A8新媒体集团
A8 NEW MEDIA GROUP

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 00800

ANNUAL REPORT 2018

指游方寸

青松基金
QINGSONG FUND

映客直播

MU77

A8影视
A8 Film & Television

黑岩
heiyan.com

a8
LIVE

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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
Shanghai Pudong Development Bank Co., Ltd.

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Guangdong Province
The PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG
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Hong Kong

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE
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Wanchai
Hong Kong

WEBSITE
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STOCK CODE
00800

Financial Summary and Highlights

CONSOLIDATED RESULTS

	Year ended 31 December				
	2018	2017	2016	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**151,814**	139,118	148,468	148,355	205,617
Profit/(loss) before tax	**(65,768)**	42,111	31,862	32,069	43,016
Income tax expense	**(24,780)**	(17,101)	(7,722)	(10,394)	(33,363)
Profit/(loss) for the year	**(90,548)**	25,010	24,140	21,675	9,653
Attributable to:					
Owners of the Company	**(85,159)**	25,030	24,145	22,006	10,758
Non-controlling interests	**(5,389)**	(20)	(5)	(331)	(1,105)
	(90,548)	25,010	24,140	21,675	9,653

CONSOLIDATED ASSETS, LIABILITIES AND EQUITY

	As of 31 December				
	2018	2017	2016	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**1,855,752**	1,699,558	1,368,034	1,277,834	975,926
Total liabilities	**(420,044)**	(300,220)	(278,126)	(228,491)	(177,515)
Non-controlling interests	**(9,125)**	532	702	697	366
	1,426,583	1,399,870	1,090,610	1,050,040	798,777

The consolidated results of A8 New Media Group Limited (the "Company") and its subsidiaries (together the "Group") for the year ended 31 December 2018 and the consolidated assets, liabilities and equity of the Group as at 31 December 2018 are those set out in the audited financial statements.

Chairman's Statement

BUSINESS REVIEW FOR 2018

In 2018, driven by games and film & television industries, the scale of China's pan-entertainment core industry continued to grow. Based on The White Book on 2017-2018 Pan-entertainment Industry Ecosystem in PRC published by Analysys, the industrial scale is estimated to reach RMB702.9 billion, an increase of 17.5% over 2017. With the increase of Intellectual Property ("IP") linkage, the content of single work gradually deepened, the overall value of IP was enlarged through full copyright linkage. This trend also activate incremental users for the market and occupy users' time through multi-form content. In the future, the pan-entertainment industry will continue to maximize IP value through different IP forms, in order to achieve sustainable and multi-channel monetization.

In 2018, the Group kept developing in the industry chain of pan-entertainment field. The Group continued creating new IP contents, associate with the resource in each of the business segments, so as to develop prime IP contents. The following is a review of the development in various business segments of the Group:

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 web dramas, videos and films.

Web Drama"Matchmaker of Great Zhou Dynasty" Completed Shooting

"Matchmaker of Great Zhou Dynasty" (「大周小冰人」), the lightly funny idol costume drama jointly developed and produced by A8 Film & Television and iQIYI, Inc. ("iQIYI"), was online in March 2019 on iQIYI. "Matchmaker of Great Zhou Dynasty" is the top ten IP customized web drama of the iQIYI "Yunteng Scheme" (「雲騰計劃」).

Investment in Lanlanlanlan Film & Television

Up to 31 December, 2018, the Group held 29.52% share in Lanlanlanlan Film & Television Media (Tianjin) Co., Ltd. (藍藍藍藍影視傳媒(天津)有限公司, "Lanlanlanlan Film & Television") in aggregate through capital increase, share acquisition and performance compensation. Lanlanlanlan Film & Television is an associate of the Company. It mainly engages in the business of script writing, script selling, script adaptation, production of web series, TV series, cinema movies, web movies and related businesses. It hired over 100 screenwriters and is currently one of the largest domestic screenwriter team. The large screenwriter teams enable Lanlanlanlan Film & Television to substantially shorten the script production cycle in an efficient and effective manner and has the experience and ability to mass-produce web dramas.

GAME BUSINESS

In February 2018, the Group acquired 51% equity interest of independent game research and development companies, Shanghai Mu77 Network Technology Co., Ltd. (上海木七七網絡科技有限公司, "MU77SH") and Mu77 Network Technology Hongkong Limited (香港木七七網絡科技有限公司, "MU77HK") (collectively "Mu77"). Mu77 is mainly engaged in the research, development and operation of independent games. It won the honor of "Alibaba Game Eco Top Ten Creative Manufacturers" in 2018. Mu77's self-developed product "Card Monster" (「卡片怪獸」) continued to operate jointly with Tencent Aurora platform in mainland China, and maintained at the top 30 on the Best-selling List of WeChat games. In overseas regions, this product was continuously recommended by iOS and Google Play. The game's annual revenue maintained a steady upward trend.

Miniatures game project "Colossus Knights" (「巨像騎士團」) was initiated in 2018. By simplifying the operation Mu77 expected that this miniatures game could better fit the operating experience on the mobile side. At present, the project is under early demo testing on the TapTap platform, and has received over 20,000 subscribers and gained a 9.0 user rating. The project is expected to be commercialized in 2019. In 2018, Mu77 also launched game projects "Immortal Chat Group" (「修真聊天群」) and "Adventure and Dragon Training" (「冒險與馴龍」, temporary name). The Group joint created and developed these two games with China Mobile Games and Entertainment Group Limited ("CMGE") and Unicorn Games.

Finger Fun, the Group's game distribution platform, continued to focus on the publication of products in sub-areas. In 2018, Finger Fun mainly published "Making Soldiers in Three Kingdoms" (「造兵三國」), "Three Kingdoms Wars M" (「三國志大戰M」), "Werewolf Killers" (「狼人殺」) and "Xiawuyu" (「俠物語」).

CULTURAL INDUSTRY PARK – NATIONAL MUSIC INDUSTRY PARK – A8 MUSIC BUILDING

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, close to Qianhai (「前海」) and Houhai (「後海」), 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. In 2018, A8 Music Building won the first prize in "Shenzhen Excellent Property Management Project" (「深圳市優秀物業管理優秀項目」) awarded by Shenzhen Property Management Industry Association. The property investment business of A8 Music Building has been re-designated as the main business of the Group since mid-2015. A8 Music Building has generated an overall income of approximately RMB74,600,000 in 2018, representing an increase of approximately 14.3% as compared to the same period of last year.

Furthermore, offline live music performance brand A8Live is operated together with the LiveHouse Theater located in the podium of the A8 Music Building, its business functions include live music performance, maker café, professional studio, band rehearsal rooms and music education center. A8Live has held more than 200 performance activities in 2018 in diversified activity forms such as artists performance, band shows, concerts, fans meeting, press releases, charitable activities and live broadcasts, etc. Artists being invited to A8Live are becoming more international, including well-known artists and bands such as Declan Galbraith, Wuwuhui, Huang Ling, Dingdang, Huang Qishan and the like. Going forward, celebrities having performances in venues such as LiveHouse will become a trend. Interactive performance with short distance will be a selling point for LiveHouse to attract audience. 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.

