impairment made. Disclosures of the significant accounting judgements and estimates and impairment assessment of mobile game licences are included in notes 3.3 and 4 to the consolidated financial statements.	We reviewed the Group's assessment of indicators of impairment in consideration of the trial run or technical test results of each mobile game such as game recharging amount and retention rate of active game players. For mobile games where indicators of impairment were identified, we examined the subsequent game recharging amounts of the mobile games and assessed the remaining useful lives of the mobile game licences by enquiring with management responsible for those mobile games and browsing the games' official websites to check the frequency of updates and any announcement of suspension.

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

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Impairment of available-for-sale unlisted equity investments	
As of 31 December 2016, the Group's unlisted equity investments in mobile internet and the internet industry with an aggregate carrying amount of RMB61 million, including an equity investment in seed capital fund of RMB20 million and equity investments in internet companies of RMB41 million, were stated at cost less impairment because the variability in the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably. The Group follows the guidance of IAS 39 to determine when an available-for-sale investment is impaired. This determination requires significant judgement and estimation. The accounting policies and the accounting judgements and estimates related to the impairment of available-for-sale investments are included in notes 3.3 and 4 to the consolidated financial statements.	**Unlisted equity investment in seed capital fund** We examined the Group's policy for impairment of available-for-sale investments, including understanding the nature of the underlying businesses, inquiring fund managers' considerations about the current economic and industry conditions/developments and recent fund raising transactions undertaken by the investees and reviewing the operating performance of the investees including bank balances of the investees and other company-specific information. **Unlisted equity investments in internet companies** Depending on the significance of the investment, we examined the estimated future cash flows, discount rates and other assumptions by benchmarking to the market and financial data of other comparable companies. Furthermore, we assessed the adequacy of the disclosures of the impairment of available-for-sale investments.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB 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.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 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.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Ms. Chiu, Caroline Su Yuen.

Ernst & Young
Certified Public Accountants
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong
29 March 2017

Consolidated Statement of Profit or Loss

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
REVENUE, net of business tax	6	**147,285**	145,578
Cost of services provided		**(81,365)**	(99,841)
Gross profit		**65,920**	45,737
Other income and gains, net	6	**33,871**	125,592
Selling and marketing expenses		**(13,796)**	(55,939)
Administrative expenses		**(31,598)**	(40,352)
Other expenses, net		**(80)**	(16,024)
Finance costs	8	**(618)**	–
Share of losses of associates	18	**(16,041)**	(25,212)
Share of losses of joint ventures	19	**(5,796)**	(1,733)
PROFIT BEFORE TAX	7	**31,862**	32,069
Income tax expense	10	**(7,722)**	(10,394)
PROFIT FOR THE YEAR		**24,140**	21,675
Attributable to:			
Owners of the Company		**24,145**	22,006
Non-controlling interests		**(5)**	(331)
		24,140	21,675
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	12		
Basic (RMB per share)		**1.3 cents**	1.3 cents
Diluted (RMB per share)		**1.3 cents**	1.3 cents

Consolidated Statement of Comprehensive Income

Year ended 31 December 2016

	2016 RMB'000	2015 RMB'000
PROFIT FOR THE YEAR	**24,140**	21,675
OTHER COMPREHENSIVE INCOME		
Other comprehensive income may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of financial statements	**12,725**	8,475
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**36,865**	30,150
Attributable to:		
Owners of the Company	**36,870**	30,481
Non-controlling interests	**(5)**	(331)
	36,865	30,150

Consolidated Statement of Financial Position

31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	153,082	148,413
Investment properties	14	370,000	349,000
Prepaid land lease payments	15	13,192	13,516
Prepayments for acquisition of items of property, plant and equipment		1,548	–
Intangible assets	17	8,529	15,831
Investments in associates	18	28,414	27,229
Investments in joint ventures	19	22,933	31,353
Available-for-sale investments	20	60,994	46,994
Deferred tax assets	30	2,991	4,136
Conversion option embedded in preferred shares	31	–	6,309
Total non-current assets		661,683	642,781
CURRENT ASSETS			
Trade receivables	21	8,641	23,121
Prepayments, deposits and other receivables	22	15,510	114,855
Financial assets at fair value through profit or loss	23	326	342
Available-for-sale investments	20	8,700	–
Restricted cash balances and pledged deposit	24	33,664	66,990
Cash and cash equivalents	25	446,906	429,745
		513,747	635,053
Non-current asset held for sale	26	192,604	–
Total current assets		706,351	635,053
CURRENT LIABILITIES			
Trade payables	27	20,923	29,305
Other payables and accruals	28	129,965	109,563
Interest-bearing bank borrowings	29	26,870	–
Tax payable		8,330	7,771
Deferred income		8,120	17,267
Total current liabilities		194,208	163,906
NET CURRENT ASSETS		512,143	471,147
TOTAL ASSETS LESS CURRENT LIABILITIES		1,173,826	1,113,928
NON-CURRENT LIABILITIES			
Deferred tax liabilities	30	60,360	55,110
Deferred income		6,058	9,475
Other payables	28	17,500	–
Total non-current liabilities		83,918	64,585
Net assets		1,089,908	1,049,343

Consolidated Statement of Financial Position (continued)

31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
EQUITY			
Equity attributable to owners of the Company			
Issued capital	32	15,123	15,123
Reserves	35	1,075,487	1,034,917
		1,090,610	1,050,040
Non-controlling interests		(702)	(697)
Total equity		1,089,908	1,049,343

Liu Xiaosong
Director

Liu Pun Leung
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2016

	Attributable to owners of the Company													
	Issued capital RMB'000 (note 32)	Share premium account RMB'000 (note 32)	Shares held under share award scheme RMB'000	Merger reserve RMB'000 (note 35)	Surplus contributions RMB'000 (note 35)	Employee share-based compensation reserve RMB'000	Exchange fluctuation reserve RMB'000	Capital reserve RMB'000	Statutory reserve fund RMB'000 (note 35)	Reserve fund RMB'000 (note 35)	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 financial statements	–	–	–	–	–	–	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 joint ventures	–	–	–	–	–	–	–	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

Consolidated Statement of Changes in Equity (continued)

