A8新媒体集团
A8 NEW MEDIA GROUP

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 00800

INTERIM REPORT 2018


A8音乐
青松基金
QINGSONG FUND
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CORPORATE INFORMATION

EXECUTIVE DIRECTORS
Mr. Liu Xiaosong
Mr. Lin Qian

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. Lin Qian

COMPANY SECRETARY
Ms. Ho Wing Yan

AUDITORS
Ernst & Young

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

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The PRC

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Hong Kong

WEBSITE
www.a8nmg.com

STOCK CODE
00800

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2018

	Notes	For the six months ended 30 June 2018 (Unaudited) RMB'000	2017 (Unaudited) RMB'000
REVENUE, net of taxes and surcharges	4	**77,807**	55,802
Cost of services provided		**(39,143)**	(26,038)
Gross profit		**38,664**	29,764
Other income and gains, net	4	**48,898**	15,070
Selling and marketing expenses		**(22,123)**	(7,779)
Administrative expenses		**(22,940)**	(15,046)
Other expenses, net		**(378)**	(4,970)
Finance costs	5	**(3,888)**	(1,403)
Share of profits and losses of associates		**3,721**	(1,735)
Share of losses of joint ventures		**–**	(1,047)
PROFIT BEFORE TAX	6	**41,954**	12,854
Income tax expense	7	**(10,285)**	(2,823)
PROFIT FOR THE PERIOD		**31,669**	10,031
Attributable to:			
Owners of the Company		**33,068**	10,014
Non-controlling interests		**(1,399)**	17
		31,669	10,031
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	9		
Basic (RMB per share)		**1.2 cent**	0.4 cent
Diluted (RMB per share)		**1.2 cent**	0.4 cent

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2018

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
PROFIT FOR THE PERIOD	**31,669**	10,031
OTHER COMPREHENSIVE LOSS		
Other comprehensive loss to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of financial statements	**(1,945)**	(7,786)
Other comprehensive loss not to be reclassified to profit or loss in subsequent periods:		
Net loss on financial assets at fair value through other comprehensive income	**(20,185)**	–
OTHER COMPREHENSIVE LOSS	**(22,130)**	(7,786)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**9,539**	2,245
Attributable to:		
Owners of the Company	**10,938**	2,228
Non-controlling interests	**(1,399)**	17
	9,539	2,245

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

	Notes	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	10	146,031	149,888
Investment properties	11	426,000	420,000
Prepaid land lease payments		12,708	12,869
Prepayment		–	8,100
Intangible assets		29,124	21,927
Goodwill	18	88,406	–
Investments in associates	12	304,008	223,458
Investments in joint ventures		–	–
Financial assets at fair value through profit or loss		145,169	16,050
Financial assets at fair value through other comprehensive income		42,324	–
Available-for-sale investments		–	93,944
Deferred tax assets		2,233	2,586
Total non-current assets		1,196,003	948,822
CURRENT ASSETS			
Network films and dramas under production		4,235	3,277
Trade receivables	13	17,396	14,624
Prepayments, deposits and other receivables		29,117	20,647
Financial assets at fair value through profit or loss		37,716	332
Available-for-sale investments		–	32,272
Restricted cash balances and pledged deposits		278,033	133,513
Cash and cash equivalents		345,992	546,071
Total current assets		712,489	750,736
CURRENT LIABILITIES			
Trade payables	15	28,459	26,474
Other payables and accruals		81,453	61,949
Interest-bearing bank borrowings		228,058	117,150
Tax payable		10,265	9,788
Deferred income		4,353	5,299
Total current liabilities		352,588	220,660
NET CURRENT ASSETS		359,901	530,076
TOTAL ASSETS LESS CURRENT LIABILITIES		1,555,904	1,478,898

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

As at 30 June 2018

	Note	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
NON-CURRENT LIABILITIES			
Deferred tax liabilities		81,536	72,860
Deferred income		5,699	6,700
Total non-current liabilities		87,235	79,560
Net assets		1,468,669	1,399,338
EQUITY			
Equity attributable to owners of the Company			
Issued capital	16	22,877	22,984
Reserves		1,434,662	1,376,886
		1,457,539	1,399,870
Non-controlling interests		11,130	(532)
Total equity		1,468,669	1,399,338

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018

		Attributable to owners of the Company															
	Note	Share capital (Unaudited) RMB'000 (note 16)	share premium account (Unaudited) RMB'000 (note 16)	Treasury shares (Unaudited) RMB'000	Shares held under award scheme (Unaudited) RMB'000	Merger reserve (Unaudited) RMB'000	Surplus contributions (Unaudited) RMB'000	Fair value reserve (without recycling) (Unaudited) RMB'000	Employee share-based compensation reserve (Unaudited) RMB'000	Exchange fluctuation reserve (Unaudited) RMB'000	Capital reserve (Unaudited) RMB'000	Statutory reserve fund (Unaudited) RMB'000	Reserve fund (Unaudited) RMB'000	Retained profits (Unaudited) RMB'000	Total (Unaudited) RMB'000	Non-controlling interests (Unaudited) RMB'000	Total equity (Unaudited) RMB'000
At 1 January 2018		22,984	973,928*	(4,851)*	(4,672)*	29,135*	10,522*	–*	32,519*	(18,124)*	10,016*	21,701*	4,422*	322,290*	1,399,870	(532)	1,399,338
Impact of IFRS 9		–	–	–	–	–	–	21,515	–	–	–	–	–	24,069	45,584	–	45,584
At 1 January 2018 (adjusted)		22,984	973,928	(4,851)	(4,672)	29,135	10,522	21,515	32,519	(18,124)	10,016	21,701	4,422	346,359	1,445,454	(532)	1,444,922
Profit for the period		–	–	–	–	–	–	–	–	–	–	–	–	33,068	33,068	(1,399)	31,669
Other comprehensive income for the period:																	
Exchange differences on translation of financial statements		–	–	–	–	–	–	–	–	(1,945)	–	–	–	–	(1,945)	–	(1,945)
Net loss on financial assets at fair value through other comprehensive income		–	–	–	–	–	–	(20,185)	–	–	–	–	–	–	(20,185)	–	(20,185)
Total comprehensive income for the period		–	–	–	–	–	–	(20,185)	–	(1,945)	–	–	–	33,068	10,938	(1,399)	9,539
Acquisition of subsidiaries		–	–	–	–	–	–	–	–	–	–	–	–	–	–	13,061	13,061
Employee share award scheme:																	
– release of awarded shares		–	–	–	1,582	–	–	–	(1,582)	–	–	–	–	–	–	–	–
Equity-settled share-based payment arrangements	17	–	–	–	–	–	–	–	1,147	–	–	–	–	–	1,147	–	1,147
Transfer of reverse upon the expiry of share options		–	–	–	–	–	–	–	(614)	–	–	–	–	614	–	–	–
Cancellation of shares repurchased		(107)	(4,744)	4,851	–	–	–	–	–	–	–	–	–	–	–	–	–
At 30 June 2018		22,877	969,184*	–*	(3,090)*	29,135*	10,522*	1,330*	31,470*	(20,069)*	10,016*	21,701*	4,422*	380,041*	1,457,539	11,130	1,468,669

* These reserve accounts comprise the consolidated reserves of RMB1,434,662,000 (31 December 2017: RMB1,376,886,000) in the condensed consolidated statement of financial position.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

For the six months ended 30 June 2018

		Attributable to owners of the Company													
		Issued capital (Unaudited) RMB'000	Shares premium account (Unaudited) RMB'000	Share held under award scheme (Unaudited) RMB'000	Merger reserve (Unaudited) RMB'000	Surplus contributions (Unaudited) RMB'000	Employee share-based compensation reserve (Unaudited) RMB'000	Exchange fluctuation reserve (Unaudited) RMB'000	Capital reserve (Unaudited) RMB'000	Statutory reserve funds (Unaudited) RMB'000	Reserve fund (Unaudited) RMB'000	Retained profits (Unaudited) RMB'000	Total (Unaudited) RMB'000	Non-controlling interests (Unaudited) RMB'000	Total equity (Unaudited) RMB'000
At 1 January 2017		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
Profit for the period		–	–	–	–	–	–	–	–	–	–	10,014	10,014	17	10,031
Other comprehensive income for the period:															
Exchange differences on translation of financial statements		–	–	–	–	–	–	(7,786)	–	–	–	–	(7,786)	–	(7,786)
Total comprehensive income for the period		–	–	–	–	–	–	(7,786)	–	–	–	10,014	2,228	17	2,245
Issue of new shares		8,253	330,129	–	–	–	–	–	–	–	–	–	338,382	–	338,382
Share issue expenses		–	(1,178)	–	–	–	–	–	–	–	–	–	(1,178)	–	(1,178)
Equity-settled share-based payment arrangements	17	–	–	–	–	–	1,583	–	–	–	–	–	1,583	–	1,583
At 30 June 2017		23,376	992,159	(4,672)	29,135	10,522	31,666	6,026	10,016	21,701	4,422	307,274	1,431,625	(685)	1,430,940