ONLINE LITERATURES – BEIJING ZHANGWEN

The associate of the Group, 北京掌文信息技術有限公司 (Beijing Zhangwen Information Technology Co., Ltd.) ("Beijing Zhangwen"), operates Heiyan.com (黑岩網), one of the largest domestic single suspense-style literatures platforms, Ruochu.com (若初網), the platform mainly for women's romance literatures, Ruoxia.com (若夏網), the platform mainly for ancient-style literatures, and Lemon Read (檸檬免費小説). Beijing Zhangwen is mainly engaged in the incubation and operation of IP, provision of online paid-to-read service, and licensing adaptation of literatures to mobile games, web dramas, television dramas and movies, cartoons, comics and audio works.

Stable development in own platform business and rapid growth in third-party distribution business

By the end of 2018, the cumulative number of registered users of Beijing Zhangwen had exceeded 29 million, maintaining approximately an average compound annual growth rate of 40% over the past four years. The quality content of its own platforms has continued to expand and cumulatively published more than 115,000 works. It represented an increase of approximately 20% over the previous year in terms of number of works.

In 2018, the third-party distribution business has grown rapidly. With the original distribution channels such as China Literature (「閱文集團」), Ali Literature (「阿里文學」), 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」) in hand, Beijing Zhangwen continued to expand new distribution channels. In 2018, Beijing Zhangwen's innovative operation mode of its non-serial IP won the first battle. "Jiangliao" (「姜了」) achieved more than 10 million readings soon after getting online in Toutiao.

Sustainable and steady development in content licensing business

Beijing Zhangwen made a major breakthrough in the licensing of audio works. In 2018, Beijing Zhangwen's work occupied the first place on the Himalayan FM (「喜馬拉雅FM」)'s Pay-to-listen List and Free-to-listen List. Some of the audio works from Beijing Zhangwen entered the top ten of Lazy People Listening (「懶人聽書」）'s Hot Search List and Dragonfly FM (「蜻蜓FM」)'s Completion Reading List. The success of the audio works further broadened the monetization channels of the online literature IPs of Beijing Zhangwen.

In terms of IP literature licensing to films & televisions, Beijing Zhangwen cooperated with around 60 works in aggregate up to now. The ancient web drama "Shaoqing's Pet Life in Dali Temple" (「大理寺少卿的寵物生活」) jointly created by Beijing Zhangwen and tv.sohu.com (搜狐視頻) went on line in September 2018. Up to the date of this report, the number of view have exceeded 140 million. At the same time, Beijing Zhangwen and iQIYI "Yunteng Scheme" have three authorized works, one of which is a first-class work.

BUSINESS OUTLOOK FOR 2019

In 2019, the Group will continue to create prime IP and promote the circulation and interaction of IP among different product forms, and further explore the value of customers to meet their needs.

FILM & TELEVISION PRODUCTION

In 2019, the Group's film & television business will continually take premium literature IP as the starting point to develop film and television projects.

GAME BUSINESS

In 2019, the Group will maintain a stable proportion of self-research projects and customized projects in the follow-up game product planning, in order to ensure a steady increase in income level. Two customized games:"Immortal Chat Group" (「修真聊天群」) customized for CMGE and "Adventure and Dragon Training" (「冒險與馴龍」) customized for Unicorn Games, and one self – research game "Colossus Knights" (「巨像騎士團」) are all expected to get on line in 2019.

CULTURAL INDUSTRY PARK – NATIONAL MUSIC INDUSTRY PARK – A8 MUSIC BUILDING

In 2019, the Group will continue to enhance the property management level and provide better service for clients, in order to receive consistent and stable income. At the same time, the Company will be dedicated in moving forward the development of A8Live towards its branding and content making. We will continue to expand performance business and reinforce branding promotion and industrial influence.

ONLINE LITERATURES – BEIJING ZHANGWEN

In 2019, while continuing to consolidate its dominance in the suspense themes, Beijing Zhangwen will enhance the research and development of the new themes and contents. Meanwhile, Beijing Zhangwen will also vigorously develop distribution of online literature business and the comic distribution platform. Through the multi-way development of suspense-style literatures, it can fully utilize the advantage of the traffic from the existing literature platform, Heiyan.com.

Management Discussion and Analysis

1 FINANCIAL REVIEW

Revenue and profit attributable to owners of the Company

For the year ended 31 December 2018, the revenue of the Group amounted to approximately RMB151.8 million, representing an increase of 9.1% as compared with 2017 (2017: approximately RMB139.1 million).

Digital entertainment services

For the year ended 31 December 2018, the revenue of digital entertainment services of the Group amounted to approximately RMB77.2 million, representing an increase of approximately 4.6% as compared with 2017 (2017: approximately RMB73.8 million). The increase was mainly resulted from the increase of game related services amounted to approximately RMB4.1 million which was derived from revenue of the newly acquired subsidiary of Mu77.

Property investment business

For the year ended 31 December 2018, the revenue of property investment business derived from the rental and management fee amounted to approximately RMB74.6 million, representing an increase of approximately 14.3% as compared with 2017 (2017: approximately RMB65.3 million). The increase was mainly due to the increase in occupancy rate and unit price resulted from the high quality property management service.

Cost of services provided

For the year ended 31 December 2018, cost of services provided by the Group amounted to approximately RMB80.5 million, representing an increase of approximately 13.4% as compared with 2017 (2017: approximately RMB70.9 million). The increase was mainly due to the increased amortization and impairment of game copyrights during the year.

Digital entertainment services

For the year ended 31 December 2018, the cost of services provided of digital entertainment services amounted to approximately RMB59.6 million, increased by approximately 15.4% as compared with 2017 (2017: approximately RMB51.6 million). It mainly comprises revenue shared with mobile operators, distribution channels, business alliances and other costs such as game copyrights and direct labor costs.

Revenue shared with mobile operators and distribution channels mainly ranged from 30% to 60% of total digital entertainment services revenue received from mobile users and it averaged at approximately 32.7% for the year ended 31 December 2018 (2017: approximately 40.2%), while revenue shared with business alliances averaged at approximately 19.0% of total digital entertainment services revenue for the year ended 31 December 2018 (2017: approximately 12.1%).

Property investment business

For the year ended 31 December 2018, the cost of services provided of property investment business amounted to approximately RMB20.9 million, increased by approximately 8.1% as compared with 2017 (2017: approximately RMB19.4 million). It mainly comprises employees' compensation, utility charges and other maintenance costs in relation to the investment properties.

Gross profit

For the year ended 31 December 2018, the gross profit of the Group amounted to approximately RMB67.9 million, representing a slight increase of approximately 1.9% as compared with 2017 (2017: approximately RMB66.7 million). The overall gross margin ratio of the Group (which is calculated based on gross revenue divided by gross profit) was approximately 44.7%, as compared with approximately 47.9% for the year ended 31 December 2017. The decrease of gross margin ratio was resulted from the decreased gross margin ratio of digital entertainment services, which mainly due to the increase of amortization and impairment of game copyrights for the current year.