Year ended 31 December 2016

	Attributable to owners of the Company													
	Issued capital RMB'000 (note 32)	Share premium account RMB'000 (note 32)	Shares held under share award scheme RMB'000	Merger reserve RMB'000 (note 35)	Surplus contributions RMB'000 (note 35)	Employee share-based compensation reserve RMB'000	Exchange fluctuation reserve RMB'000	Capital reserve RMB'000	Statutory reserve fund RMB'000 (note 35)	Reserve fund RMB'000 (note 35)	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2016	15,123	663,208	(4,942)	29,135	10,522	27,586	1,087	10,016	21,701	4,422	272,182	1,050,040	(697)	1,049,343
Profit for the year	-	-	-	-	-	-	-	-	-	-	24,145	24,145	(5)	24,140
Other comprehensive income for the year:														
Exchange differences on translation of financial statements	-	-	-	-	-	-	12,725	-	-	-	-	12,725	-	12,725
Total comprehensive income for the year	-	-	-	-	-	-	12,725	-	-	-	24,145	36,870	(5)	36,865
Equity-settled share-based payment arrangements	-	-	-	-	-	3,700	-	-	-	-	-	3,700	-	3,700
Transfer of reserve upon the forfeiture or expiry of share options	-	-	-	-	-	(933)	-	-	-	-	933	-	-	-
Employee share award scheme:														
– release of award shares	-	-	270	-	-	(270)	-	-	-	-	-	-	-	-
At 31 December 2016	15,123	663,208*	(4,672)*	29,135*	10,522*	30,083*	13,812*	10,016*	21,701*	4,422*	297,260*	1,090,610	(702)	1,089,908

* These reserve accounts comprise the consolidated reserves of RMB1,075,487,000 (2015: RMB1,034,917,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		31,862	32,069
Adjustments for:			
Depreciation	7	6,761	6,969
Amortisation of prepaid land lease payments	7	323	322
Amortisation of intangible assets	7	3,766	9,592
Impairment of intangible assets	7	–	10,451
Write-off of intangible assets	7	6,492	1,009
Write-off of items of property, plant and equipment	7	211	–
Loss on disposal of items of property, plant and equipment	7	–	45
Fair value loss on financial assets at fair value through profit or loss	7	16	101
Fair value loss on conversion option embedded in preferred shares	7	–	2,933
Fair value loss on conversion option embedded in convertible notes	7	–	11,751
Fair value gains on investment properties	6	(21,000)	(39,000)
Bank interest income	6	(11,101)	(9,178)
Imputed interest income	6	–	(19,606)
Share of losses of associates		16,041	25,212
Share of losses of joint ventures		5,796	1,733
Impairment of prepayments	7	97	8,513
Write-off of prepayments	7	2,139	–
Write-back of impairment of trade receivables	7	(65)	(1,615)
Impairment of an investment in a joint venture	7	–	1,265
Equity-settled share option expense	7	3,700	4,399
Equity-settled share award expense	7	–	22
Reversal of trade payables on game licences	7	(9,176)	(2,521)
Impairment of goodwill	7	–	1,515
Finance costs	8	618	–
Gain on deemed disposal of an investment in an associate	6	–	(275)
Gain on redemption of convertible notes	6	–	(53,705)
		36,480	(7,999)
Decrease in trade receivables		14,545	10,710
Increase in prepayments, deposits and other receivables		(5,958)	(9,831)
Increase/(decrease) in trade payables		66	(4,887)
Increase/(decrease) in other payables and accruals		5,430	(8,183)
(Decrease)/increase in deferred income		(12,564)	8,322
Cash generated from/(used in) operations		37,999	(11,868)
Tax paid		(768)	(1,519)
Net cash flows from/(used in) operating activities		37,231	(13,387)

Consolidated Statement of Cash Flows (continued)

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of available-for-sale investments		(35,700)	(27,592)
Increase in prepayments for acquisition of items of property, plant and equipment		(1,548)	–
Purchases of items of property, plant and equipment		(8,773)	(30,836)
Proceeds from disposal of items of property, plant and equipment		–	568
Purchases of intangible assets		(2,228)	(11,732)
Receipt of redemption of convertible notes		100,672	–
Purchase of shareholdings in joint ventures		–	(7,300)
Purchase of shareholdings in associates		(95,897)	(26,500)
Repayment of refundable collateral security		(60,000)	–
Receipt of refundable collateral security		–	60,000
Interest received		11,101	9,178
(Increase)/decrease in restricted cash and pledged deposit		33,326	(63,105)
Increase in time deposit with original maturity of more than three months when acquired		(30,015)	–
Net cash flows used in investing activities		(89,062)	(97,319)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from placement of shares	32(b), (c)	–	218,759
Proceeds from issue of shares		–	301
Share issues expenses		–	(3,542)
New bank loans		38,870	–
Interest paid		(618)	–
Repayment of bank loan		(12,000)	–
Net cash flows from financing activities		26,252	215,518
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(25,579)	104,812
Cash and cash equivalents at beginning of year		429,745	316,458
Effect of foreign exchange rate changes, net		12,725	8,475
CASH AND CASH EQUIVALENTS AT END OF YEAR		416,891	429,745
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	25	165,927	207,014
Non-pledged time deposits	25	280,979	222,731
Cash and cash equivalents as stated in the consolidated statement of financial position		446,906	429,745
Time deposit with original maturity of more than three months when acquired		(30,015)	–
Cash and cash equivalents as stated in the consolidated statement of cash flows		416,891	429,745

Notes to Financial Statements

31 December 2016

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

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	Percentage of equity attributable to the Company 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 internet information service, property investment and music performance
深圳市雲海情天文化傳播有限公司 Shenzhen Yunhai Qingtian Cultural Broadcasting Co., Ltd. ("Yunhai Qingtian") (note (i)) *@	PRC	RMB10,000,000 Registered capital	–	100	Provision of game publishing services
深圳市快通聯科技有限公司 Shenzhen 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

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
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
普好有限公司 Total Plus Limited	Hong Kong	HK$97,045 Issued capital	–	100	Investment holding
北京布拉琪音樂文化傳播有限公司 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 Co., Ltd. (note (i))*@	PRC	RMB10,000,000 Registered capital	–	100	Provision of game publishing services
深圳市掌翼天下科技有限公司 Shenzhen Zhangyi Tianxia Technology Co., Ltd. (note (i))*@	PRC	RMB3,000,000 Registered capital	–	100	Property investment

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
茂御有限公司 Phoenix Success Limited ("Phoenix Success")	Hong Kong	HK$1 Issued capital	100	–	Investment holding
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	RMB1,000,000 Registered capital	–	80	Production of live music shows and music channels

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

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

@ Registered as domestic limited liability companies under PRC law.

Note:

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

(1) between Cash River and

(a) Huadong Feitian and its registered shareholders, and

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

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

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

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

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

(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 34). 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

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") 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 convention, except for investment properties, financial assets at fair value through profit or loss, unlisted financial products recorded in available-for-sale investments and conversion option embedded in preferred shares which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2016. 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.

2. BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

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 IFRSs for the first time for the current year's financial statements.