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018

	Note	For the six months ended 30 June 2018 (Unaudited) RMB'000	2017 (Unaudited) RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash from operations		**8,025**	11,117
Tax paid		**(1,242)**	(1,756)
Net cash flows from operating activities		**6,783**	9,361
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of available-for-sale investments		**–**	(17,300)
Acquisition of subsidiaries, net of cash acquired	18	**(55,483)**	–
Acquisition of financial assets at fair value through profit or loss		**(57,245)**	–
Proceeds from disposal of financial assets at fair value through profit or loss		**14,772**	–
Increase in prepayments for acquisition of items of property, plant and equipment		**–**	(483)
Purchases of items of property, plant and equipment		**(806)**	(5,605)
Payment for acquisition of a non-current asset held for sale		**–**	(87,500)
Purchases of intangible assets		**(7,558)**	(2,256)
Interest received		**11,335**	5,066
Increase in restricted cash and pledged deposits		**(144,520)**	(121,737)
(Increase)/decrease in time deposits with original maturity of more than three months when acquired		**(5,997)**	30,015
Capital injection in associates		**(70,432)**	–
Net cash flows used in investing activities		**(315,934)**	(199,800)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of new shares		**–**	338,382
Share issue expenses		**–**	(1,178)
New bank loans		**199,558**	107,150
Interest paid		**(3,888)**	(1,403)
Repayment of bank loans		**(90,650)**	(41,870)
Net cash flows from financing activities		**105,020**	401,081
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(204,131)**	210,642
Cash and cash equivalents at beginning of period		**522,068**	416,891
Effect of foreign exchange rate changes, net		**(1,945)**	(7,786)
CASH AND CASH EQUIVALENTS AT END OF PERIOD		**315,992**	619,747
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**207,297**	93,550
Time deposits		**138,695**	526,197
Cash and cash equivalents as stated in the condensed consolidated statement of financial position		**345,992**	619,747
Time deposits with original maturity of more than three months when acquired		**(30,000)**	–
Cash and cash equivalents as stated in the condensed consolidated statement of cash flows		**315,992**	619,747

NOTES TO INTERIM FINANCIAL INFORMATION

1. CORPORATE INFORMATION

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

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

- provision of digital entertainment services
- property investment

There were no significant changes in the nature of the Group's principal activities.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised IFRSs for the first time for the current period's unaudited interim financial information:

Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*
IFRS 9	*Financial Instruments*
IFRS 15	*Revenue from Contracts with Customers*
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*
Amendments to IAS 40	*Transfers of Investment Property*
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014-2016 Cycle	Amendments to IFRS 1 and IAS 28

Other than as further explained below regarding the impact of IFRS 9 and IFRS 15, the adoption of the new and revised IFRSs has had no material impact on the unaudited interim financial information of the Group. The principal effects for adopting IFRS 9 and IFRS 15 are as follows:

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 *Revenue* and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard 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 standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

NOTES TO INTERIM FINANCIAL INFORMATION

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

IFRS 15 *Revenue from Contracts with Customers* (continued)

The Group adopted IFRS 15 using the modified retrospective method which allows the Group to recognise the cumulative effects of initially applying IFRS 15 as an adjustment to the opening balance of retained earnings in the 2018 financial year. The Group elected to apply the practical expedient for completed contracts and did not restate the contracts completed before 1 January 2018, thus the comparative figures have not been restated. The adoption of IFRS 15 does not have a material impact on the Group's condensed consolidated financial statement.

IFRS 9 *Financial Instruments*

IFRS 9 brings together all phases of the financial instruments project to replace IAS 39 and all previous versions of IFRS 9 for annual periods on or after 1 January 2018. The Group has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9 *Financial Instruments: Recognition and measurement*. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018. Differences arising from the adoption of IFRS 9 have been recognised directly in relevant statement of balance sheet items as of 1 January 2018.

(a) Classification and measurement

Except for trade receivables, under IFRS 9, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Under IFRS 9, debt financial instruments are subsequently measured at fair value through profit or loss ("FVPL"), amortised cost, or fair value through other comprehensive income ("FVOCI"). The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the "SPPI criterion").

The new classification and measurement of the Group's debt financial assets is, as follows:

- Debt instruments at amortised cost for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion. This category includes the Group's trade receivables and financial assets included in prepayments, deposits and other receivables.

Other financial assets are classified and subsequently measured, as follows:

- Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition. This category only includes equity instruments, which the Group intends to hold for the foreseeable future and which the Group has irrevocably elected to so classify upon initial recognition or transition. The Group classified its listed and unlisted equity instruments as equity instruments at FVOCI. Equity instruments at FVOCI are not subject to an impairment assessment under IFRS 9. Under IAS 39, the Group's unlisted equity instruments were classified as available-for-sale ("AFS") financial assets.

- Financial assets at FVPL – include derivative instruments and unlisted equity investments which the Group has not irrevocably elected, at initial recognition or transition, to classify as FVOCI. Under IAS 39, the Group's unlisted equity investments were classified as AFS financial assets at cost.

- Debt instruments at FVOCI – with gains or losses recycled to profit or loss on derecognition. The Group does not have any financial assets classified in this category.

NOTES TO INTERIM FINANCIAL INFORMATION

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

IFRS 9 *Financial Instruments* (continued)

(a) Classification and measurement (continued)

The assessment of the Group's business models was made as of the date of initial application, 1 January 2018, and applied to those financial assets that were not derecognised before 1 January 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The accounting for the Group's financial liabilities remains largely the same as it was under IAS 39. Similar to the requirements of IAS 39, IFRS 9 requires contingent consideration liabilities to be treated as financial instruments measured at fair value, with the changes in fair value recognised in profit or loss.

Under IFRS 9, embedded derivatives are no longer separated from a host financial asset. Instead, financial assets are classified based on their contractual terms and the Group's business model.

The accounting for derivatives embedded in financial liabilities and in non-financial host contracts has not changed from that required by IAS 39.

(b) Impairment

The adoption of IFRS 9 has changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss ("ECL") approach.

IFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL.

The ECL allowance is based on difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

For trade receivables, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Deposits and other receivables are assessed for impairment based on 12-month expected credit losses: 12-month ECLs are the portion of lifetime ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the asset is less than 12 months). However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL.

The adoption of the ECL requirements of IFRS 9 did not result in change in impairment allowance of the Group's debt financial assets.

NOTES TO INTERIM FINANCIAL INFORMATION

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

IFRS 9 *Financial Instruments* (continued)

(b) Impairment (continued)

The following summarises the changes for the Group's financial assets on 1 January 2018, the Group's date of initial application of IFRS 9:

	Originally stated			IFRS 9		
	Loans and receivables RMB'000	Available-for-sale investments RMB'000	Remeasurement upon application of IFRS 9 RMB'000	Amortised cost RMB'000	Financial assets at FVOCI (without recycling) RMB'000	Financial assets at FVPL RMB'000
Financial assets						
Financial assets included in trade receivables and deposits and other receivables	29,591	–	–	29,591	–	–
Available-for-sale investments	–	126,216	45,584	–	76,459	95,341
Pledged deposits and restricted cash balances in financial institutions	133,513	–	–	133,513	–	–
Cash and cash equivalents	546,071	–	–	546,071	–	–
	709,175	126,216	45,584	709,175	76,459	95,341

The impact of the Group's reserves due to the remeasurement of financial instruments as at 1 January 2018, the Group's date of initial application of IFRS 9, is as follows:

	Fair value reserve (without recycling) RMB'000	Retained profits RMB'000	Total equity RMB'000
At 1 January 2018 (originally stated)	–	322,290	1,399,338
Remeasurement upon initial application of IFRS 9	26,515	19,069	45,584
Reclassification upon initial application of IFRS 9	(5,000)	5,000	–
At 1 January 2018 (adjusted)	21,515	346,359	1,444,922

NOTES TO INTERIM FINANCIAL INFORMATION

3. OPERATING SEGMENT INFORMATION

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

(a) the digital entertainment segment engages in the provision of (1) music-based entertainment; (2) game-related services; and (3) film and television production 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, net are excluded from such measurement.

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

For the six months ended 30 June

	Digital entertainment		Property investment		Total	
	2018 (Unaudited) RMB'000	2017 (Unaudited) RMB'000	**2018 (Unaudited) RMB'000**	2017 (Unaudited) RMB'000	**2018 (Unaudited) RMB'000**	2017 (Unaudited) RMB'000
Segment net revenue	**42,195**	24,163	**35,612**	31,639	**77,807**	55,802
Cost of services provided	**(29,507)**	(17,884)	**(9,636)**	(8,154)	**(39,143)**	(26,038)
Gross profit	**12,688**	6,279	**25,976**	23,485	**38,664**	29,764
Segment results	**13,754**	(5,951)	**31,976**	33,485	**45,730**	27,534
Reconciliation:						
Bank interest income					**8,336**	5,066
Finance costs					**(3,888)**	(1,403)
Corporate and other unallocated income and expenses, net					**(8,224)**	(18,343)
Profit before tax					**41,954**	12,854
Income tax expense					**(10,285)**	(2,823)
Profit for the period					**31,669**	10,031

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.

NOTES TO INTERIM FINANCIAL INFORMATION

4. REVENUE, OTHER INCOME AND GAINS, NET

Revenue represents the net invoiced value (net of taxes and surcharges) and estimated value of services rendered.