Other income and gains, net

For the year ended 31 December 2018, the other income and gains of the Group were approximately RMB101.8 million, representing an increase of approximately 52.6% as compared with a net gain of approximately RMB66.7 million for the year ended 31 December 2017.

The increase was mainly due to the increase of fair value gains on financial assets at fair value through profit or losses mainly in relation to the fund investments, deemed disposal gain on an investment in an associate, bank interest income amounted to approximately RMB61.7 million, RMB2.8 million and RMB2.7 million, respectively, which were partly offset by the decrease of fair value gain on investment properties of approximately RMB32.0 million.

Selling and marketing expenses

For the year ended 31 December 2018, the selling and marketing expenses of the Group amounted to approximately RMB43.6 million, representing an increase of approximately 58.9% as compared with 2017 and approximately 56.5% of the digital entertainment services revenue (2017: approximately RMB27.4 million, representing approximately 37.2% of digital entertainment services revenue). The increase in selling and marketing expenses and its ratio to the related revenue were mainly due to the increase in marketing and promotion expenses amounted to approximately RMB13.8 million arising from promotion activities for various mobile games during their launch stage.

Administrative expenses

For the year ended 31 December 2018, the administrative expenses of the Group amounted to approximately RMB56.2 million, representing an increase of 66.6% as compared with 2017 (2017: approximately RMB33.7 million). The increase was mainly due to the increase in employee costs amounted to approximately RMB15.6 million in relation to labor cost of the newly acquired subsidiary of Mu77 completed in March 2018 and the Group's labor adjustment following the business development.

Other expenses, net

For the year ended 31 December 2018, the other expenses, net of the Group amounted to approximately RMB114.8 million, representing a significant increase of 330.1% as compared with 2017 (2017: approximately RMB26.7 million). During the year, the Group recognized impairment of investments in associates and goodwill impairment of a newly acquired subsidiary amounted to approximately RMB76.1 million and RMB35.0 million as compared to the impairment of investments in joint ventures and an available-for-sale investment of approximately RMB20.9 million and RMB5.0 million last year. Thus, the increase for the aforesaid reason was RMB85.3 million.

The impairment of goodwill was made when the expected future recoverable amount is lower than the investment cost. During the year, the Group recorded an impairment of goodwill amounted to approximately RMB72.0 million in relation to Lanlanlanlan Film & Television with the reasons as followings: First, as the performance of the animated film "Pretty Princess" (「兩個俏公主」) at the box office was not satisfactory, the company decided to temporarily suspend the business of animated films. Second, it was also expected that the business plan of for TV dramas will be stagnant in the next two years. Further, it was expected that the revenue from the sale of scripts as well as the scale and progress of the development of online film, in the next two years would be lower than the business forecast made at the end of 2017. Hence, the Group made the impairment.

Another impairment was made to the newly acquired 51% equity interest of Mu77 that engaged in game development business. During the year, the game page number tightening strategy implemented by State Administration of Radio Film and Television had adverse effect on the whole game industry which would restrict or postpone the game publishing. Mu77 suffered losses for the current year resulted from the above reason and also the delayed process of game development. The Group considered that the industry policy will continually affected Mu77 and based on the latest valuation by independent valuer as at 31 December 2018, the Group made a goodwill impairment for Mu77of approximately RMB35.0 million.

Share of profits/(losses) of associates

For the year ended 31 December 2018, the Group shared losses of associates amounted to approximately RMB12.7 million, compared to share of profits of approximately RMB2.4 million in 2017. The change was mainly due to the increase of shared losses of Lanlanlanlan Film & Television and Beijing Duomi amounted to approximately RMB16.9 million and RMB4.4 million respectively, which were partly offset by the increase of shared profits of Beijing Zhangwen amounted to approximately RMB5.0 million as compared with 2017.

For the financial year ended 31 December 2018, Lanlanlanlan Film & Television recorded an audited net loss of approximately RMB65.0 million for 2018. Lanlanlanlan Film & Television launched the movie called "Pretty Princess" ("兩個俏公主") in 2018 and the cost of which amounted to approximately RMB30 million. Nevertheless, the performance of this movie at the box office was not satisfactory. Further, there was asset impairment loss of approximately RMB34.6 million incurred by Lanlanlanlan Film & Television in 2018, comprising (i) the bad debt written off of approximately RMB8.9 million; and (ii) the impairment loss on inventory of approximately RMB25.7 million. Therefore, the Group shared losses of Lanlanlanlan Film & Television amounted to approximately RMB16.9 million.

The Group's investment in Beijing Duomi was recovered resulted from the significant fair value increase of its financial assets at fair value through other comprehensive income in relation to Inke Limited, which was listed in HKEx in July 2018. Thus, the Group shared losses of Beijing Duomi's for the year amounted to approximately RMB4.4 million.

Income tax

For the year ended 31 December 2018, the income tax expense of the Group amounted to approximately RMB24.8 million, representing an increase of approximately 44.9% as compared with approximately RMB17.1 million in 2017, which was mainly due to the increase of deferred tax liability related to the increased appreciation of financial assets at fair value through profit or loss which was offset by the decreased appreciation of A8 Music Building.

With reference to the existing Corporate Income Tax Law in China, the statutory tax rates are 25% in the respective operating subsidiaries of the Group in 2018.

Profit/loss attributable to equity holders of Company

For the year ended 31 December 2018, the loss attributable to equity holders of Company amounted to approximately RMB85.2 million, as compared with a profit of approximately RMB25.0 million in 2017. The significant reverse change was mainly due to the impairment of goodwill amounted to approximately RMB72.0 million and RMB35.0 million in relation to the investment in an associate of Lanlanlanlan Film&Television and the newly acquired subsidiary of Mu77.

Liquidity and Financial Resources

As at 31 December 2018, cash and bank balances and highly liquid short term assets of the Group including cash and cash equivalents, restricted cash and pledge deposits and financial assets at fair value through profit or loss amounted to approximately RMB601.8 million (2017: approximately RMB712.2 million). Among which, approximately RMB214.4 million, or approximately 36.0% was denominated in RMB.

As at 31 December 2018, the Group has short-term interest-bearing bank borrowings amounted to approximately RMB195.1 million in aggregate, and the gearing ratio which is measured by the net borrowings over the total assets is 10.5% (2017: 6.9%).

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

As at 31 December 2018, the Group did not have any derivatives for hedging against both the interest and exchange rate risks.

Non-current Assets

As at 31 December 2018, the total non-current assets of the Group amounted to approximately RMB1,199.4 million (2017: approximately RMB948.8 million). The increase was mainly due to the increase of financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income amounted to approximately RMB147.9 million and RMB100.4 million which were partly reclassified from available for sale investments under IFRS 9 amounted to approximately RMB93.9 million.

The increase was also due to the increase in goodwill which related to the acquisition of 51% equity interest in Mu77, increase in investment in associates and investment properties amounted to approximately RMB53.4 million, RMB46.6 million and RMB18.0 million respectively. Which were partly offset by the decrease of prepayment for acquisition of available for sale investments, intangible assets and property, plant and equipment amounted to approximately RMB8.1 million, RMB7.4 million and RMB5.2 million, respectively.