Amendments to IFRS 10, IFRS 12 and IAS 28	*Investment Entities: Applying the Consolidation Exception*
Amendments to IFRS 11	*Accounting for Acquisition of Interests in Joint Operations*
IFRS 14	*Regulatory Deferral Accounts*
Amendments to IAS 1	*Disclosure Initiative*
Amendments to IAS 16 and IAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*
Amendments to IAS 16 and IAS 41	*Agriculture: Bearer Plants*
Amendments to IAS 27	*Equity Method in Separate Financial Statements*
Annual Improvements 2012-2014 Cycle	*Amendments to a number of IFRSs*

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

Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*[2]
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*[2]
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]
IFRS 15	*Revenue from Contracts with Customers*[2]
Amendments to IAS 40	*Transfers of Investment Property*[2]
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*[2]
Amendments to IFRS 12 included in *Annual Improvements 2014–2016 Cycle*	*Disclosure of Interests in Other Entities*[1]
Amendments to IFRS 1 included in *Annual Improvements 2014–2016 Cycle*	*First-time Adoption of International Financial Reporting Standards*[2]
Amendments to IAS 28 included in *Annual Improvements 2014–2016 Cycle*	*Investments in Associates and Joint Ventures*[2]
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*[2]
IFRS 16	*Leases*[3]
Amendments to IAS 7	*Disclosure Initiative*[1]
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*[1]

1 Effective for annual periods beginning on or after 1 January 2017
2 Effective for annual periods beginning on or after 1 January 2018
3 Effective for annual periods beginning on or after 1 January 2019
4 No mandatory effective date yet determined but available for adoption

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

Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions

The IASB issued amendments to IFRS 2 *Share-based Payment* that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Group expected to adopt the amendments from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

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

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 the financial instruments project: classification and measurement; impairment; and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. 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 address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. The Group is currently assessing the impact of these standards upon adoption.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a 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 new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. 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)

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. The Group expects to adopt IFRS 16 on 1 January 2019 and is currently assessing the impact of IFRS 16 upon adoption.

Amendments to IAS 7 Disclosure Initiative

The amendments to IAS 7 *Statement of Cash Flows* are part of the IASB's Disclosure Initiative and require anentity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. On initial application of the amendment, entities are not required to provide comparative information for preceding periods. These amendments are effective for annual periods beginning on or after 1 January 2017, with early application permitted. The Group expects to adopt the amendments from 1 January 2017.

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

Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognised in the opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact. These amendments are effective for annual periods beginning on or after 1 January 2017 with early application permitted. If an entity applies the amendments for an earlier period, it must disclose that fact. The Group expects to adopt the amendments from 1 January 2017.

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.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates and joint ventures (continued)

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

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

Business combinations and goodwill

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

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

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

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

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

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

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

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

Fair value measurement

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

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

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

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

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets

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

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

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

Related parties

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

(a) the party is a person or a close member of that person's family and that person

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation

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

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

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

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

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

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

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

Investment properties

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

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-current asset held for sale

Non-current asset is classified as held for sale if its carrying amount will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such asset and its sale must be highly probable.

Non-current asset (other than investment properties and financial assets) classified as held for sale is measured at the lower of its carrying amount and fair value less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortised.

Intangible assets (other than goodwill)

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

Trademarks, licences and software

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

Music copyrights

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

Mobile game licences

Mobile game licences represent upfront licence fees paid for exclusive mobile game development and publishing in a specified territory. They are stated at cost less accumulated amortisation and any impairment losses and are amortised on the straight-line basis over the shorter of estimated user life of paying players of respective game and licence period.

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.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Operating leases

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

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

Investments and other financial assets

Initial recognition and measurement

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

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

Subsequent measurement

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

Financial assets at fair value through profit or loss

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

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Financial assets at fair value through profit or loss (continued)

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

Loans and receivables

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

Preferred shares held by the Group are separately presented as a debt portion and a conversion option embedded in preferred shares. On initial recognition, the debt portion represents the residual value between the fair value of the preferred shares 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 in "Revenue recognition" section 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.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Available-for-sale financial investments (continued)

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

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

Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost (continued)

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

Available-for-sale financial investments

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

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

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

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

Derecognition of financial assets

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

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Derecognition of financial assets (continued)

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

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

Financial liabilities

Initial recognition and measurement

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

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

The Group's financial liabilities include trade payables, other payables, accruals and interest-bearing bank borrowings.

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.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Loans and borrowings

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

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Treasury shares

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

Cash and cash equivalents

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

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

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

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

Income tax

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

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

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

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

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

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

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

Government grants

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

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

Revenue recognition

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

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

Game publishing services

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

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Game publishing services (continued)

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 sale of the virtual currency is non-refundable and the related contracts with game players are non-cancellable. The Group does not track the marketing discounts offered by the publishing platforms as the latter bears the costs of such marketing discounts.

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

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

The estimated user life of paying players is based on data collected from those game players who have purchased the virtual currencies. To estimate the user life of paying players, the Group captures the following information for each paid player from its database: (a) the frequency that paying players log into each game via the mobile-based platforms; and (b) the amount and the timing of when the paying players purchased the virtual currencies. The Group estimates the user life of paying players for a particular game to be the date a player purchases virtual currency through the date the Group estimates the user plays the game for the last time. This computation is completed on a player-by-player basis. Then, the results for all analysed paying players are averaged to determine an estimated user life of paying players for each game. Gross revenues from in-game payments of each month are recognised over the remaining 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.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Music-related services

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

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

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

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

Rental and management fee income

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

Interest income

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

Dividend income

Dividend income is recognized when the shareholders' right to receive payment has been established.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits

Employee leave entitlements

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

Pension obligations

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

Equity compensation benefits

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

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using the Black-Scholes Opinion Pricing Model, further details of which are given in note 33 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.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Equity compensation benefits (continued)

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

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

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

Shares held under share award scheme

As disclosed in note 34 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 under 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.

Foreign currencies

The functional currency of the Company is the Hong Kong dollar. Because most of the subsidiaries functional currencies are RMB, 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).

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

The functional currencies of the Company and certain subsidiaries are currencies other than RMB. 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 operations with functional currencies 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 operations 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 to the financial statements, 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.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

(i) *Judgements (continued)*

Classification between investment properties and owner-occupied properties

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

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

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

Deferred tax on investment properties

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

(ii) *Estimation uncertainty*

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

Estimation of the user life of paying players

As mentioned in the "Revenue recognition" section of note 3.3 to the financial statements, the Group recognises revenue from the sales of virtual currency ratably over the remaining 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 estimated average user life of paying players by reference to the historical operating data, which may differ from the prior period, and any change in the estimate may result in the revenue being recognised on a different basis than in prior periods.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

(ii) Estimation uncertainty (continued)

Recognition of telecommunications value-added services

As mentioned in the "Revenue recognition" section of note 3.3 to the financial statements, 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.

Impairment assessment of available-for-sale unlisted equity investments

The Group follows the guidance of IAS 39 to determine when an available-for-sale unlisted equity investment is impaired. The carrying amount of the non-current investments as at 31 December 2016 was RMB61 million, including equity investment in seed capital fund of RMB20 million and equity investments in internet companies of RMB41 million. For the unlisted equity investment in seed capital fund, management monitors the Group's investments for impairment by considering factors including, but not limited to, current economic, market conditions, recent fund raising transactions undertaken by the investees, the operating performance of the investees including bank balances and other company-specific information. For the unlisted equity investments in internet companies, the impairment determination requires significant estimation which includes estimating the future cash flows of the investees, determining appropriate discount rates and other assumptions. Key assumptions used included discount rate and growth rate. Changes in these assumptions and estimates could materially affect the respective recoverable amount of these investments.