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

	For the six months ended 30 June	
	2018 (Unaudited) RMB'000	2017 (Unaudited) RMB'000
Revenue		
Digital entertainment		
Game-related revenue	**38,995**	20,804
Music-based entertainment	**3,447**	3,428
Sub-total	**42,442**	24,232
Property investment		
Rental and management fee income	**37,105**	31,898
	79,547	56,130
Less: Taxes and surcharges	**(1,740)**	(328)
Net revenue	**77,807**	55,802
Other income and gains, net		
Bank interest income	**8,336**	5,066
Fair value gains on investment properties	**6,000**	10,000
Fair value gains on financial assets at fair value through profit or loss	**28,705**	–
Foreign exchange differences, net	**4,303**	–
Others	**1,554**	4
	48,898	15,070

5. FINANCE COSTS

An analysis of finance costs is as follows:

	For the six months ended 30 June	
	2018 (Unaudited) RMB'000	2017 (Unaudited) RMB'000
Interest on bank loans	**3,888**	1,403

NOTES TO INTERIM FINANCIAL INFORMATION

6. PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2018 (Unaudited) RMB'000	2017 (Unaudited) RMB'000
Depreciation	**4,512**	4,422
Amortisation of intangible assets	**1,351**	2,078
Amortisation of prepaid land lease payments	**162**	162
Fair value loss on financial assets at fair value through profit or loss**	**16**	11
Fair value gain on financial assets at fair value through profit or loss*	**(28,705)**	–
Foreign exchange differences, net*/**	**(4,303)**	4,802

* Included in "Other income and gains, net" on the face of the condensed consolidated statement of profit or loss.

** Included in "Other expenses, net" on the face of the condensed consolidated statement of profit or loss.

7. 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 six months ended 30 June 2018 and 2017, respectively.

The income tax for the subsidiaries operating in Mainland China is calculated at the prevailing tax rates in the jurisdictions in which the subsidiaries operate.

An analysis of the income tax charges for the six months ended 30 June 2018 and 2017 is as follows:

	For the six months ended 30 June	
	2018 (Unaudited) RMB'000	2017 (Unaudited) RMB'000
Current – PRC		
Charge for the period	**822**	510
Underprovision in the prior years	**434**	235
Deferred	**9,029**	2,078
Total tax charge for the period	**10,285**	2,823

NOTES TO INTERIM FINANCIAL INFORMATION

8. INTERIM DIVIDEND

The Board does not recommend payment of an interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: Nil).

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

The calculation of the basic earnings per share amounts for the six months ended 30 June 2018 is based on the profit for the period attributable to equity holders of the Company of RMB33,068,000 (six months ended 30 June 2017: RMB10,014,000), and the weighted average number of ordinary shares in issue less shares held under share award scheme during the six months ended 30 June 2018 of 2,694,301,000 (six months ended 30 June 2017: 2,489,853,000).

No adjustment has been made to the basic earnings per share amount presented for the period ended 30 June 2018 in respect of a dilution as the exercise price of outstanding share options was higher than the average market price of the ordinary shares of the Company during the period and the share options had no dilutive effect on the basic earnings per share amount presented.

10. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment of RMB138,000 (six months ended 30 June 2017: RMB1,465,000). There were disposals and/or write-off of property, plant and equipment of RMB38,000 (six months ended 30 June 2017: RMB110,000) during the six months ended 30 June 2018.

11. INVESTMENT PROPERTIES

	(Unaudited) RMB'000
At 1 January 2017	370,000
Fair value gains on investment properties	50,000
At 31 December 2017 and 1 January 2018	**420,000**
Fair value gains on investment properties	**6,000**
At 30 June 2018	**426,000**

The Group's investment properties were revalued on 30 June 2018 based on valuations performed by Asset Appraisal Limited, independent professionally qualified valuers.

The investment properties are leased to third parties under operating leases.

NOTES TO INTERIM FINANCIAL INFORMATION

11. INVESTMENT PROPERTIES (CONTINUED)

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 RMB426,000,000 and RMB420,000,000 as at 30 June 2018 and 31 December 2017, respectively, are subject to restrictions on sale and transfer.

Fair value hierarchy

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

	Fair value measurement using			
	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
As at 30 June 2018 (Unaudited): Recurring fair value measurement for:				
Commercial buildings	–	–	426,000	426,000
As at 31 December 2017 (Audited): Recurring fair value measurement for:				
Commercial buildings	–	–	420,000	420,000

During the current period and prior year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

NOTES TO INTERIM FINANCIAL INFORMATION

11. INVESTMENT PROPERTIES (CONTINUED)

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)	
			30 June 2018	31 December 2017
Commercial buildings	Income approach	Estimated rental value (per sq.m. and per month)	**RMB139**	RMB129
		Rental growth rate (per annum)	**5.0%**	5.0%
		Discount rate	**10.2%**	10.3%

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

12. INVESTMENTS IN ASSOCIATES

During the period, the Group entered into equity transfer agreements with independent third parties and further acquired a 13.56% equity interest in Lanlanlanlan Film & Television Media (Tianjin) Co., Ltd. ("Lanlanlanlan Film & Television") at an aggregate consideration of RMB73,224,000. Lanlanlanlan Film & Television is principally engaged in script writing, sale of script, development and production of script into web series, TV series, cinema movies and web movies and its sale and related businesses. Upon completion of this transaction in April 2018, the Group owns an aggregate of 23.56% equity interest of Lanlanlanlan Film & Television and accounts for as associate.

13. TRADE RECEIVABLES

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:

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Billed		
Within 1 month	**210**	279
Over 1 month but less than 2 months	**651**	1,130
Over 2 months but less than 3 months	**395**	773
Over 3 months but less than 4 months	**781**	436
Over 4 months	**2,909**	2,194
	4,946	4,812
Unbilled	**12,450**	9,812
	17,396	14,624

The Group has no formal credit period communicated to its customers but the customers usually settle the amounts due to the Group within a period of 30 to 120 days.

NOTES TO INTERIM FINANCIAL INFORMATION

14. FAIR VALUE MEASUREMENT

Management has assessed that the fair values of cash and cash equivalents, restricted cash balances and pledged deposits, trade receivables, trade payables, financial assets included in deposits and other receivables, financial liabilities included in other payables and accruals and interest-bearing bank borrowings approximate to their carrying amounts largely due to the short term maturities of these instruments.

The following table provides the fair value measurement hierarchy of the Group's financial assets as at 30 June 2018 and 31 December 2017:

As at 30 June 2018 (Unaudited)

	Fair value measurement 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
Financial assets at fair value through profit or loss	316	–	182,569	182,885
Financial assets at fair value through other comprehensive income	–	–	42,324	42,324
	316	–	224,893	225,209

As at 31 December 2017 (Audited)

	Fair value measurement 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
Financial assets at fair value through profit or loss	332	–	16,050	16,382
Available-for-sale investments:				
Unlisted financial products	–	–	17,500	17,500
Structured financial products	–	14,772	–	14,772
	332	14,772	33,550	48,654

NOTES TO INTERIM FINANCIAL INFORMATION

14. FAIR VALUE MEASUREMENT (CONTINUED)

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

	Available-for-sale investments RMB'000	Financial assets at fair value through profit or loss RMB'000	Financial assets at fair value through other comprehensive income RMB'000
As at 1 January 2017	8,700	–	–
Purchases	8,800	16,050	–
As at 31 December 2017	17,500	16,050	–
Impact upon initial application of IFRS 9 *(note i)*	(17,500)	80,569	76,459
As at 1 January 2018 (adjusted)	–	**96,619**	**76,459**
Gain recognised in the condensed consolidated statement of profit or loss	–	**28,705**	–
Total losses recognised in the condensed consolidated statement of other comprehensive income	–	–	**(20,185)**
Reclassification to investment in associates *(note ii)*	–	–	**(13,950)**
Purchases	–	**57,245**	–
As at 30 June 2018	–	**182,569**	**42,324**

Notes:

(i) The balance comprised (i) the reclassification upon initial application of IFRS 9 for the investments previously measured at cost of RMB93,944,000; (ii) the remeasurement upon initial application of IFRS 9 recognised in fair value reserve (without recycling) of RMB26,515,000; and (iii) the remeasurement upon initial application of IFRS 9 recognised in retained profits of RMB19,069,000.

(ii) The balance represented amount transferred to investments in associates in April 2018 upon the completion of acquisition of additional interests in Lanlanlanlan Film & Television.

There were no transfers between Level 1 and Level 2 fair value measurements during the period, and no transfers into or out of Level 3 fair value measurements during the six months ended 30 June 2018.