Current Assets and Current Liabilities

As at 31 December 2018, the total current assets of the Group amounted to approximately RMB656.4 million (2017: approximately RMB750.7 million). The decrease was mainly due to the decrease of cash and cash equivalents and available-for-sales investments amounted to RMB234.6 million and RMB32.3 million, respectively, which were partly offset by the increase of restricted cash balances and pledged deposits, inventories in relation to web drama production and financial assets at fair value through profit or loss amounted to approximately RMB141.0 million, RMB15.8 million and RMB15.5 million, respectively. Trade receivables amounted to approximately RMB10.1 million (2017: approximately RM14.6 million), and the turnover days of trade receivables was approximately 30 days (2017: approximately 30 days).

As at 31 December 2018, the total current liabilities of the Group amounted to approximately RMB299.4 million (2017: approximately RMB220.7 million). The increase was mainly due to the increase of interest-bearing bank borrowings and other payables and accruals amounted to approximately RMB77.9 million and RMB8.5 million, respectively, which were partly offset by the decrease of trade payables of approximately RMB7.1 million.

Cash Flow

Net cash outflow from operating activities of the Group for the year ended 31 December 2018 was approximately RMB10.9 million, resulted from cash outflow from operations amounted to approximately RMB8.8 million and the tax paid of approximately RMB2.1 million.

Net cash outflow from investing activities of the Group for the year ended 31 December 2018 was approximately RMB287.9 million, resulted from the cash outflow for the increase in restricted cash and pledge deposits, acquisition for the 51% equity interest in Mu77, purchase in shareholdings related to Lanlanlanlan Film & Television and acquisition for financial assets at fair value through profit or loss amounted to approximately RMB141.0 million, RMB72.3 million, RMB71.9 million and RMB43.3 million, respectively, which were partly offset by the decrease in short-term time deposit over three month, decrease in financial assets at fair value through profit or loss and interest received amounted to approximately RMB19.0 million, RMB16.8 million and RMB16.6 million, respectively.

Net cash inflow from financing activities of the Group for the year ended 31 December 2018 was approximately RMB67.3 million, resulted from the 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 RMB123.7 million and RMB8.2 million, respectively.

Contingent Liabilities

As at 31 December 2018, the Group did not have any material contingent liabilities.

2 USE OF PROCEEDS

On 19 December 2016, the Company entered into a subscription agreement with Ever Novel Holdings Limited ("Subscriber") pursuant to which the Subscriber agreed to subscribe for in cash, and the Company agreed to allot and issue 931,800,000 new shares of the Company at a subscription price of HK$0.41 per Share ("Subscription"). Completion of the Subscription took place on 20 February 2017. The gross proceeds and net proceeds from the Subscription were approximately HK$382.0 million and HK$380.5 million respectively.

As of December 31, 2018, RMB76,534,500 of the proceeds from the Subscription were utilized. Among which, approximately RMB59,557,500 of the net proceeds from the Subscription were utilized for the acquisition of 51% equity interest in MU77SH, RMB16,977,000 were used for the first payment for the acquisition of MU77HK and controlling MU77SH through implementing a series of VIE agreements and arrangements.

Subsequent to 31 December 2018 and up to the date of this report, approximately RMB25,465,500 of the net proceeds from the Subscription were used as the second payment for the acquisition of MU77HK and controlling MU77SH through implementing a series of VIE agreements and arrangements.

As of the date of this report, the accumulated amount of RMB102,000,000 of the proceeds from the Subscriptions have been used. As disclosed in the circular of the Company dated 25 January 2017, it was intended that the net proceeds from the Subscription would be utilized for further investment of the Group as and when opportunities arise, with a focus on mobile game industry chain. The Company intends to use the entirety of the proceeds from the Subscription for future acquisition of upstream and downstream mobile game industry chain company(ies). The use of the proceeds of the Subscription is the same as that of the subscription agreement entered by the Group.

On the date of this report, the remaining amount of the proceeds from the Subscription was RMB235,204,000. The company has no plans to change the use of the proceeds from the Subscription for the time being. The remaining unutilized proceeds from the Subscription will be used as intended. As at the date of this report, the Company has not identified other suitable business or investment opportunities. The Company will continue to use its best endeavors to identify appropriate business opportunities for investment. Currently, the Company placed such unutilized proceeds as short-term interest-bearing deposits in licensed bank in Hong Kong.

3 SIGNIFICANT INVESTMENTS

In 2018, the Group acquired 51% of the voting shares of MU77SH and MU77HK, two unlisted companies based in the PRC and Hong Kong, respectively at total consideration of RMB102,000,000, which principally engaged in mobile game research and development and operation in the PRC and overseas.

(RMB)

	Description of investment	Approximate investment amount as at 31 December 2018	Carrying amount/ fair value as at 31 December 2018	Approximate percentage to the Group's audited total assets as at 31 December 2018	Changes in fair value during the year 2018
1	Beijing Zhangwen	195,098,000	205,022,000	11.0%	NA
2	Lanlanlanlan Film & Television	130,224,000	45,784,000	2.5%	NA
3	Xiamen Mengjia Network Technology Co., Ltd.	20,024,000	84,528,000	4.6%	50,037,000 Note 1
4	Qingsong Fund II	20,000,000	97,164,000	5.2%	59,914,000 Note 2

Note 1: This financial asset is measured at fair value through other comprehensive income.

Note 2: This financial asset is measured at fair value through profit or loss.

Except as disclosed in this report, on 31 December 2018, the Group had no other significant investments.

4 HUMAN RESOURCES

As at 31 December 2018, the Group employed 164 employees (2017: 167 employees) and the average headcounts of year 2018 was 168 while it was 134 in year 2017. The Group determines the remuneration of its employees based on various factors such as responsibilities, qualifications and years of experience. Total employee costs for the year ended 31 December 2018, including directors' emoluments, amounted to approximately RMB43.3 million, representing an increase of approximately 71.5% as compared with 2017 (2017: approximately RMB25.9 million), which was mainly resulted from the acquisition of Mu77 and the Group's labor adjustment following the business development.

5 MAJOR RISKS AND UNCERTAINTIES

The Group's operating performance, financial position and development prospects may be affected by risks and uncertainties directly or indirectly related to the Group's business. The risk factors listed below may lead to significant differences in the Group's operating performance, financial position and development prospects from expected or past performance. These factors are not comprehensive. In addition to the following, there may be other risks and uncertainties that are not known by the Group or may not be significant at present, but may become significant in the future.

Business Risk

The business of the Group's property investment segment is mainly leasing and property management, which may be affected by fluctuations in market prices of rent and property fees and uncertainty of tenant mobility.

Digital entertainment segment is engaged in game research & development, film & television production and music-based entertainment. Some projects have a long development and production cycle, face fierce competition within the industry and changeable tastes of audiences. If the Group fails to adapt and respond successfully, it may adversely affect the business performance and development prospects.