Impairment of mobile game licences

The Group assesses whether there are any indicators of impairment for the mobile game licences at the end of each reporting period. An impairment exists when the carrying value of the mobile game licence exceeds its recoverable amount. In performing the impairment assessment of the mobile game licences, the management determined the recoverable amount with reference to the gross receipts of the mobile game based on the industry experience, such as the popularity of the mobile games and estimated life cycle of the mobile games when they formally launched to the market, and taking into consideration of the trial run or technical test results of each mobile game with information such as game recharging amount and retention rate of active game players. As at 31 December 2016, the Group has mobile game licences of RMB7,539,000 (2015: RMB14,716,000).

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 the PRC.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that bank interest income, finance costs and corporate and other unallocated income and expenses are excluded from such measurement.

For the year ended 31 December

	Digital entertainment		Property investment		Total	
	2016 RMB'000	2015 RMB'000	**2016 RMB'000**	2015 RMB'000	**2016 RMB'000**	2015 RMB'000
Segment net revenue	**89,919**	95,896	**57,366**	49,682	**147,285**	145,578
Cost of services provided	**(64,208)**	(84,993)	**(17,157)**	(14,848)	**(81,365)**	(99,841)
Gross profit	**25,711**	10,903	**40,209**	34,834	**65,920**	45,737
Segment results	**(14,260)**	(17,693)	**61,210**	75,599	**46,950**	57,906
Reconciliation:						
Bank interest income					**11,101**	9,178
Finance costs					**(618)**	–
Corporate and other unallocated income and expenses, net					**(25,571)**	(35,015)
Profit before tax					**31,862**	32,069
Income tax expense					**(7,722)**	(10,394)
Profit for the year					**24,140**	21,675

5. OPERATING SEGMENT INFORMATION (continued)

For the year ended 31 December (continued)

	Digital entertainment		Property investment		Total	
	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
Other segment information						
Depreciation and amortisation						
– operating segments	6,730	12,607	–	–	6,730	12,607
– corporate					4,120	4,276
					10,850	16,883
Capital expenditure*	8,050	25,067	6,547	–	14,597	25,067
Fair value gains on investment properties	–	–	21,000	39,000	21,000	39,000
Equity-settled share option expense						
– operating segments	78	2,169	–	–	78	2,169
– corporate					3,622	2,230
					3,700	4,399
Equity-settled share award expense	–	22	–	–	–	22
Share of losses of associates	16,041	25,212	–	–	16,041	25,212
Share of losses of joint ventures	5,796	1,733	–	–	5,796	1,733
Impairment losses recognised in the statement of profit or loss	97	21,744	–	–	97	21,744
Impairment losses reversed in the statement of profit or loss	65	1,615	–	–	65	1,615
Gain on redemption of convertible notes	–	53,705	–	–	–	53,705
Fair value loss on conversion option embedded in preferred shares	–	2,933	–	–	–	2,933
Fair value loss on conversion option embedded in convertible notes	–	11,751	–	–	–	11,751
Non-current asset held for sale	192,604	–	–	–	192,604	–
Investments in joint ventures	22,933	31,353	–	–	22,933	31,353
Investments in associates	28,414	27,229	–	–	28,414	27,229

* Capital expenditure consists of additions to property, plant and equipment and intangible assets.

Geographical information

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.

5. OPERATING SEGMENT INFORMATION (continued)

Information about major customers

During the year ended 31 December 2016, revenue of approximately RMB21,707,000 was derived from sales to the largest customers, which contributed 10% or more sales to the Group's revenue.

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.

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:

	2016 RMB'000	2015 RMB'000
Revenue		
Digital entertainment		
Game-related revenue	82,054	79,401
Music-based entertainment	7,928	16,583
Sub-total	89,982	95,984
Property investment		
Rental and management fee income	58,486	52,371
	148,468	148,355
Less: Business tax	(1,183)	(2,777)
Net revenue	147,285	145,578
Other income and gains, net		
Fair value gains on investment properties	21,000	39,000
Bank interest income	11,101	9,178
Imputed interest income	–	19,606
Gain on deemed disposal on an investment in an associate	–	275
Foreign exchange differences, net	684	1,937
Gain on redemption of convertible notes	–	53,705
Others	1,086	1,891
	33,871	125,592

7. PROFIT BEFORE TAX

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

	Notes	2016 RMB'000	2015 RMB'000
Depreciation	13	**6,761**	6,969
Amortisation of intangible assets	17	**3,766**	9,592
Amortisation of prepaid land lease payments#	15	**323**	322
Operating lease rentals in respect of office buildings		**1,261**	1,540
Auditor's remuneration		**1,774**	1,739
Employee benefit expense (including directors' remuneration (note 9)):			
Wages, salaries and bonuses		**20,600**	24,944
Staff education fee		**106**	310
Welfare, medical and other expenses		**2,194**	3,217
Contributions to social security plans		**2,572**	3,439
Equity-settled share option expense	33(a)	**3,700**	4,399
Equity-settled share award expense		**–**	22
		29,172	36,331
Write-back of impairment of trade receivables**	21	**(65)**	(1,615)
Impairment of prepayments*	22	**97**	8,513
Write-off of prepayments*		**2,139**	–
Impairment of intangible assets*	17	**–**	10,451
Write-off of intangible assets*	17	**6,492**	1,009
Impairment of goodwill**	16	**–**	1,515
Mobile and Telecom Charges*		**3,770**	12,125
Game publishing service charges*		**39,990**	31,390
Direct operating expenses (including repairs and maintenance) arising on rental-earning investment properties*		**17,157**	14,848
Write-off of items of property, plant and equipment**		**211**	–
Loss on disposal of items of property, plant and equipment**		**–**	45
Impairment of an investment in a joint venture**		**–**	1,265
Reversal of trade payables on game licences*		**(9,176)**	(2,521)
Fair value loss on conversion option embedded in preferred shares**		**–**	2,933
Fair value loss on conversion option embedded in convertible notes**		**–**	11,751
Fair value losses on financial assets at fair value through profit or loss**		**16**	101
Government grants##		**(11,172)**	(9,504)

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 and Beijing in relation to Shenzhen and Beijing's government policy. The government grants received 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.