Fair value hierarchy

All financial instruments for which fair value is recognised or disclosed are categorised within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole, as follows:

Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities

Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

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

NOTES TO INTERIM FINANCIAL INFORMATION

15. TRADE PAYABLES

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

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Within 1 month	10,590	12,878
1 to 3 months	1,532	4,254
4 to 6 months	1,760	1,717
Over 6 months	14,577	7,625
	28,459	26,474

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

16. SHARE CAPITAL

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Authorised:		
3,000,000,000 ordinary shares of HK$0.01 each	26,513	26,513
Issued and fully paid:		
2,707,912,628 (31 December 2017: 2,720,592,628) ordinary shares of HK$0.01 each	22,877	22,984

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

	Number of issued and fully paid ordinary shares	Nominal value of ordinary shares 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 2018	2,720,592,628	27,206	1,156,621	22,984	973,928	996,912
Cancellation of share repurchased	(12,680,000)	(127)	(5,627)	(107)	(4,744)	(4,851)
As at 30 June 2018	2,707,912,628	27,079	1,150,994	22,877	969,184	992,061

NOTES TO INTERIM FINANCIAL INFORMATION

16. SHARE CAPITAL (CONTINUED)

During the year ended 31 December 2017, the Company repurchased its own ordinary shares of 59,080,000 on the Stock Exchange at an aggregate consideration of HK$27,779,000 equivalent to RMB23,474,000, of which 46,400,000 ordinary shares were cancelled by the Company before 31 December 2017, and the remaining 12,680,000 ordinary shares repurchased had been cancelled during the period. Upon the cancellation of 12,680,000 shares repurchased, the issued share capital of the Company was reduced by the par value of HK$127,000 equivalent to RMB107,000 and the premium paid on the repurchase of these cancelled shares of HK$5,627,000 equivalent to RMB4,744,000, including transaction costs, was deducted from share premium of the Company.

Subsequent to the end of the period, the Company repurchased its ordinary shares of 7,026,000 on the Stock Exchange at an aggregate consideration of HK$2,913,000 equivalent to RMB2,484,000, and all of the repurchased ordinary shares were then cancelled by the Company.

17. SHARE OPTION SCHEME

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

	Weighted average exercise price HK$ per share	Number of options '000
At 1 January 2017	0.73	46,382
Granted during the period	0.51	5,150
At 30 June 2017	0.71	51,532
At 1 January 2018	**0.71**	**51,532**
Granted during the period	**0.49**	**4,615**
Lapsed during the period	**2.42**	**(919)**
Cancelled during the period	**0.66**	**(17,695)**
At 30 June 2018	**0.69**	**37,533**

At the end of the reporting period, the Company had approximately 37,533,000 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 37,533,000 additional ordinary shares of the Company and additional share capital of HK$375,000 and share premium of HK$25,522,000 (before issue expenses).

At the date of approval of these interim financial information, the Company had approximately 37,533,000 share options outstanding under the share option scheme, which represented approximately 1.39% of the Company's shares in issue as at that date.

For the six months ended 30 June 2018, the fair value of the share options granted was HK$1,081,000 at HK$0.23 each (six months ended 30 June 2017: HK$1,230,000 at HK$0.24 each). The Group recognised a share option expense of RMB1,147,000 (six months ended 30 June 2017: RMB1,583,000) during the six months ended 30 June 2018 in respect of share options granted in the current and prior periods.

NOTES TO INTERIM FINANCIAL INFORMATION

18. BUSINESS COMBINATIONS

Acquisition of Shanghai Mu77 Network Technology Co., Ltd. and Mu77 Network Technology Hongkong Limited

On 27 March 2018, the Group acquired 51% of the voting shares of Shanghai Mu77 Network Technology Co., Ltd. and Mu77 Network Technology Hongkong Limited (collectively "Mu77"), two unlisted companies based in the PRC and Hong Kong, respectively, which principally engaged in mobile game research and development and operation in the PRC and overseas. The investment is in line with the strategic layout of the Group in its business development in the pan-entertainment industry chain. The acquisition has been accounted for using the acquisition method. The interim condensed consolidated financial statements include the results of Mu77 for the three months period from the acquisition date.

The provisional fair values of the identifiable assets and liabilities of Mu77 as at the date of acquisition were:

	Fair value recognised on acquisition RMB'000
Assets	
Property, plant and equipment	362
Cash	4,075
Trade receivables	4,423
Other receivables	26,141
	35,001
Liabilities	
Trade payables	(2,104)
Other payables	(3,779)
Tax payable	(463)
Interest-bearing bank borrowings	(2,000)
	(8,346)
Total identifiable net assets at fair value	26,655
Non-controlling interests	(13,061)
Goodwill arising on acquisition	88,406
Total consideration	102,000
Analysis of cash flows on acquisition:	
Net cash acquired with the subsidiary	4,075
Cash paid	(59,558)
Net cash outflow on acquisition (included in cash flows from investing activities)	(55,483)

18. BUSINESS COMBINATIONS (CONTINUED)

Acquisition of Shanghai Mu77 Network Technology Co., Ltd. and Mu77 Network Technology Hongkong Limited (continued)

The above goodwill arising from the above acquisition is determined on a provisional basis as the Group is in the process of completing a valuation to assess the fair values of the identifiable assets acquired and liabilities assumed.

The provisional fair values recognised on acquisition as shown above may be adjusted upon the completion of the initial accounting for the business combination during the measurement period, which shall not exceed one year from the acquisition date.

From the date of acquisition, Mu77 has contributed RMB2,109,000 of revenue and a loss of RMB2,639,000 to the profit of the Group. If the acquisition had taken place at the beginning of the period, the revenue of the Group and the profit of the Group for the period ended 30 June 2018 would have been RMB84,392,000 and RMB30,798,000, respectively.

Transaction costs of RMB130,000 have been expensed and are included in administrative expenses in the statement of profit or loss and are part of operating cash flows in the condensed consolidated statement of cash flows.

19. COMMITMENTS

The Group had the following commitments as at the end of the reporting period:

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Contracted, but not provided for:		
Investments	–	18,900

20. APPROVAL OF THE INTERIM FINANCIAL INFORMATION

The unaudited interim financial information was approved by the Board on 23 August 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

Business review for the first half of 2018

In 2018, the pan-entertainment ecosystem in the PRC continued to prosper and develop, and the characteristics of ecological operations became more and more prominent. In the IP ("Intellectual Property")-centric pan-entertainment ecosystem, each segment has a similar or complementary targeted community, the boundaries between them are gradually broken, and the pan-entertainment form gradually develops into the stage of content linkage, integration development and full value chain sharing.

In the first half of 2018, the Group's layout in the pan-entertainment industry has made significant progress. The Group, together with Tencent, acquired the game development company Shanghai Mu77 Network Technology Co., Ltd. (上海木七七網絡科技有限公司) and Mu77 Network Technology Hong Kong Limited (香港木七七網絡科技有限公司) (collectively "Mu77"). At the same time, the Group increased its shareholding of one of the largest screenwriter companies in the PRC, Lanlanlanlan Film & Television Media (Tianjin) Co., Ltd. (藍藍藍藍影視傳媒(天津)有限公司, "Lanlanlanlan Film & Television"). The aforementioned acquisitions and investments have laid an important foundation for the Group to build a high-quality IP-centric pan-entertainment industrial ecology that links business segments such as literature, animation, film and television, and games. The following is a review of the development of the various business segments of the Group during the reporting period:

Film & television production

The Group's wholly-owned subsidiary, Jisu Woniu Film & Television Media (Shenzhen) Co., Limited (極速蝸牛影視傳媒(深圳)有限公司, "A8 Film & Television"), was established in 2017 and is principally engaged in the business of producing television series, short videos and films.

Web Drama of "Yunteng Scheme" of iQIYI – "Matchmaker of Great Zhou Dynasty"

In 2017, A8 Film and Television took part in the bid of the "Yunteng Scheme" (「雲騰計劃」) of an online video streaming platform iQIYI and won the top ten IP customized web drama – "Matchmaker of Great Zhou Dynasty" (「大周小冰人」). A8 Film and Television and iQIYI are jointly developing and producing this lightly funny idol costume drama, which began shooting in August 2018. The drama is expected to go live in 2019.

Continuous exploration and innovation in the field of short videos

A8 Film and Television launched its first short video content product in 2017: the suspense mini-play "Fantasy Apocalypto" (「奇幻啟示錄」). The short video has accumulated over 100 million hits across the whole network. A8 Film and Television summarized its successful experience in producing short videos and continues to explore and develop in this field. In the first half of 2018, A8 Film and Television cooperated with Inke Limited ("Inke") to produce two short video products: Vlog "The Little World of Xuchen" (「旭宸的小世界」) and "Go, Zheng Xiaoqian" (「加油鄭小錢」).

Equity investment in Lanlanlanlan Film & Television

In October 2017, the Group entered into a capital increase agreement with Lanlanlanlan Film & Television and its shareholders to acquire a 5% equity interest in Lanlanlanlan Film & Television through capital increase ("2017 Capital increase"). In December 2017, the Group entered into an equity transfer agreement with independent third parties to acquire a total of 5% equity interest in Lanlanlanlan Film & Television ("2017 Acquisitions"). In April 2018, the Group further acquired an additional 13.56% equity interest in Lanlanlanlan Film & Television to a number of independent third parties. After the completion of the aforesaid transactions and as of 30 June 2018, the Group held 23.56% equity interest in Lanlanlanlan Film & Television.

In accordance with the equity transfer supplemental agreement for the 2017 Acquisitions, Ms. Liu Zewen ("Founder A") and Mr. Zhang Jinsheng ("Founder B", together with the FounderA, referred to as the "Founders") have undertaken in favour of the Group that the net profit of Lanlanlanlan Film & Television and its subsidiaries (collectively, the "LanLanlanlan Group") disregarding non-recurring gains or losses as shown in the consolidated financial statements ("Audited Profits") as audited by the accounting firm as recognised by the Group for the financial year ending 31 December 2017, 2018 and 2019 shall not be less than RMB40 million, RMB60 million and RMB90 million respectively ("Target Profit").