The Group's investment performance in projects like Beijing Zhangwen, Lanlanlanlan Film & Television is mainly determined by the operation of these invested companies. If the invested companies fail to achieve the expected performance target, it might adversely affect the Group's business.

Policy Risk

In order to carry out kinds of business, the Group must abide by various policies and regulations. Changes in policies and regulations will affect the development of the Group's business, such as the adjustment of the cultural authorities' policies on the application of game page number, and the adjustment of the approval standards of the State General Administration of Press, Publication, Radio, Film and Television on web drama, which may lead to significant changes in operating costs and positions of the Group's business.

Foreign Exchange Risk

On 31 December 2018, HK Dollars and US Dollars in cash and cash equivalents held by the Group were approximately HK$34.0 million and US$28.6 million. The Group's main business is located in China, and most of its revenues and expenditures are settled in RMB. Therefore, the Group may face the risk of foreign currency exchange.

6 EVENTS AFTER THE REPORTING PERIOD

Implement of target profit of Lanlanlanlan Film & Television

On 13 December 2017, Shenzhen Yunhai Qingtian Cultural Broadcasting Co., Ltd. (深圳市雲海情天文化傳播有限公司, "Yunhai Qingtian"), the Company's wholly owned subsidiary acquired 5% equity interest in Lanlanlanlan Film & Television by way of capital increase ("Capital Increase"). On 18 December 2017, Yunhai Qingtian entered into equity transfer agreements and equity transfer supplementary agreements with independent third parties to acquire 5% equity interest in Lanlanlanlan Film & Television (the "2017 Acquisition"). On 13 March, 2018, the Group acquired an additional 13.56% equity interest in Lanlanlanlan Film & Television from several independent third parties (the "2018 Acquisition"). After the completion of the 2018 acquisition, the Group owned 23.56% of Lanlanlanlan Film & Television.

According to the supplementary agreement on capital increase and equity transfer supplementary agreement for 2017 Acquisitions, Ms. Liu Zewen ("Founder A") and Mr. Zhang Jinsheng ("Founder B", collectively known as the "Founders"), taking the Group as the beneficiary, undertook that the net profit (excluding non-recurring gains or losses, known as "audited profit") audited by accounting firms in the financial years ended 31 December, 2017, 2018 and 2019, and shown in the consolidated financial statements of Lanlanlanlan Film & Television and its affiliates (collectively referred to as Lanlanlanlan Group) confirmed by the Group shall be no less than RMB40 million, RMB60 million and RMB90 million respectively ("target profit"). If Lanlanlanlan Film & Television fails to achieve 90% of the target profit in any financial year up to 31 December, 2017, 2018 and 2019, the Founders shall compensate the Group with cash ("cash compensation") or equity interest of Lanlanlanlan Film & Television ("equity compensation").

According to the audited consolidated financial statements of Lanlanlanlan Film & Television for the financial year ended 31 December 2017, the audited profit of Lanlanlanlan Group in 2017 was RMB25,054,105. Since the audited profit in 2017 is less than 90% of the target profit in that year, the Founders shall compensate the Group by cash compensation or equity compensation as chosen by the Group.

On 4 July, 2018, founders of Yunhai Qingtian and Lanlanlanlan Film & Television entered into a performance compensation implementation agreement ("Compensation Agreement"). Accordingly, the Founders transfered 5.96% of the total rights and interests of Lanlanlanlan Film & Television to Yunhai Qingtian at the cost of RMB1 yuan (the "2017 Equity Compensation"). On 31 December, 2018, the 2017 Equity Compensation was completed. After the completion of 2017 Equity Compensation, the Group owned 29.52% of Lanlanlanlan Film & Television.

According to the audited consolidated financial statements of Lanlanlanlan Film & Television for the financial year ended 31 December 2018, the audited loss of Lanlanlanlan Group in 2018 was RMB65,042,000. Since the audited profit in 2018 was less than 90% of the target profit in that year, the Founders shall compensate the Group by cash compensation or equity compensation as chosen by the Group. Based on the 2017 Capital Increase Supplemental Agreement and 2017 Equity Transfer Supplemental Agreement, the Cash Compensation payable by the Founders and/or the Lanlanlanlan Film & Television would amount to approximately RMB118,790,000.

On 25 March 2019, Yunhai Qingtian, a wholly-owned subsidiary of the Company, issued a notice ("Exercise Notice") to the Founders pursuant to which the Group requested the Founders to compensate the Group with Cash Compensation for the nonfulfillment of the performance guarantee for 2018 as mentioned above. By way of the Exercise Notice, the Group also exercised the Equity Purchase Right by requesting the Founders to purchase all of the equity interests in Lanlanlanlan Film & Television as transferred to the Group under the 2017 Acquisitions, the 2017 Capital Increase and the 2018 Acquisitions (i.e. an aggregate of 23.56%) ("Disposal").

On the same day, in response to the Exercise Notice, the Founders executed an undertaking letter ("Undertaking Letter") in favor of Yunhai Qingtian pursuant to which the Founders have undertaken to the Group to perform its obligations to compensate the Group by way of Cash Compensation and purchase all of the equity interests in Lanlanlanlan Film & Television as transferred to the Group under the 2017 Acquisitions, the 2017 Capital Increase and the 2018 Acquisitions (i.e. an aggregate of 23.56%).

However, as stated under the Undertaking Letter, in view of serious shortage of fund, the Founders will perform their obligations to compensate the Group with Cash Compensation and purchase all of the equity interests of the Group as mentioned in the Exercise Notice (i.e. an aggregate of 23.56%) within three years from the date of the Undertaking Letter ("Extension Period") and will pay the default interest in accordance with the terms and conditions of the 2017 Capital Increase Supplemental Agreement, the 2017 Equity Transfer Supplemental Agreement and the 2018 Equity Transfer Supplemental Agreement. The Founders have also undertaken that all cash dividends received from Lanlanlanlan Film & Television will be used for Cash Compensation or purchasing all of the equity interests in Lanlanlanlan Film & Television as mentioned above.

In anticipation of the non-fulfilment of the target profit for 2018 by Lanlanlanlan Film & Television, the Founders paid an aggregate of RMB5,000,000 to the Group as part of the equity purchase price for the Disposal on 29 January 2019 ("First Payment").

Taking into account the First Payment made by the founders and assuming the completion of the Disposal will only take place on the last day of the Extension Period and no payment of consideration is made by the Founders to the Group during the Extension Period, the Group shall be entitled to default interest, in aggregate, of RMB60,545,804 payable by the Founders. On this basis, the maximum consideration for the Disposal, i.e. being the sum of the equity purchase price for the 23.56% equity interest in Lanlanlanlan Film & Television of RMB146,380,434 and the maximum default interest receivable of RMB60,545,804, is RMB206,926,238. The Company is of the view that it is of great uncertainty to recover all of the consideration from the Founders as it mainly depends on the ability of the Lanlanlanlan Film & Television to declare dividends and the financial positions of the Founders.