8. FINANCE COSTS

An analysis of finance costs is as follows:

	2016 **RMB'000**	2015 RMB'000
Interest on bank loans	**618**	–

9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION AND THE FIVE HIGHEST PAID INDIVIDUALS

Directors' and chief executive's 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 "Stock Exchange"), 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

	2016 **RMB'000**	2015 RMB'000
Fees	**308**	289
Other emoluments:		
Salaries, allowances and benefits in kind	**653**	1,107
Performance related bonuses	**224**	211
Equity-settled share option expense	**2,640**	2,230
Pension scheme contributions	**86**	74
	3,603	3,622
	3,911	3,911

9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION AND THE FIVE HIGHEST PAID INDIVIDUALS (continued)

(a) *Directors' remuneration (continued)*

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 33 to the financial statements.

(i) Independent non-executive directors

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

	Fees RMB'000	Equity-settled share option expense RMB'000	Total remuneration RMB'000
2016			
Independent non-executive directors:			
Mr. Chan Yiu Kwong	**154**	**28**	**182**
Ms. Wu Shihong	**77**	**28**	**105**
Mr. Song Ke#	**32**	**28**	**60**
Mr. Li Feng@	**45**	**–**	**45**
	308	**84**	**392**
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

There were no other emoluments payable to the independent non-executive directors during the year (2015: Nil).

@ Appointed as independent non-executive director on 30 May 2016.

Resigned as independent non-executive director on 30 May 2016.

9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION AND THE FIVE HIGHEST PAID INDIVIDUALS (continued)

(a) *Directors' remuneration (continued)*

(ii) Executive directors and the chief executive

	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
2016						
Executive directors:						
Mr. Liu Xiaosong ("Mr. Liu")*	**–**	**120**	**–**	**2,252**	**60**	**2,432**
Mr. Liu Pun Leung	**–**	**533**	**224**	**304**	**26**	**1,087**
	–	**653**	**224**	**2,556**	**86**	**3,519**
2015						
Executive directors:						
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

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

(b) *Five highest paid individuals*

The five highest paid individuals included two (2015: two) directors, details of whose remuneration are set out above. Details of the remuneration of the remaining three (2015: three) non-director, highest paid individuals for the year are as follows:

	2016 RMB'000	2015 RMB'000
Salaries, allowances and benefits in kind	**2,411**	2,384
Performance related bonuses	**377**	377
Equity-settled share option expense	**893**	1,469
Equity-settled share award expense	**–**	5
Pension scheme contributions	**316**	236
	3,997	4,471

9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION AND THE FIVE HIGHEST PAID INDIVIDUALS (continued)

(b) *Five highest paid individuals (continued)*

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

	Number of employees 2016	2015
Nil to HK$1,000,000	**1**	–
HK$1,000,001 to HK$1,500,000	**1**	2
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.

10. 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 (2015: 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:

	2016 RMB'000	2015 RMB'000
Current – PRC		
Charge for the year	**2,129**	2,029
(Overprovision)/underprovision in prior years	**(802)**	457
Deferred (note 30)	**6,395**	7,908
Total tax charge for the year	**7,722**	10,394

For the years ended 31 December 2016 and 2015, Yunhai Qingtian and Kuaitonglian were entitled to a preferential tax rate of 15% as they were recognised as high technology enterprises for these years.

10. 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:

	2016 RMB'000	2016 %	2015 RMB'000	2015 %
Profit before tax	31,862		32,069	
Tax at the statutory tax rate	7,742	24.3	5,186	16.2
Preferential tax rates	308	1.0	4,147	12.8
Super-deduction of eligible research and development expenditure	(180)	(0.6)	(239)	(0.7)
Adjustments in respect of current tax of previous periods	(802)	(2.5)	457	1.4
Income not subject to tax	(3,313)	(10.4)	(16,536)	(51.6)
Expenses not deductible for tax	2,792	8.8	4,420	13.8
Losses attributable to joint ventures and associates	1,878	5.9	4,443	13.9
Tax losses utilised from previous period	(828)	(2.6)	(395)	(1.2)
Tax losses not recognised	125	0.4	8,911	27.8
Tax charge at the Group's effective rate	7,722	24.2	10,394	32.4

11. DIVIDENDS

No dividends have been paid or declared by the Company for the year ended 31 December 2016 (2015: Nil).

12. 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 2016 is based on the profit for the year attributable to equity holders of the Company of RMB24,145,000 (2015: RMB22,006,000), and the weighted average number of ordinary shares in issue less shares held under share award scheme during the year of 1,814,893,000 (2015: 1,655,968,000).

No adjustment has been made to the basic earnings per share amount presented for the year ended 31 December 2016 in respect of a dilution as the impact of the share options outstanding and the awarded shares had an anti-dilutive effect on the basic earnings per share amount presented.

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 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 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 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.

13. 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 2016							
At 31 December 2015 and at 1 January 2016:							
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
At 1 January 2016, net of accumulated depreciation	127,829	6,224	6,888	–	7,472	–	148,413
Additions	–	1,718	3,376	–	6,547	–	11,641
Write-off	–	(202)	(9)	–	–	–	(211)
Depreciation provided during the year	(2,964)	(2,339)	(896)	–	(562)	–	(6,761)
At 31 December 2016, net of accumulated depreciation	124,865	5,401	9,359	–	13,457	–	153,082
At 31 December 2016:							
Cost	131,848	16,584	12,151	1,264	18,044	–	179,891
Accumulated depreciation	(6,983)	(11,183)	(2,792)	(1,264)	(4,587)	–	(26,809)
Net carrying amount	124,865	5,401	9,359	–	13,457	–	153,082

13. 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 2015							
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

14. INVESTMENT PROPERTIES

	2016 RMB'000	2015 RMB'000
Carrying amount at 1 January	**349,000**	310,000
Fair value gains on investment properties	**21,000**	39,000
Carrying amount at 31 December	**370,000**	349,000

The Group's investment properties were revalued on 31 December 2016 and 2015 based on valuations performed by Asset Appraisal Limited, independent professionally qualified valuers.

The investment properties are leased to third parties under operating leases, further summary details of which are included in note 36(a) to the financial statements.

The valuations of 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, the current use of the investment properties is their highest and best use. The investment properties measured at fair value in the aggregate carrying amount of RMB370,000,000 and RMB349,000,000 as at 31 December 2016 and 2015, respectively, are subject to restrictions on sale and transfer.

Fair value hierarchy

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

	Fair value measurement as at 31 December 2016 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	–	–	370,000	370,000

14. INVESTMENT PROPERTIES (continued)

Fair value hierarchy (continued)

	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

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 (2015: Nil).

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) 2016	2015
Commercial buildings	Income approach	Estimated rental value (per sq.m. and per month)	**RMB123**	RMB114
		Rental growth rate (per annum)	**5.0%**	5.0%
		Discount rate	**10.3%**	10%

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.