If Lanlanlanlan Film & Television cannot meet 90% of the Target Profit for any of the financial year ending 31 December 2017, 2018 and 2019, the Founders shall compensate the Group either in cash ("Cash Compensation") or by way of equity interest in Lanlanlanlan Film & Television ("Equity Compensation") at the option of the Group in the following manner:

(1) the amount of the Cash Compensation for the financial year = (A – B)/A x the aggregate consideration for the 2017 Acquisitions

(2) the proportion of the Equity Compensation for the financial year = (A/B x C – C)

Where:

"A" means the Target Profit for the relevant financial year;

"B" means the Audited Profit for the relevant financial year; and

"C" means the aggregate % of the equity interest in Lanlanlanlan Film & Television transferred to the Group under the equity transfer agreements for the 2017 Acquisitions (i.e. 5%)

The Equity Compensation can be realised by way of (i) the issue of equity by the Lanlanlanlan Film & Television to the Group at the nominal price of RMB1 or at the lowest price as permitted by law; (ii) the transfer of equity interest in Lanlanlanlan Film & Television by the Founders to the Group on a joint basis at nominal price of RMB1 or at the lowest price as permitted by law; or (iii) the capital injection into Lanlanlanlan Film & Television as its registered capital by the Group through the application of monies obtained from the Cash Compensation by Lanlanlanlan Film & Television and the Founders. The method of the Equity Compensation shall be determined by the Group.

Similar performance guarantee in respect of the equity interest in Lanlanlanlan Film & Television acquired by the Group (i.e. 5%) under the capital increase agreement for the 2017 Capital Increase was also given by the Founders in favour of the Group.

Lanlanlanlan Film & Television is mainly engaged in the business such as producing script sales, script adaptation, production of web series, television series, cinema movies and web movies. It employs more than 100 screenwriters and is currently one of the largest screenwriter team in the PRC. With its large screenwriter team and a large amount of script reserves, Lanlanlanlan Film & Television can quickly and effectively shorten both script production cycle and film and television production cycle. It has the experience and ability to batch-bulk produce films and televisions.

MANAGEMENT DISCUSSION AND ANALYSIS

Game business

In February 2018, the Group joined Tencent to acquire the independent game company Mu77. The Group's game publishing platform, Finger Fun, will focus on market segments such as SLG games with long-term life cycles.

Independent game research & development platform – Mu77

The Group's subsidiary, Mu77, is mainly engaged in the research and development and operation of independent games. Mu77 won the honor of "Alibaba Game Eco Top Ten Creative Manufacturers" this year. Mu77's self-developed product "Card Monster" (「卡片怪獸」) continues to operate on the Tencent Aurora platform in the PRC, and maintains at the top thirty on the Best-selling List of WeChat games. In overseas regions, this product is continuously recommended by iOS and Google Play.

In the first half of this year, Mu77 has initiated a number of projects, such as miniatures game project "Colossus Knights" (「巨像騎士團」). Mu77 expects that simplifying the operation of miniatures games will make them more accommodative to the operating experience on the mobile side. At present, the project has been under early demo testing on the TapTap platform, and has received over 10,000 subscribers and gained a 9.2 user rating. The project is expected to be commercialized during the year.

Steady adjustment of domestic publishing business

The Group's stable products such as "Werewolf Killers" (「狼人殺」), "I Want to Seal the Sky – Naval Battle" (「我欲封天山海戰」) and "PaPa Three Kingdoms" (「啪啪三國」) are still under operation in the first half of this year. At the same time, under the previously established strategy – "Products Intensification and Premiumising", further business development of the publishing business is drawn closer to products in sub-categories and of unique themes. In the first half of 2018, Finger Fun introduced a key RPGSLG type of product "Making Soldiers in Three Kingdoms" (「造兵三國」), which is based on SLG gameplay while being sub-categarized into the RPG theme. This product won the Sohu Best Attention Award and received a good rating in core channels such as Meizu and UC.

Continuous development in overseas publishing business

In the second quarter of 2018, the "Three Kingdoms Wars M" (「三國志大戰M」) was launched in Hong Kong, Macao and Taiwan, receiving outstanding player review. Before getting launched online, it got the pre-registration recommendation on Google Play in Taiwan; after being officially released, Google Play put it in the recommendation position on its homepage. It won the first place on the Best-selling List in Macau and the second place in the Hong Kong region. The product got its highest position to the first place on the Taiwan Game Free List in Apple Appstore. At the same time, it has been top five on the Best-Selling List and the Free List both in Hong Kong and Taiwan.

Cultural industry park – National Music Industry Park – A8 Music Buidling

A8 Music Building is the National Music Industry Park. It is located in the core area of Shenzhen Bay area in Nanshan District, Shenzhen, next to Shenzhen Software Industrial Park and close to Qianhai and Houhai, and has a superior location. The total gross floor area is more than 50,000 sq.m which includes commercial office, podium commercial property and parking lots. A8 Music Building continues to improve its property management services, and the satisfaction of tenants entering the company continues to increase. In the first half of 2018, the safety management level of A8 Music Building was outstanding. It was listed as the Excellent Fire Control Building of Nanshan District by the Fire Department of the Nanshan District Public Security Bureau. In June 2018, in the selection of Shenzhen Excellent Property Management Buildings, after a field assessment and a series of reviews by the property management industry expert group, relying on its outstanding property service performance and music culture characteristics, A8 Music Building won the first place and was awarded the title of "Annual Outstanding Building for Shenzhen Property Management in 2018".

MANAGEMENT DISCUSSION AND ANALYSIS

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 café, professional studio, band rehearsal rooms and music education center. A8Live has held around 36 performance activities in the first half of 2018 in diversified activity forms such as artists performance, band shows, concerts, fans meeting, press releases, charitable activities and live broadcasts, etc. Invited artists are increasingly internationalized, including well-known singers and bands such as British singer Tom Odell, American pop music band Foster The People, Canadian singer Daniel Powter and Icelandic band Bang Gang. Going forward, performances of big-name entertainers into LiveHouse will become a trend. Close-range interactive performances will be the highlight of LiveHouse. By handling such performance activities, A8Live team has accumulated extensive experience. The enhanced brand will facilitate the subsequent exploration of the operation of livehouse to a larger extent.

A8 Music Building has generated an overall income of approximately RMB37.1 million in the first half of 2018, representing an increase of approximately 16.3% as compared to the last corresponding period.

Online literatures – Beijing Zhangwen

Beijing Zhangwen operates Heiyan.com (「黑岩網」), one of the leading literature platforms of suspense-style literatures in the PRC, Ruochu.com (「若初網」), the platform mainly of women's romance literatures, Ruoxia.com (「若夏網」), the platform mainly of ancient-style literatures, and Shao Nian Meng (「少年夢」), the platform targeting at ACG readers. Beijing Zhangwen is mainly engaged in the business of incubating and operating of IPs, providing paid reading of online literature and comics, and authorizing the adaptation of literary works into mobile games, web series, TV series, movies, cartoons, animations and audio works.

Steady development of self-owned platform business and rapid growth of third-party distribution business

As of June 30, 2018, the number of users on Beijing Zhangwen's self-owned platform exceeded 22 million, an increase of more than 14% from June 30 of the previous year. The quality contents on its self-own platform continuously increased, with more than 100,000 works published, and the number of works has increased by about 25% from the end of last year.

In the first half of 2018, the third-party distribution business continued to maintain its momentum of rapid growth. With its original distribution channels such as Toutiao (「今日頭條」), Xiaomi (「小米」), Wanneng Wifi (「萬能鑰匙」), China Literature (「閱文集團」), Ali Literature (「阿裡文學」), iReader (「掌閱文學」), Chasing Artifacts (「追書神器」), Zhongheng Literature (「縱橫文學」), Baidu Cloud (「百度雲」), Migu Culture (「咪咕文化」), etc. in hand, Beijing Zhangwen continues to expand new distribution channels. In the first half of 2018, Beijing Zhangwen's innovative operation mode of its non-serial IP won the first battle. "Jiangliao" (「姜了」) became the first literary work in Toutiao which achieved more than 10 million readings. In the first half of 2018, revenue from third-party distribution and copyright business increased by approximately 73% over the same period last year.

Breakthrough in content licensing business

Beijing Zhangwen has made a major breakthrough in the licensing of audio works. In the first half of 2018, Beijing Zhangwen's work occupied the first place on the Himalayan FM (「喜馬拉雅FM」)'s Pay-to-listen List for six consecutive months. Himalayan's Free List, Lazy People Listening (「懶人聽書」)'s Hot Search List, and the top ten of Qingting FM (「蜻蜓FM」)'s Finished Reading List are all occupied by the audio works from Beijing Zhangwen. The success of the audio works further broadened the monetization pipeline of the online literature IPs of Beijing Zhangwen.