Directors and Senior Management

DIRECTORS

Executive Directors

Mr. Liu Xiaosong ("Mr. Liu"), aged 53, an executive Director, the Chairman and the Chief Executive Officer of the Company. Mr. Liu graduated from Hunan University in the PRC in 1984, with a Bachelor's degree in Electrical Engineering. In 1987, Mr. Liu graduated from China Electric Power Research Institute in the PRC with a Master's degree in Engineering. In 1991, he studied at Tsinghua University as a PhD research student. He has diversified experience in the technology, media and telecommunications industry. He is one of the co-founders of Tencent Holdings Limited, a company listed on the Main Board of Stock Exchange of Hong Kong Limited ("Stock Exchange") with the Stock Code: 00700.HK. In 2004, Mr. Liu was admitted to the Shenzhen Experts Working Union. Mr. Liu was appointed as the Vice President of the Copyright Union of the Internet Society of China and the Copyright Society of China in August 2007 and September 2007 respectively. He is the Vice President of the Shenzhen Hi-tech Association. He is also the non-executive director of Inke Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 03700. HK) and the independent non-executive director of China Dongxiang (Group) Co., Ltd., a company listed on the Main Board of the Stock Exchange (Stock Code: 03818.HK). He is a founder of the Group and was appointed as a Director on 2 October 2007. Mr. Liu is currently responsible for the overall strategic planning and the whole business operation and management of the Group.

Mr. Liu is the director of Beijing Duomi Online Technology Co., Ltd. ("Beijing Duomi"), Duomi Music Holding Ltd. ("Duomi Music") and Beijing Zhangwen, which all are associates of the Company. He also acts as the director of A8 Music Group Limited, Total Plus Limited, Smart Trick Global Limited, MU77SH, Yunqing Network Technology (Shanghai) Limited (蘊清網絡科技（上海）有限公司), MU77HK, Imu77 Limited and Blueowlgames Limited, which are subsidiaries of the Company.

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

Mr. Lin Qian ("Mr. Lin"), aged 36, an executive Director and the Chief Financial Officer of the Company. Mr. Lin graduated from Imperial College London with a Bachelor's degree in Materials Science and Engineering in 2006. Mr. Lin joined the Group as the chief financial officer of the Company in September 2016. Prior to joining the Group, he was a senior auditor at Ernst & Young from October 2006 to October 2009 and an investment manager at Shanghai Dong Fang Hui Jin (上海東方惠金文化產業投資有限公司) from October 2009 to May 2011. He was also a vice president of the investment banking department at Hua Tai United Securities Co., Ltd. (華泰聯合證券有限公司) from May 2011 to June 2014 and a director at CVCapital (投中資本) from June 2014 to August 2016. Mr. Lin has over 10 years of experience in capital operations and project management in relation to mergers and acquisitions, he is also familiar with capital markets in The People's Republic of China and abroad and is proficient in capital operations. Mr. Lin is also experienced in auditing, corporate internal control and team management. He was appointed as an executive Director on 6 April 2017.

Mr. Lin also acts as the director of Total Plus Limited, MU77SH, Yunqing Network Technology (Shanghai) Limited (蘊清網絡科技（上海）有限公司), MU77HK, Imu77 Limited, Blueowlgames Limited and Phoenix Success limited which are subsidiaries of the Company.

Independent Non-executive Directors

Mr. Chan Yiu Kwong ("Mr. Chan"), aged 54, is an independent non-executive Director. Mr. Chan graduated from the University of Hong Kong with a Bachelor's degree in Social Sciences in 1988. He was admitted as a fellow member of the Association of Chartered Certified Accountants and a fellow member of the Hong Kong Institute of Certified Public Accountants in 1999 and 2005 respectively. From June 2004 to July 2006, Mr. Chan served as an independent non-executive director of Beijing Enterprises Water Group Limited (formerly known as "Shang Hua Holding Limited"), a company listed on the Main Board of the Stock Exchange (Stock Code: 00371. HK). From March 2001 to December 2007, Mr. Chan served as an executive director of Hi Sun Technology (China) Limited ("Hi Sun"), a company listed on the Main Board of the Stock Exchange (Stock Code: 00818.HK). Between 2005 and 2010, Mr. Chan served as an independent non-executive director of Biosino Bio-Technology and Science Incorporation, a company listed on the Growth Enterprises Market of the Stock Exchange (Stock Code: 08247.HK). Mr. Chan currently serves as a joint company secretary of Hi Sun, a joint company secretary of PAX Global Technology Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 00327. HK) and an independent non-executive director of Doumob, a company listed on the Main Board of the Stock Exchange (Stock Code: 01917. HK). He has years of diversified experience in auditing, business advisory and corporate management. He was appointed as an independent non-executive Director on 9 November 2007.

Ms. Wu Shihong ("Ms Wu"), aged 61, is an independent non-executive Director. Ms. Wu has extensive experience in the information technology industry. She joined IBM China in 1985 and held the position of General Manager for channel management of IBM China from May 1997 to February 1998. She then acted as the General Manager of Microsoft China Co. Ltd. until August 1999. From December 1999 to December 2002, she was a Vice President of TCL Corporation as well as the General Manager of TCL Information Technology Industrial (Group) Co. Limited. She is an independent non – executive director of TCL Multimedia Technology Holdings Limited (Stock Code: 01070.HK) from June 2007 to August 2015, and she was an Executive Director of TCL Cooperation Company limited (Stock Code: 000100.SZ) from August 2015 to September 2017. Ms. Wu founded Shanghai Blackspace Info. Tech. Co. Limited in May 2008 and has been the Chairman and Chief Executive Officer since then until February 2012. Ms. Wu was appointed as an independent non-executive Director on 27 March 2012.

Mr. Li Feng ("Mr. Li"), aged 51, is an independent non-executive Director. Mr. Li has extensive experience in venture capital investment and enterprise management. Mr. Li graduated from Tsinghua University with a Bachelor's degree and Master's degree successively in 1991, and graduated from Massachusetts Institute of Technology with a Master's degree and Doctor's degree successively in 1999. Mr. Li co-founded Photonify Technologies, Inc. in 1999, and served as its Chairman and Chief Executive Officer. He co-founded EPIN Media Holdings, Ltd. in 2002, and served as its Chairman, President and Chief Executive Officer. During the period from 2009 to 2011, Mr. Li was a partner at VantagePoint Capital Partner. Since 2011, Mr. Li served as the founding partner at SummitView Capital which was a venture and private equity investment institution focusing on emerging industries. Mr. Li was appointed as an Independent non-executive Director on 30 May 2016.

SENIOR MANAGEMENT OF THE GROUP

Mr. Su Wei ("Mr. Su"), aged 43, the Chief Investment Officer of the Group. He graduated from the Shanghai University of Finance and Economics with a Bachelor's degree in Money and Banking in 1998 and further obtained a Master Business Administration degree from Donghua University in 2006. Mr. Su has years of diversified working experience in corporate internal management, investments, mergers and acquisitions, project financing, reorganization, and has in-depth knowledge in the internet industry. He worked for Shanghai Pudong Road & Bridge Construction Co., Ltd (Shanghai Stock Exchange: 600284), Shanda Computer (Shanghai) Co., Ltd., etc. Mr. Su joined the Group in March 2010 and he is now responsible for the Group's strategy, investment and operation management. Mr. Su also acts as a director of Duomi Music and Beijing Zhangwen, which are associates of the Company. He also acts as the director of Beijing Tianlai Cultural Broadcasting Co., Ltd., Total Plus Limited, MU77SH, Yunqing Network Technology (Shanghai) Limited (蘊清網絡科技（上海）有限公司), MU77HK, Imu77 Limited and Blueowlgames Limited which are subsidiaries of the Company.