15. PREPAID LAND LEASE PAYMENTS

	2016 RMB'000	2015 RMB'000
Carrying amount at 1 January	**13,838**	14,161
Recognised during the year	**(323)**	(322)
Carrying amount at 31 December	**13,515**	13,839
Current portion included in prepayments, deposits and other receivables (note 22)	**(323)**	(323)
Non-current portion	**13,192**	13,516

16. GOODWILL

	RMB'000
Cost as at 1 January 2015, net of accumulated impairment	1,515
Impairment during the year (note)	(1,515)
Net carrying amount as at 31 December 2015, 1 January 2016 and 31 December 2016	–

Note:

In prior year, based on the annual impairment test performed, an impairment of RMB1,515,000 was recognised for goodwill on acquisition of a subsidiary in prior year as the core business of the subsidiary was gradually shrinking during prior 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.

17. INTANGIBLE ASSETS

	Trademarks, licences and software RMB'000	Music copyrights RMB'000	Mobile game licences RMB'000	Total RMB'000
31 December 2016				
Cost at 1 January 2016, net of accumulated amortisation and impairment	1,077	38	14,716	15,831
Additions	–	–	2,956	2,956
Amortisation provided during the year	(87)	(38)	(3,641)	(3,766)
Write-off	–	–	(6,492)	(6,492)
At 31 December 2016	990	–	7,539	8,529

17. INTANGIBLE ASSETS (continued)

	Trademarks, licences and software RMB'000	Music copyrights RMB'000	Mobile game licences RMB'000	Total RMB'000
At 31 December 2016:				
Cost	**39,282**	**7,030**	**37,101**	**83,413**
Accumulated amortisation and impairment	**(38,292)**	**(7,030)**	**(29,562)**	**(74,884)**
Net carrying amount	**990**	**–**	**7,539**	**8,529**
31 December 2015				
At 1 January 2015:				
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
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 and 1 January 2016:				
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

Note:

In prior year, an impairment was recognised and charged to profit or loss for certain mobile game licences with net total carrying amount of RMB10,451,000 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.

18. INVESTMENTS IN ASSOCIATES

	2016 RMB'000	2015 RMB'000
Share of net assets	3,578	4,395
Goodwill on acquisition	24,836	22,834
	28,414	27,229

During the year ended 31 December 2016, an unlisted equity investment amounted to RMB2,624,000 was reclassified from an investment in a joint venture to an investment in an associate due to the dilution in the Group's involvement in board of this company.

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.

	2016 RMB'000	2015 RMB'000
Share of the associates' losses for the year	(16,041)	(25,212)
Share of the associates' total comprehensive losses	(16,041)	(25,212)
Aggregate carrying amount of the Group's investments in the associates	28,414	27,229

The Group has discontinued the recognition of its share of losses of an associate, Beijing Duomi, because the share of losses of the associate exceeded the Group's interest in the associate and the Group has no obligation to take up further losses. The amount of the Group's unregconised share of losses of this associate for the current year and cumulatively were nil (2015: nil) and RMB10,866,000 (2015: RMB10,866,000), respectively.

19. INVESTMENTS IN JOINT VENTURES

	2016 RMB'000	2015 RMB'000
Share of net assets	3,716	9,997
Goodwill on acquisition	19,217	22,621
	22,933	32,618
Impairment (Note)	–	(1,265)
	22,933	31,353

Note:

In the prior year, an impairment was recognised for goodwill on acquisition of a joint venture 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 ended 31 December 2015. As such, management determined to recognise impairment for the goodwill of this company as at 31 December 2015.

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.

	2016 RMB'000	2015 RMB'000
Share of the joint ventures' losses for the year	(5,796)	(1,733)
Share of the joint ventures' total comprehensive losses	(5,796)	(1,733)
Aggregate carrying amount of the Group's investments in the joint ventures	22,933	31,353

20. AVAILABLE-FOR-SALE INVESTMENTS

	Notes	2016 RMB'000	2015 RMB'000
Current			
Unlisted financial products, at fair value	(a)	8,700	–
Non-current			
Unlisted equity investments, at cost	(b)	60,994	46,994
		69,694	46,994

(a) The current available-for-sale investments were unlisted financial products purchased from banks in the PRC which were principal unprotected with expected interest rates from 3.0% to 3.3% per annum.

In order to determine the fair value of the unlisted financial products, which has been categorised as level 3 hierarchy in fair value measurement, significant unobservable inputs including expected rate of return of 3% to 3.3% has been used.

The sensitivity of fair value of the input is a 1% increase/(decrease) in expected rate of return would result in increase/(decrease) in fair value by RMB87,000 (RMB87,000).

(b) As at 31 December 2016, the non-current unlisted equity investments with an aggregate carrying amount of RMB60,994,000 (2015: RMB46,994,000) were stated at cost less impairment 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.

Included in the non-current unlisted equity investments is a 20% equity interests in an internet company of RMB4,000,000 (2015: Nil) which is not regarded as an associate of the Group because the Group is unable to exercise significant influence over this company pursuant to the arrangement with the other investors.

As at 31 December 2015, one of the 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.

21. TRADE RECEIVABLES

	2016 RMB'000	2015 RMB'000
Trade receivables	**8,736**	23,281
Impairment	**(95)**	(160)
	8,641	23,121

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:

	2016 RMB'000	2015 RMB'000
Billed		
Within 1 month	**445**	431
Over 1 month but less than 2 months	**1,000**	6,264
Over 2 months but less than 3 months	**462**	1,334
Over 3 months but less than 4 months	**409**	674
Over 4 months	**68**	2,026
	2,384	10,729
Unbilled	**6,257**	12,392
	8,641	23,121

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

	2016 RMB'000	2015 RMB'000
At 1 January	**160**	1,999
Write-back of impairment (note 7)	**(65)**	(1,615)
Amount written off as uncollectible	**–**	(224)
At 31 December	**95**	160

21. 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:

	2016 RMB'000	2015 RMB'000
Neither past due nor impaired	445	431
Less than 1 month past due	1,000	6,264
1 to 2 months past due	871	2,008
Over 3 months past due	68	2,026
	2,384	10,729

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

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

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2016 RMB'000	2015 RMB'000
Prepayments	20,425	17,369
Prepaid land lease payments (note 15)	323	323
Deposits and other receivables	7,447	9,079
Receivables on redemption of convertible notes	–	100,672
	28,195	127,443
Impairment	(12,685)	(12,588)
	15,510	114,855

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 as at 31 December 2015, the Group does not hold any collateral or other credit enhancements over these balances.

Included in the other receivables is an amount due from the Group's associate of RMB748,000 (2015: 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 (2015: RMB1 million), which is unsecured, bears interest at 10% per annum and is repayable in 2017 (2015: repayable in 2016).

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (continued)

The receivables as at 31 December 2015 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 in January 2016.

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

	2016 RMB'000	2015 RMB'000
At 1 January	**12,588**	4,075
Impairment losses recognised	**97**	8,513
At 31 December	**12,685**	12,588

Included in the above provision for prepayments and other receivables is a provision for individually impaired receivables of RMB12,685,000 (2015: RMB12,588,000) with a gross carrying amount of RMB12,685,000 (2015: RMB12,588,000).

23. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2016 RMB'000	2015 RMB'000
Listed equity investments, at fair value	**326**	342

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.