In terms of IP literature licensing to films & televisions, Beijing Zhangwen has cooperated with over 60 works up to now. In the first half of 2018, Beijing Zhangwen cooperated with Enlight Media to create a web drama "Spring Festival Banquet" (「春日宴」). At the same time, Beijing Zhangwen authorized iQIYI the adaptation right to film and television of the well-known IP literature work "The Scenery Comes Never Too Late" (「美景未遲」).

MANAGEMENT DISCUSSION AND ANALYSIS

Business outlook for the second half of 2018

In the second half of 2018, the Group will continue to strengthen the linkage between the existing business segments in the pan-entertainment industry chain, and strive to build an entertainment ecosystem with IP-centric multi-industrial linkage of online literature, animation, film and television and games.

Film & television production

In the second half of 2018, the Group's film and television business will focus on the following development directions:

Firstly, we will focus on promoting the web drama "Matchmaker of Great Zhou Dynasty" (「大周小冰人」) and "Time Machine" (「時光機」) (tentative name) in cooperation with iQIYI.

Secondly, promoting the collaboration between A8 Film & Television and Beijing Zhangwen.

Game business

In the second half of 2018, the Group's primary development strategies in the game business are:

Firstly, by digging deeply into the unmet demands of game players, innovative game playing methods are developed. Then the commercialization of the series of game are realized continually through the fine operation of the new game playing methods.

Secondly, we will focus on market segments such as SLG games with long-term life cycles.

Cultural industry park – National Music Industry Park – A8 Music Buidling

In the second half of 2018, with the increasing popularity of the A8 Music Building, it is expected that the rental income generated from A8 Music Building will maintain steady growth in the future. At the same time, the Group will continue to enhance the property management level of A8 Music Building to provide better services to tenants, which will contribute to the Group's sustainable and stable income.

In the second half of 2018, the Company is committed to the development of "A8 Live" in terms of branding and content. It will continue to expand the "A8 Live" performance business, strengthen brand promotion and industry influence.

Online literatures – Beijing Zhangwen

In the second half of 2018, Beijing Zhangwen will continue to build a pan-entertainment ecosystem based on literary IPs. Beijing Zhangwen will deeply participate in film and television production, and work together with internal and external resources such as A8 Film and Television, Toutiao, Lanlanlanlan to create a series of web series and web movies. At the same time, Beijing Zhangwen will also vigorously develop a distribution platform for comic works. Committed to promoting the linkage between online literature, audio books, comics and film and television works, forming a closed loop of the industrial chain.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue and profit attributable to equity holders of the Company

For the six months ended 30 June 2018, the revenue of the Group amounted to approximately RMB79.5 million, representing an increase of approximately 41.7% as compared with the corresponding period in 2017 (2017: approximately RMB56.1 million).

Digital entertainment services

For the six months ended 30 June 2018, the revenue of digital entertainment services of the Group amounted to approximately RMB42.4 million, representing an increase of approximately 75.1% as compared with the corresponding period in 2017 (2017: approximately RMB24.2 million). The increase was mainly resulted from the increase of game related services amounted to approximately RMB18.2 million.

Property investment business

For the six months ended 30 June 2018, the revenue of property investment business derived from the rental and management fee amounted to approximately RMB37.1 million, representing an increase of approximately 16.3% as compared with the last corresponding period (2017: approximately RMB31.9 million). The increase was mainly due to the increased occupancy rate and unit rental resulted from high quality property management services.

For the six months ended 30 June 2018, the profit attributable to equity holders of the Company amounted to approximately RMB33.1 million, representing a significant increase of approximately 230.2% as compared with the corresponding period in 2017 (2017: approximately RMB10.0 million). The increase was mainly attributable to the fair value increase amounted to approximately RMB28.7 million of financial assets at fair value through profit or loss in relation to the Group's rights to performance guarantee and equity repurchase as provided for by the Group's investment in Lanlanlanlan Film & Television.

Cost of services provided

For the six months ended 30 June 2018, the cost of services provided of the Group amounted to approximately RMB39.1 million, representing an increase of approximately 50.3% as compared with the corresponding period in 2017 (2017: approximately RMB26.0 million). The increase was mainly due to the increased cost of digital entertainment services amounted to approximately RMB11.6 million following the related increased revenue.

Digital entertainment services

For the six months ended 30 June 2018, the cost of services provided of digital entertainment services amounted to approximately RMB29.5 million, increased by approximately 65.0% as compared with the corresponding period in 2017 (2017: approximately RMB17.9 million), which mainly resulted from the increase in revenue shared with distribution channels and business alliances accompanied with the increase in related revenue. The cost of services provided mainly comprises revenue shared with mobile operators, distribution channels, business alliances and other costs such as game publishing rights 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 35.3% for the six months ended 30 June 2018 (2017: approximately 44.4%), while revenue shared with business alliances averaged at approximately 22.8% of total digital entertainment services revenue for the six months ended 30 June 2018 (2017: approximately 15.4%).

MANAGEMENT DISCUSSION AND ANALYSIS

Property investment business

For the six months ended 30 June 2018, the cost of services provided of property investment business amounted to approximately RMB9.6 million, increased by approximately 18.2% as compared with the corresponding period in 2017 (2017: approximately RMB8.2 million). It mainly comprised of employee's compensation, utility charges and other maintenance costs in relation to the investment properties.

Gross profit

For the six months ended 30 June 2018, the gross profit of the Group amounted to approximately RMB38.7 million, representing an increase of approximately 29.9% as compared with the corresponding period in 2017 (2017: approximately RMB29.8 million). The overall gross margin ratio of the Group was approximately 48.6%, as compared with approximately 53.0% for the last corresponding period. The decrease of the overall gross margin ratio was mainly resulted from the slight decreased margin ratio contribution of property investment business following the property tax levied from Sep. 2017.

Other income and gains, net

For the six months ended 30 June 2018, the other income and gains of the Group were approximately RMB48.9 million, as compared with a net gain of approximately RMB15.1 million for the last corresponding period, representing a significant increase of approximately 224.5%. The increase was mainly due to the increase in fair value gain of financial asset at fair value through profit or loss amounted to approximately RMB28.7 million in relation to the Group's rights to performance guarantee and equity repurchase as provided for by the Group's investment in Lanlanlanlan Film & Television. It was also due to the increase in the foreign exchange gain and bank interest income amounted to approximately RMB4.3 million and RMB3.3 million, respectively, which were partly offset by the decrease of fair value gain on investment properties amounted to approximately RMB4.0 million.

Selling and marketing expenses

For the six months ended 30 June 2018, the selling and marketing expenses of the Group amounted to approximately RMB22.1 million, increased by 184.4% as compared with the corresponding period in 2017 (2017: approximately RMB7.8 million). The increase in selling and marketing expenses was mainly due to the increase in marketing and promotion expenses amounted to approximately RMB11.6 million arising from promotion activities for various mobile games during their launch stage.

Administrative expenses

For the six months ended 30 June 2018, the administrative expenses of the Group amounted to approximately RMB22.9 million, representing an increase of 52.5% as compared with the corresponding period in 2017 (2017: approximately RMB15.0 million). The increase was mainly due to the increase in employee costs amounted to approximately RMB5.5 million in relation to the business combination of Mu77 completed in March 2018 and the Group's labor adjustment following the business development.

Share of profits and losses of associates

For the six months ended 30 June 2018, the Group shared profits of associates amounted to approximately RMB3.7 million, compared to share of losses of approximately RMB1.7 million in the last corresponding period. The change was mainly due to shared profits of Beijing Zhangwen amounted to approximately RMB4.6 million.

Tax

For the six months ended 30 June 2018, income tax of the Group amounted to approximately RMB10.3 million, as compared with approximately RMB2.8 million for the corresponding period in 2017. The significant increase was mainly due to the deferred tax amounted to approximately RMB7.2 million derived from the increased fair value gain of financial asset at fair value through profit or loss.

The effective tax rate of the Group was approximately 24.5% in the six months ended 30 June 2018 (2017: approximately of 22.0%). As a result of the new Corporate Income Tax Law in China, the statutory tax rates are 25% in the respective operating subsidiaries of the Group in 2018.

Non-current assets

As at 30 June 2018, the total non-current assets of the Group amounted to approximately RMB1,196.0 million (2017: approximately RMB948.8 million), increased by approximately RMB247.2 million. The increase was mainly due to the increase of investment in associates and financial assets at fair value through profit or loss amounted to approximately RMB80.6 million and RMB66.1 million, respectively, which was related to the Group's investment in Lanlanlanlan Film & Television and the incidental rights to performance guarantee and equity repurchase with total cash consideration amounted to approximately RMB130.2 million.

The increase of non-current assets was also due to the increase of goodwill arising from acquisition of Mu77 and financial assets at fair value through profit or loss in relation to the fund investments amounted to approximately RMB88.4 million and RMB63.1 million, respectively, which were partly offset by the decrease in financial assets at fair value through other comprehensive income amounted to approximately RMB51.6 million.

Current assets and current liabilities

As at 30 June 2018, the total current assets of the Group amounted to approximately RMB712.5 million (2017: approximately RMB750.7 million), decreased by approximately RMB38.2 million.