Mr. Liu Xiaosong and Mr. Lin Qian are also the Senior Management of the Group, please refer to page 16 for their resume.

Directors' Report

The board (the "Board") of directors (the "Directors") presents their report and the audited financial statements of the Group for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 1 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2018 is set out in the section headed "Chairman's Statement" on pages 4 to 6 of this annual report.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2018 and the Group's financial position at that date are set out in the financial statements on pages 58 to 61.

No interim dividend was declared for the six months ended 30 June 2018 and the Board does not recommend the payment of final dividend for the year ended 31 December 2018.

FINANCIAL SUMMARY AND HIGHLIGHT

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

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year ended 31 December 2018 are set out in notes 31 and 32 to the financial statements, respectively.

PRE-EMPTIVE RIGHTS

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

TAX RELIEF AND EXEMPTION

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2018, 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.

Detail information of the purchase, sales or redemption of the listed securities of the Company by the Company or any of its subsidiaries during the year ended 31 December 2018 were disclosed in note 34(i) of the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2018, the Company's reserves available for distribution amounted to approximately RMB777,240,000.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2018, revenues from the five largest customers of the Group accounted for approximately 40% of the Group's total revenues while revenues from the largest customer for the Group accounted for approximately 14% of the Group's total revenues. In addition, for the year ended 31 December 2018, purchases from the Group's five largest suppliers accounted for less than 30% of the Group's total purchases.

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

DIRECTORS

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

Executive Directors: Mr. Liu Xiaosong and Mr. Lin Qian

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

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

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

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and senior management of the Group are set out on pages 16 to 17 of the annual report.

DIRECTORS' SERVICE CONTRACTS

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

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

DIRECTORS' REMUNERATION

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

PERMITTED INDEMNITY PROVISION

During the year ended 31 December 2018 and up to the date of this annual report, there was or is permitted indemnity provision (within the meaning in section 469 of the Hong Kong Companies Ordinance) in the articles of association of the Company being in force.

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed in note 40 to the financial statements and in the section headed "Related party disclosures" in this report, no Director nor a connected entity of a director had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which the Company or any of the Company's subsidiaries was a party subsisting during or at the year ended 31 December 2018.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2018.

Save as disclosed in note 40 to the financial statements and in the section headed "Related party disclosures" in this report, no contract of significance had been entered into between the Company or any of its subsidiaries and the controlling shareholders (as defined in the Listing Rules) of the Company or any of its subsidiaries.

Save as disclosed in note 40 to the financial statements, no contract of significance for the provision of services to the Group by the controlling shareholders of the Company or any of its subsidiaries was entered into.

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

As at 31 December 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	53.90%
	Beneficial Owner	5,766,000	23,032,600[3]	1.07%
Mr. Lin Qian	Beneficial Owner	Nil	5,000,000[3]	0.19%
Mr. Chan Yiu Kwong	Beneficial Owner	Nil	1,415,000[3]	0.05%
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 31 December 2018 (i.e. 2,700,886,628 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 and Prime Century in the Company. As at 31 December 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 Xiaosong under the 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 Xiaosong by the Company on 5 October 2009 were lapsed due to the end of exercise period. As at 31 December 2018, Mr. Liu Xiaosong held an aggregate of 23,032,600 shares of the underlying shares in the equity derivatives of the Company.

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
深圳市華動飛天網絡技術開發有限公司 ("Huadong Feitian")[1]	Mr. Liu	Beneficial owner	RMB21,510,000[2]	75.00%
Duomi Music[3]	Mr. Liu	Interest of controlled corporation	35,435,640[4]	33.94%
Beijing Duomi[5]	Mr. Liu	Beneficial owner	23,637,000[6]	26.74%
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 31 December 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, 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 31 December 2018, the Company was interested in 22.51% 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 26.74% 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 31 December 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, Shenzhen Haoxiang Investment Co., Ltd, 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 31 December 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.

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 31 December 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 adopted in 2008 (the "2008 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 2008 Share Option Scheme.

On 25 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 31 December 2018, no share option under the 2018 Share Option Scheme was granted.

The following table discloses movements in the Company's share options outstanding under the share option schemes during the year:

Name/category of participants	At 1 January 2018	Exercised during the year	Granted during the year	Lapsed during the year	Canceled during the year	At 31 December 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 January 2018	One-half of the share options granted will be vested on 16 May 2018 and the other one-half on 16 May 2019	9 Jan 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

Name/category of participants	At 1 January 2018	Exercised during the year	Granted during the year	Lapsed during the year	Canceled during the year	At 31 December 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					
Including:	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					
Including:	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					
Including:	150,000	–	–	–	–	150,000	21 April 2017	One-half of the share options granted will be vested at 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**					
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**	**-**					

Name/category of participants	At 1 January 2018	Exercised during the year	Granted during the year	Lapsed during the year	Canceled during the year	At 31 December 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
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**	**-**	**-**	**3,210,374**	**5,295,500**	**2,827,054**					
TOTAL	**51,532,338**	**-**	**4,615,000**	**3,807,684**	**17,695,000**	**34,644,654**					

During the year ended 31 December 2018, 4,615,000 share options were granted under the Share Option Scheme and 3,807,684 share options granted under the Share Option Scheme were 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 financial report, there were 34,644,654 outstanding share options granted under the Share Option Scheme, representing approximately 1.28% of the issued share capital of the Company.

Please refer to note 32 to the financial statements for further information of the Share Option Scheme and the value of share options granted.

SHARE AWARD SCHEME

The Board has approved the adoption of a share award scheme (the "Share Award Scheme") on 16 August 2010 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, 2008 Share Option Scheme and 2018 Share Option Scheme.

During the year ended 31 December 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, 12,277,500 awarded shares were released to awarders, no awarded shares were lapsed.

Further details of the Scheme are disclosed in note 33 to the financial statements.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31 December 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 shareholder	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	57.16%
River Road	Interest in controlled corporation[2]	1,455,867,398	53.90%
Knight Bridge	Interest in controlled corporation[2]	1,455,867,398	53.90%
Ever Novel	Interest in controlled corporation[3]	379,496,303	14.05%
	Beneficial Owner[3]	1,076,371,095	39.85%
Prime Century	Beneficial Owner[3]	379,496,303	14.05%

Notes:

1. The percentage of interest in the Company is calculated by reference to the number of Shares in issue as at 31 December 2018 (i.e. 2,700,886,628 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, 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 31 December 2018, 1,543,747,398 Shares in total).

3. As at 31 December 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 31 December 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.