24. RESTRICTED BANK BALANCES AND PLEDGED DEPOSIT

	Notes	2016 RMB'000	2015 RMB'000
Restricted cash balances	(a)	**3,664**	66,990
Pledged deposit	(b)	**30,000**	–
Restricted bank balances and pledged deposit		**33,664**	66,990

Notes:

(a) Restricted cash balances of the Group represented government grants receipt that are restricted to use.

As at 31 December 2015, included in restricted cash balance is a refundable collateral security for receivables on redemption of convertible notes that is restricted to use. The refundable collateral security was refunded to the associate in January 2016.

(b) Bank balance of RMB30,000,000 as at 31 December 2016 was pledged to secure a bank loan (note 29) granted to the Group.

25. CASH AND CASH EQUIVALENTS

	2016 RMB'000	2015 RMB'000
Cash and bank balances	**199,591**	274,004
Time deposits	**280,979**	222,731
	480,570	496,735
Less: Restricted cash balances and pledged deposit (note 24)	**(33,664)**	(66,990)
Cash and cash equivalents	**446,906**	429,745
Denominated in RMB	**203,267**	285,918
Denominated in other currencies	**243,639**	143,827
Cash and cash equivalents	**446,906**	429,745

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.

26. NON-CURRENT ASSET HELD FOR SALE

As at 31 December 2016, a newly acquired internet company with a carrying amount of RMB192,604,000, which was classified as an investment in an associate, was reclassified as a non-current asset held for sale as the Group intends to dispose of the investment in coming year. The directors consider the sale to be highly probable in the forthcoming year.

27. 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:

	2016 RMB'000	2015 RMB'000
Within 1 month	1,327	11,188
1 to 3 months	1,231	5,202
4 to 6 months	618	1,575
Over 6 months	17,747	11,340
	20,923	29,305

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

Included in the trade payables are amounts due to an associate of RMB344,000 (2015: RMB344,000) and a joint venture of RMB21,000 (2015: Nil), which are unsecured, interest-free and repayable on demand.

28. OTHER PAYABLES AND ACCRUALS

	2016 RMB'000	2015 RMB'000
Other payables	134,510	92,975
Accruals	12,306	15,989
Receipt in advance	649	599
	147,465	109,563
Current portion	(129,965)	(109,563)
Non-current portion	17,500	–

As at 31 December 2015, included in the current portion of other payables is an amount due to an associate of RMB60 million, 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.

29. INTEREST-BEARING BANK BORROWINGS

	2016			2015		
	Effective interest rate (%)	**Maturity**	**RMB'000**	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loan – secured	**3.92**	**2017**	**18,870**	–	–	–
Bank loan – unsecured	**5.66**	**2017**	**8,000**	–	–	–
			26,870			–

	2016 RMB'000	2015 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**26,870**	–

Notes:

(a) The Group's bank loans are secured or guaranteed by:

(i) a pledged deposit of RMB30 million (note 24); and

(ii) a corporate guarantee provided by a group company.

(b) The Group's bank loans are denominated in RMB.

30. 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 2015	2,294
Deferred tax credited to the statement of profit or loss during the year (note 10)	1,842
At 31 December 2015 and 1 January 2016	4,136
Deferred tax charged to the statement of profit or loss during the year (note 10)	(1,145)
At 31 December 2016	2,991

30. DEFERRED TAX (continued)

Deferred tax liabilities

	Transfer of profit derived from contractual agreements 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 2015	(813)	(177)	(44,370)	(45,360)
Deferred tax charged to the statement of profit or loss during the year (note 10)	–	–	(9,750)	(9,750)
At 31 December 2015 and 1 January 2016	(813)	(177)	(54,120)	(55,110)
Deferred tax charged to the statement of profit or loss during the year (note 10)	–	–	(5,250)	(5,250)
At 31 December 2016	(813)	(177)	(59,370)	(60,360)

The Group has tax losses arising in Mainland China of RMB34,993,000 (2015: RMB35,820,000) that will expire in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

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

At 31 December 2016, 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 RMB255,931,000 at 31 December 2016 (2015: RMB270,057,000).

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

31. 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 Holding Limited ("Duomi Music"). All the above preferred shares can be converted into ordinary shares at US$0.43 per share (subject to adjustments).

In March 2016, the Group has converted all of the preferred shares into ordinary shares of Duomi Music and as at 31 December 2016, the Group had no outstanding preferred shares.

The fair values of the conversion option embedded in preferred shares as at 31 December 2015 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
Expected volatility (i)	51.20%
Option life (years)	1.96
Risk-free interest rate (ii)	1.04%

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 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)

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% was used as at 31 December 2015.

32. SHARE CAPITAL

Shares

	2016 RMB'000	2015 RMB'000
Authorised: 3,000,000,000 (2015: 3,000,000,000) ordinary shares of HK$0.01 each	**26,513**	26,513
Issued and fully paid: 1,835,192,628 (2015: 1,835,192,628) ordinary shares of HK$0.01 each	**15,123**	15,123

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 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 January 2016 and 31 December 2016		1,835,192,628	18,352	806,797	15,123	663,208	678,331

Notes:

(a) During the prior 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.

Details of new shares of the Company issued subsequent to 31 December 2016 are disclosed in note 42 to the financial statements.

33. 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.

33. SHARE OPTION SCHEMES (continued)

(a) *Share option scheme (continued)*

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

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

	2016 Weighted average exercise price HK$ per share	2016 Number of options '000	2015 Weighted average exercise price HK$ per share	2015 Number of options '000
At 1 January	**0.84**	**49,779**	0.83	47,204
Granted during the year	**0.56**	**8,910**	1.04	4,808
Forfeiture during the year	**0.67**	**(6,890)**	1.30	(1,655)
Cancelled during the year	**1.56**	**(5,417)**	–	–
Exercised during the year	**–**	**–**	0.66	(578)
At 31 December	**0.73**	**46,382**	0.84	49,779

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

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

2016

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**
1,500	**0.690**	**14-1–2014 to 14-1–2019**
3,178	**0.684**	**24-1–2014 to 24-1–2021**
24,178	**0.650**	**23-4–2014 to 23-4–2021**
4,808	**1.040**	**14-5–2015 to 14-5–2022**
8,910	**0.560**	**16-5–2016 to 16-5–2023**
46,382		

33. SHARE OPTION SCHEMES (continued)

(a) Share option scheme (continued)

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		

* 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 RMB2,217,000 (RMB0.25 per share) (2015: RMB2,418,000 (RMB0.50 per share)). The Group recognised a share option expense of RMB3,700,000 (2015: RMB4,399,000) during the year ended 31 December 2016 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 Binomial 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:

	2016	2015
Dividend yield (%)	**–**	–
Expected volatility (%)	**68.77%**	69.36%
Risk-free interest rate (%)	**1.01%**	1.54%
Expected life of options (years)	**1.00-3.00**	1.00-4.00
Weighted average share price (HK$ per share)	**0.54**	1.04

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.