The decrease was mainly due to the decrease of cash and cash equivalents amounted to approximately RMB200.1 million, which was offset by the increase of restricted cash balances and pledged deposits, prepayments, deposits and other receivable and financial assets at fair value through profit or loss amounted to approximately RMB144.5 million, RMB8.5 million and RMB5.1 million, respectively. Trade receivables amounted to approximately RMB17.4 million (2017: approximately RMB14.6 million), and the turnover days of trade receivables was approximately 36 days (2017: approximately 30 days).

As at 30 June 2018, the total current liabilities of the Group amounted to approximately RMB352.6 million (2017: approximately RMB220.7 million), increased by approximately RMB131.9 million. The increase was mainly resulted from the increase in interest-bearing bank borrowings, other payables and accruals amounted to approximately RMB110.9 million and RMB19.5 million, respectively. The Group's interest-bearing borrowings are the effective and low-cost way to use cross-border capital to support the group's business development and business combination.

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and financial resources

As at 30 June 2018, cash and bank balances and highly liquid short term assets of the Group including cash and cash equivalents, restricted cash and pledged deposits and financial assets at fair value through profit or loss amounted to approximately RMB661.7 million in aggregate (2017: approximately RMB712.2 million). Among which, approximately RMB262.6 million, or approximately 40% was denominated in RMB.

As at 30 June 2018, the Group have short-term interest-bearing bank borrowings in aggregate amounted to approximately RMB228.1 million (2017: approximately RMB117.2million), and the gearing ratio which is measured by the net borrowings over the total assets is 11.9% (2017: approximately 6.9%).

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 30 June 2018, the Group did not have any derivatives for hedging against both the interest and exchange rate risks.

Cash flow

Net cash inflow from operating activities of the Group for the six months ended 30 June 2018 was approximately RMB6.8 million, resulted from cash inflow generated from operations of approximately RMB8.0 million and the tax paid of approximately RMB1.2 million.

Net cash outflow from investing activities of the Group for the six months ended 30 June 2018 was approximately RMB315.9 million, resulted from the cash outflow for increase of restricted cash and pledged deposits and payment for purchase of 18.56% equity interest in Lanlanlanlan Film & Television amounted to approximately RMB144.5 million and RMB90.3 million, respectively, and it was also due to the payment for the acquisition of 51% equity interest in Mu77 and the last installment for purchase of 35% equity interest in Beijing Zhangwen amounted to approximately RMB55.5 million and RMB17.5 million respectively, which were partly offset by the interest received amounted to approximately RMB11.3 million.

Net cash inflow from financing activities of the Group for the six months ended 30 June 2018 was approximately RMB105.0 million, mainly resulted from receipt of principal of new bank loans amounted to approximately RMB199.6 million, which were partly offset by the repayment of principal and interest of the bank loans of approximately RMB90.7 million and RMB3.9 million, respectively.

Human resources

As at 30 June 2018, the Group had 188 employees (as at 30 June 2017: 146 employees). However, the average headcounts of the period was 165 while it was 106 for the corresponding period in 2017. Total employee costs for the six months ended 30 June 2018, including directors' emoluments, amounted to approximately RMB19.2 million (2017: approximately RMB11.1 million). The increase in employee costs was mainly resulted from the business combination of Mu77 and the Group's labor adjustment following the business development.

Employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus system which is reviewed regularly. A share option scheme and a share award scheme have also been put in place for the Company to encourage employees to work towards enhancing the value of the Company and promote the long-term growth of the Company. Furthermore, the Group offers training programs for employees to upgrade their skills and knowledge on a regular basis.

DISCLOSURE OF INTERESTS

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

As at 30 June 2018, 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 Directors	**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	Founder of trust[2]	1,455,867,398	Nil	53.76%
	Beneficial Owner	5,766,000	23,032,600[3]	1.06%
Mr. Lin Qian	Beneficial Owner	Nil	5,000,000[3]	0.18%
Mr. Chan Yiu Kwong	Beneficial Owner	105,000	1,415,000[3]	0.06%
Ms. Wu Shihong	Beneficial Owner	Nil	1,320,000[3]	0.05%
Mr. Li Feng	Beneficial Owner	Nil	1,050,000[3]	0.04%

Notes:

1. The percentage of interest in the Company is calculated by reference to the number of Shares in issue as at 30 June 2018 (i.e. 2,707,912,628 Shares).

2. 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 Holdings Limited ("**Ever Novel**") and Prime Century Technology Limited ("**Prime Century**") in the Company. As at 30 June 2018, Prime Century directly held 379,496,303 shares and Ever Novel directly held 1,076,371,095 shares in the Company.

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

4. On 9 January 2018, the Company granted share options to Mr. Liu under the share option scheme ("**Share Option Scheme**") adopted by the Company on 26 May 2008 to subscribe an aggregate of 1,715,000 ordinary shares of HK$0.01 per share in the share capital of the Company, as fully exercised and adjusted in accordance to the Share Option Scheme. On 6 May 2018, under the Share Option Scheme, the 597,310 share options granted to Mr. Liu by the Company on 5 October 2009 were lapsed due to the end of exercise period. As at 30 June 2018, Mr. Liu Xiaosong held an aggregate of 23,032,600 shares of the underlying shares in the equity derivatives of the Company.

DISCLOSURE OF INTERESTS

Long positions in associated corporations of the Company

Name of associated corporations	Name of Directors	Nature of Interest	Registered capital/no. of shares held	Approximate percentage of interest in the total issued share capital
深圳市華動飛天網路技術開發有限公司 ("**Huadong Feitian**")[1]	Mr. Liu	Beneficial owner	RMB21,510,000[2]	75.00%
Duomi Music Holding Ltd ("**Duomi Music**")[3]	Mr. Liu	Interest of controlled corporation	35,435,640[4]	33.94%
Beijing Duomi Online Technology Co., Ltd ("**Beijing Duomi**")[5]	Mr. Liu	Beneficial owner	23,637,000[6]	27.08%
Beijing Zhangwen[7]	Mr. Liu	Beneficial owner	RMB13,000,000[8]	65.00%

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 interim financial information of the Company and therefore an associated corporation of the Company.

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

3. Duomi Music is a company incorporated in the Cayman Islands with limited liability. As at 30 June 2018, the Company was interested in approximately 48.13% of the shares of Duomi Music 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 holding company, Fortune Light Investments Limited ("**Fortune Light**"), was interested in approximately 33.94% of the shares of Duomi Music.

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

5. Beijing Duomi is a limited liability company incorporated in the PRC. As at 30 June 2018, the Company was interested in 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 directly interested in 27.08% of the shares of Beijing Duomi.

6. This represents the number of shares of Beijing Duomi held by Mr. Liu.

7. Beijing Zhangwen is a limited liability company incorporated in the PRC. As at 30 June 2018, the Company was interested in 35% of the registered capital of Beijing Zhangwen through its wholly-owned subsidiary, Yunhai Qingtian, and therefore Beijing Zhangwen is an associated corporation of the Company. Mr. Liu, through a holding company which he was interested in 90% of the shares, 深圳市浩祥投資有限公司 (Shenzhen Haoxiang Investment Co., Ltd) (the English name is for identification purpose only), was interested in 65% of the Shares of Beijing Zhangwen.

8. This represents the amount of registered capital of Beijing Zhangwen held by Mr. Liu.

Save as disclosed, as at 30 June 2018, 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.

DISCLOSURE OF INTERESTS

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. As of 30 June 2018, both of the two share options had ended. The exercise period of the Company's share options under the Pre-IPO share option scheme (the "**Pre-IPO Share Option Scheme**") had ended on 21 May 2012 and the share option scheme (the "**Share Option Scheme**") had ended on 26 May 2018. No further share options will be granted under both the Pre-IPO Share Option Scheme and the Share Option Scheme.

On 29 May 2018, the shareholders of the Company adopted a new share option scheme (the "**2018 Share Option Scheme**") for the purpose of providing incentives and rewards to its Directors, executive officers, employees and other eligible persons. As of 30 June 2018, no share option under the 2018 Share Option Scheme was granted.

During the six months ended at 30 June 2018, no share option granted under this Scheme was exercised, and 17,695,000 share options were cancelled. The following table discloses movements in the Company's share options outstanding under the Share Option Scheme during the period:

Name/ category of participants	At 31 December 2017	Exercised during the period	Granted during the period	Lapsed during the period	Canceled during the period	At 30 June 2018	Date of grant of share options	Vesting period of share options	End of exercise period	Exercise price of share options HK$ per share	Closing price of shares immediately before date of grant HK$ per share
Directors of the Group											
Liu Xiaosong	21,914,910	–	1,715,000	597,310	–	23,032,600					
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 granted 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 granted 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 granted will be vested every 12-month period starting from 16 May 2017	16 May 2023	0.56	0.54
	–	–	1,715,000	–	–	1,715,000	9 Jan 2018	One-half of the share options granted will be vested on 16 May 2018 and the other one-half on 16 May 2019	16 May 2025	0.57	0.56
Lin Qian	5,000,000	–	–	–	–	5,000,000	5 April 2017	One-fourth of the share options granted will be vested every 12-month period starting from 24 December 2017	5 April 2024	0.512	0.51

DISCLOSURE OF INTERESTS

Name/ category of participants	At 31 December 2017	Exercised during the period	Granted during the period	Lapsed during the period	Canceled during the period	At 30 June 2018	Date of grant of share options	Vesting period of share options	End of exercise period	Exercise price of share options HK$ per share	Closing price of shares immediately before date of grant HK$ per share
Chan Yiu Kwong	315,000	–	1,100,000	–	–	1,415,000					
	315,000	–	–	–	–	315,000	23 April 2014	One-fourth of the share options granted will be vested every 12-month period starting from 23 April 2015	23 April 2021	0.65	0.65
	–	–	1,100,000	–	–	1,100,000	7 May 2018	One-fourth of the share options granted will be vested every 12-month period starting from 7 May 2018	7 May 2025	0.439	0.44
Wu Shihong	420,000	–	900,000	–	–	1,320,000					
	420,000	–	–	–	–	420,000	23 April 2014	One-fourth of the share options granted will be vested every 12-month period starting from 23 April 2015	23 April 2021	0.65	0.65
	–	–	900,000	–	–	900,000	7 May 2018	One-fourth of the share options granted will be vested every 12-month period starting from 7 May 2018	7 May 2025	0.439	0.44
Li Feng	150,000	–	900,000	–	–	1,050,000					
	150,000	–	–	–	–	150,000	21 April 2017	One-half of the share options granted will be vested every 12-month period starting from 24 April 2017 and 24 April 2018, respectively	21 April 2024	0.487	0.51
	–	–	900,000	–	–	900,000	7 May 2018	One-fourth of the share options granted will be vested every 12-month period starting from 7 May 2018	7 May 2025	0.439	0.44
Subtotal	**27,799,910**	**–**	**4,615,000**	**597,310**	**–**	**31,817,600**					

DISCLOSURE OF INTERESTS

Name/ category of participants	At 31 December 2017	Exercised during the period	Granted during the period	Lapsed during the period	Canceled during the period	At 30 June 2018	Date of grant of share options	Vesting period of share options	End of exercise period	Exercise price of share options HK$ per share	Closing price of shares immediately before date of grant HK$ per share
Senior Management of the Group											
	3,177,500	–	–	–	3,177,500	–	24 January 2014	One-fourth of the share options granted 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 granted will be vested every 12-month period starting from 23 April 2015	23 April 2021	0.65	0.65
Subtotal	**12,399,500**	**–**	**–**	**–**	**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 granted 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
	1,500,000	–	–	–	1,300,000	200,000	14 January 2014	One-fourth of the share options granted will be vested every 12-month period starting from 14 January 2015	14 January 2019	0.69	0.66
	5,372,554	–	–	–	3,995,500	1,377,054	23 April 2014	One-fourth of the share options granted will be vested every 12-month period starting from 23 April 2015	23 April 2021	0.65	0.65
	1,250,000	–	–	–	–	1,250,000	23 April 2014	All of the share options granted have been vested on 15 October 2015	23 April 2021	0.65	0.65
Subtotal	**11,332,928**	**–**	**–**	**321,612**	**5,295,500**	**5,715,816**					
TOTAL	**51,532,338**	**–**	**4,615,000**	**918,922**	**17,695,000**	**37,533,416**					

During the year ended 30 June 2018, 4,615,000 share options were granted under the Share Option Scheme and 918,922 share options granted under the Share Option Scheme was lapsed following the end of the exercise period. 17,695,000 share options granted under the Share Option Scheme were cancelled.

As at the date of approval of this interim report, there were 37,533,416 outstanding share options granted under the Share Option Scheme, representing approximately 1.39% of the issued share capital of the Company.

Please refer to note 17 to the financial statements for further information of the Share Option Scheme and the value of share options granted.

DISCLOSURE OF INTERESTS

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 six months ended 30 June 2018, 12,386,000 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, 6,193,000 awarded shares were released to awarders, no awarded shares were lapsed.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30 June 2018, 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 shareholders	Nature of interest	Number of Ordinary shares (long positions)	Approximate percentage of interest in the Company's issued share capital[1]
HSBC International	Trustee (other than a bare trustee) [2]	1,543,747,398	57.01%
River Road	Interest in controlled corporation [2]	1,455,867,398	53.76%
Knight Bridge	Interest in controlled corporation [2]	1,455,867,398	53.76%
Ever Novel	Interest in controlled corporation [3]	379,496,303	14.01%
	Beneficial Owner [3]	1,076,371,095	39.75%
Prime Century	Beneficial Owner [3]	379,496,303	14.01%

Notes:

1. The percentage of interest in the Company is calculated by reference to the number of Shares in issue as at 30 June 2018 (i.e. 2,707,912,628 Shares).

2. HSBC International Trustee Limited ("HSBC International") is the trustee of family trusts of Mr. Liu, which, through intermediate holding companies (including but not exclusively River Road Investment Limited ("River Road"), Knight Bridge Holding Limited ("Knight Bridge"), Ever Novel, Prime Century and Grand Idea Holdings Limited ("Grand Idea")), 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 30 June 2018, 1,543,747,398 Shares in total).

3. As at 30 June 2018, Prime Century directly held 379,496,303 shares and Ever Novel directly held 1,076,371,095 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.

Save as disclosed above, as at 30 June 2018, 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.

INFORMATION ON 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 Arrangements**"). 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 Arrangements 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 Arrangements 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 OPCOS AND THEIR REGISTERED OWNERS

Shenzhen Huadong Feitian Network Development Co., Ltd. ("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 (75%) and Ms. Cui Jingtao (25%).

Shenzhen Kuaitonglian Technology Company Limited ("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%).

Shenzhen Yunhai Qingtian Cultural Broadcasting Co., Ltd. ("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 game-related service, film and television production 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-related services and value-added telecommunication services.

INFORMATION ON THE CONTRACTUAL ARRANGEMENTS

3. SUMMARY OF THE MAJOR TERMS OF THE UNDERLYING CONTRACTS OF THE CONTRACTUAL ARRANGEMENTS

Several Structure Contracts of similar terms were made:

(1) between Cash River Information Technology (Shenzhen) Co., Ltd. ("**Cash River**") and (i) Huadong Feitian and its registered shareholders, and (ii) Kuaitonglian and its registered shareholders, respectively; and

(2) between Shenzhen Finger Fun Network Technology Co., Ltd. ("**Finger Fun**") and 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, business and consultancy services to the OPCO in return for the service fee;

(3) The OPCO shall not have the same or 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 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 to the extent 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 this agreement by written notice to the OPCO.

INFORMATION ON THE CONTRACTUAL ARRANGEMENTS

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 signing date and remain in effect until all the equity interests 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 Interest 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.

INFORMATION ON THE CONTRACTUAL ARRANGEMENTS

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 signing date 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 Arrangements 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 the 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 period ended 30 June 2018 were approximately RMB79,547,000, RMB1,265,482,000 and RMB948,442,000, respectively.

The revenue of Huadong Feitian, Yunhai Qingtian and Kuaitonglian amounted to approximately RMB24,982,000, RMB26,264,000 and RMB28,301,000 respectively, representing approximately 31%, 33% and 36% of the consolidated total revenue of the Group, respectively.

INFORMATION ON THE CONTRACTUAL ARRANGEMENTS

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 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 [2009] No.13, 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 Arrangements 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 interim 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 interim 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.

OTHER INFORMATION

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for 2018.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

As of the date of this Report, the Company repurchased 7,026,000 shares of its own ordinary shares of the Company at the highest and lowest prices of HK$0.435 and HK$0.395 per share respectively ("**Shares Repurchase**"). The Company conducted the Shares Repurchase because the Board considered that the then value of the Company's shares was consistently undervalued, and the Board believed that the then financial resources of the Company would enable it to conduct the Shares Repurchase while maintaining a solid financial position for the continuation of the Company's business in the financial year.

Save as disclosed above, the Company and its subsidiaries did not purchase, sell or redeem any of the listed securities of the Company during the six months ended 30 June 2018.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

During the period ended 30 June 2018, all the code provisions set out in the Code on Corporate Governance Practices ("**CG Code**") contained in Appendix 14 of the Listing Rules were met by the Company, except for the deviation from code provision A.2.1 providing for the roles of chairman and chief executive officer (the "**CEO**") to be performed by different individuals.

Mr. Liu 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 make better business decision for the Group in performing the roles of the chairman and CEO. 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 this reporting period.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Own Code which covers the Model Code as set out in Appendix 10 of the Listing Rules on the Stock Exchange as its code of conduct governing the Directors' dealings in the Company's securities. Having made specific enquiries with all the Directors, they all confirmed that they have complied with the required standards set out in the Own Code (covering the Model Code) throughout the period under review.

REVIEW OF FINANCIAL INFORMATION

The Audit Committee has reviewed the Group's unaudited condensed consolidated interim financial information for the six months ended 30 June 2018. Based on this review and discussions with the management, the Audit Committee was satisfied that the financial information was prepared in accordance with applicable accounting standards and fairly presented the Group's financial position and results for the six months ended 30 June 2018.

AUDIT COMMITTEE

The Audit Committee, which comprises three independent non-executive Directors, has reviewed the accounting principles and practices adopted by the Company and discussed internal control and financial reporting matters. The Audit Committee has reviewed the Group's unaudited interim financial information for the six months ended 30 June 2018.

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

Hong Kong, 23 August 2018