33. 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 under the Join Reach share option scheme were outstanding as at 31 December 2016 and 2015. No share option has been granted, exercised, cancelled or lapsed during the years.

At the end of the reporting period, the Company had approximately 46,382,000 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 46,382,000 additional ordinary shares of the Company and additional share capital of HK$464,000 and share premium of HK$33,395,000 (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 46,382,000 share options outstanding under the share option scheme, which represented approximately 2.53% of the Company's shares in issue as at that date.

34. SHARE AWARD SCHEME

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

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

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

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

During the year, a total of 1,030,800 (2015: 1,532,000) shares at a cost of RMB2,573,000 (2015: RMB1,788,000) were vested.

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

	2016		2015	
	Average fair value HK$ per share	**Number of shares '000**	Average fair value HK$ per share	Number of shares '000
At 1 January		**3,849**		5,381
Vested	**1.10**	**(1,031)**	1.45	(1,532)
At 31 December		**2,818**		3,849

34. SHARE AWARD SCHEME (continued)

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

	2016 Number of shares held '000	2015 Number of shares held '000
At 1 January	**20,767**	22,299
Released during the year	**(1,031)**	(1,532)
At 31 December	**19,736**	20,767

35. 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 56 to 57 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.

35. RESERVES (continued)

(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.

36. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 14) under operating lease arrangements, with leases negotiated for terms ranging from 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:

	2016 **RMB'000**	2015 RMB'000
Within one year	**38,160**	29,824

36. OPERATING LEASE ARRANGEMENTS (continued)

(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:

	2016 RMB'000	2015 RMB'000
Within one year	857	120
In the second to fifth years, inclusive	290	–
	1,147	120

37. COMMITMENTS

In addition to the operating lease commitments detailed in note 36(b) above, the Group had the following commitments as at the end of the reporting period:

	2016 RMB'000	2015 RMB'000
Contracted, but not provided for:		
Investments	–	10,000

38. RELATED PARTY DISCLOSURES

(a) In addition to those detailed elsewhere in these financial statements, during the current year, the Group has the following transaction:

	2016 RMB'000	2015 RMB'000
Game licence fee paid	1,500	–
Participation prepayment	500	–
	2,000	–

The licence of a mobile game was entrusted to Xiamen Mechanist Internet Technologies Co., Ltd. ("Mengjia"), a company of which Mr. Liu, the Chairman of the Group, is the shareholder and the director. The game licence fee and participation prepayment were charged pursuant to the terms in the agreement signed between the Group and Mengjia.

The above related party transaction also constituted continuing connected transactions as defined in the Chapter 14A of the Listing Rules.

38. RELATED PARTY DISCLOSURES (continued)

(b) Outstanding balances with related parties:

Details of the Group's balances with its joint venture and associates as at the end of the reporting period are disclosed in notes 22, 27 and 28 to the financial statements.

(c) Compensation of key management personnel of the Group

	2016 RMB'000	2015 RMB'000
Short term employee benefits	**2,107**	2,211
Performance related bonuses	**445**	433
Pension scheme contributions	**307**	166
Equity-settled share option expense	**3,371**	3,239
Equity-settled share award expense	**–**	5
Total compensation paid to key management personnel	**6,230**	6,054

Further details of directors' emoluments are included in note 9 to these financial statements.

39. FINANCIAL INSTRUMENTS BY CATEGORY

Other than financial assets at fair value through profit or loss, available-for-sale investments and the conversion option embedded in preferred shares as disclosed in notes 23, 20 and 31 to the financial statements, respectively, all financial assets and liabilities of the Group as at 31 December 2016 and 2015, were loans and receivables, and financial liabilities stated at amortised cost, respectively.

40. 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 2016

	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	326	–	–	326
Available-for-sale investments:				
Unlisted financial products, at fair value	–	–	8,700	8,700
	326	–	8,700	9,026

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

40. 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	Available-for-sale investments RMB'000
At 1 January 2015	9,242	–
Fair value loss on conversion option	(2,933)	–
At 31 December 2015 and 1 January 2016	6,309	–
Conversion of preferred shares	(6,309)	–
Additions	–	8,700
At 31 December 2016	–	8,700

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.

41. 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 to the financial statements.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(a) Credit risk

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

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

As mentioned in note 3.3 to the financial statements, 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.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(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

	2016			2015	
	Within one year or on demand RMB'000	1-2 years RMB'000	Total RMB'000	Within one year or on demand RMB'000	Total RMB'000
Interest-bearing bank borrowings	26,870	–	26,870	–	–
Trade payables	20,923	–	20,923	29,305	29,305
Other payables and accruals	129,965	18,025	147,990	109,563	109,563
	177,758	18,025	195,783	138,868	138,868

(c) Capital management

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

The Group monitors capital on the basis of the net cash over the debt position, which is cash and cash equivalents less interest-bearing bank borrowings, 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:

	2016 RMB'000	2015 RMB'000
Cash and cash equivalents	446,906	429,745
Interest-bearing bank borrowings	(26,870)	–
Trade payables	(20,923)	(29,305)
Other payables and accruals	(147,465)	(109,563)
Net cash over debt position	251,648	290,877

42. EVENT AFTER THE REPORTING PERIOD

On 19 December 2016, the Company entered into a subscription agreement with Ever Novel Holdings Limited (the ''Subscriber''), whose issued share capital is 100% beneficially owned by a family trust set up by Mr. Liu, pursuant to which the Subscriber agreed to subscribe an aggregate of 931,800,000 new shares of the Company at a price of HK$0.41 each. The subscription was completed on 20 February 2017.

43. 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:

	2016 RMB'000	2015 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	115,164	111,165
Total non-current assets	115,164	111,165
CURRENT ASSETS		
Other receivables	289	277
Amounts due from subsidiaries	463,730	461,705
Cash and cash equivalents	115,898	116,680
Total current assets	579,917	578,662
CURRENT LIABILITIES		
Other payables and accruals	2,578	2,589
Total current liabilities	2,578	2,589
NET CURRENT ASSETS	577,339	576,073
Net assets	692,503	687,238
EQUITY		
Issued capital	15,123	15,123
Reserves (note)	677,380	672,115
Total equity	692,503	687,238

43. 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 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 and 1 January 2016	672,137	(4,942)	8,969	4,320	22,436	(30,805)	672,115
Total comprehensive income for the year	–	–	–	6,743	–	(5,178)	1,565
Equity-settled share-based payment arrangements	–	–	–	–	3,700	–	3,700
Transfer of reserve upon the forfeiture or expiry of share options	–	–	–	–	(933)	933	–
Employee share award scheme – release of award shares	–	270	–	–	(270)	–	–
At 31 December 2016	672,137	(4,672)	8,969	11,063	24,933	(35,050)	677,380

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.

44. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 29 March 2017.