CONNECTED TRANSACTIONS

The contractual arrangements

Due to restrictions in the PRC laws and regulations on foreign investment in businesses providing telecommunications value-added services and mobile online game services in the PRC, the Group has entered into a number of contracts ("Structure Contracts") with certain PRC operating companies ("OPCOs") solely for the purpose of operating the Group's relevant businesses in the PRC ("Contractual Arrangement"). The Structure Contracts are designed to provide the Company with effective control over and (to the extent permitted by the PRC laws) the right to acquire the equity interests in and/or assets of the OPCOs.

The Group entered into original contracts relating to the Contractual Arrangement (the "2004 Contractual Arrangements") in 2004. In 2015, 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 (the "2015 Contractual Arrangements") to replace the 2004 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.

The 2015 Contractual Arrangements

1. *Particulars of OPCO and its registered owners*

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

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

   深圳市快通聯科技有限公司 ("Kuaitonglian")

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

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

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

2. *Description of OPCOs' business*

   Huadong Feitian and its subsidiaries are principally engaged in the provision of internet information service property investment and music performance.

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

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

3. Summary of the Major Terms of the Underlying Contracts of the 2015 Contractual Arrangements

Several Structure Contracts of similar terms were made:

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

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

which allows Cash River/Finger Fun to exercise control and enjoy economic benefit generated from the OPCOs. Each of Cash River and Finger Fun is a wholly-owned subsidiary of the Company. The major terms of these Structure Contracts are summarised as follows.

a. *Exclusive Business Cooperation and Service Agreement*

The Exclusive Business Cooperation and Service Agreement provides that, among others:

(1) the parties to the Exclusive Business Cooperation and Service Agreement shall cooperate with each other in technical support, business support and related consultancy services which include but not limited to technical service, business consultation, equipment leasing, market consultation, system integration, product research and development and system maintenance, and intellectual property rights;

(2) Cash River/Finger Fun shall provide certain technical and business support and the consultancy services to the OPCO in return for the service fee;

(3) The OPCO shall not have any similar cooperation with any third party;

(4) The OPCO shall not transfer any of its rights and/or obligations under the Exclusive Business Cooperation and Service Agreement without the prior consent of Cash River/Finger Fun; and

(5) The OPCO grants Cash River/Finger Fun an irrevocable and exclusive right to purchase, or to designate any person to purchase on its behalf, all or part of its assets and business, including, among others, fixed assets, current assets, intellectual property rights, ownership of equity interests in any person within or outside the PRC and the benefit of all contracts entered into by the OPCO at the lowest purchase price as permitted by the PRC laws.

The Exclusive Business Cooperation and Service Agreement is valid for 20 years from their respective signing date and Cash River/Finger Fun shall be entitled to renew the relevant Exclusive Business Cooperation and Service Agreement by written notice to OPCO.

b. *Share Disposition and Exclusive Option to Purchase Agreement*

Pursuant to the Share Disposition and Exclusive Option to Purchase Agreement:

(1) the shareholder(s) of the OPCO grants Cash River/Finger Fun an irrevocable and exclusive right to purchase, or designate any person to purchase on its behalf, all or part of their respective equity interests in the respective OPCO, in one or more transfers as determined by Cash River/Finger Fun in its sole discretion at the purchase price(s) of RMB1.00 or such higher amount as required by the PRC laws;

(2) the shareholder(s) of the OPCO covenants or where applicable, jointly and severally covenant that he/she will, among others, waive his/her right of first refusal or pre-emptive right to acquire any equity interests in the OPCO being transferred by another shareholder of the OPCO; and

(3) the OPCO covenants that it will, among others, not distribute profits to its shareholders directly or indirectly, not acquire or make any investment in any person without the prior written consent of Cash River/Finger Fun.

Each of the Share Disposition and Exclusive Option to Purchase Agreements shall be effective from their respective date of signing and remain in effect until all the equity interest held by the registered shareholder(s) of the OPCO has been legally transferred to Cash River/Finger Fun or its nominee(s) in accordance with the Share Disposition and Exclusive Option to Purchase Agreement.

c. *Equity Interest Pledge Agreement*
Pursuant to the Equity Interest Pledge Agreement:

(1) the shareholder(s) of the OPCO granted to Cash River/Finger Fun a continuing security interest of first priority and subject to no other encumbrances in their respective equity interests in the OPCO, as collateral security for the prompt and full performance of the OPCO's shareholders' obligations under all the Structure Contracts; and

(2) the registered shareholder(s) of the OPCO warranted to Cash River/Finger Fun that all appropriate arrangements had been made and all necessary documents had been executed to ensure that none of their successors, guardians, creditors, spouses and other third parties would adversely impact or hinder the enforcement of the Equity Pledge Agreement in the event of death, loss of legal capacity, bankruptcy, divorce or any other situation of the registered shareholder(s) of the OPCO.

d. *Proxy Agreement*
The Proxy Agreement, among other things, provides that:

(1) the registered shareholder(s) of the OPCO agrees to authorise Cash River/Finger Fun or the person(s) designated by Cash River/Finger Fun to exercise all of their rights and powers as shareholder, including convening and attending the shareholders' meeting, exercising the voting right and other shareholder's rights and powers, without seeking prior consent from the registered shareholder(s) of the relevant OPCO;

(2) the registered shareholder(s) of the OPCO shall not revoke the authorisation and without the consent of Cash River/Finger Fun, shall not exercise the shareholder's rights and powers;

(3) the OPCO shall inform Cash River/Finger Fun the relevant information relating to the exercise of the shareholder's rights and shall provide all necessary assistance; and

(4) the OPCO and their respective registered shareholder(s) shall not entitled to any indemnity or compensation under the Proxy Agreement.

The Proxy Agreements shall be effective from the date of signing until the registered shareholder(s) of the OPCO ceases to hold equity interests in the OPCO.

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

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

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

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

4. Revenue and Assets Subject to the Contractual Arrangements

The consolidated total revenue, the consolidated total assets and the consolidated total net assets of the OPCOs and their subsidiaries for the year ended 31 December 2018 were approximately RMB149,047,000, RMB1,193,071,000 and RMB889,050,000, respectively.

The revenue of Huadong Feitian, Yunhai Qingtian and Kuaitonglian amounted to approximately RMB562,522,000, RMB39,112,000 and RMB53,413,000, respectively, representing approximately 37%, 26% and 35% of the consolidated total revenue of the Group, respectively.

5. Risks Relating to the Contractual Arrangements

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

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

6. *Material Change*

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

7. *Unwinding of Structure Contracts*

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

The 2018 Contractual Arrangements

On 20 February 2018, the Company entered into a investment agreement (the "Investment Agreement") with the relevant parities and issued an announcement. As part of the Reorganisation under the Investment Agreement and for the purpose of controlling MU77SH, being the operating company established in the PRC within the VIE Structure, on 28 December 2018 (after trading hours), the relevant parties entered into the VIE Agreements (the "2018 Contractual Arrangements") in relation to MU77SH. Through the VIE Agreements, Yun Qing Network Technology (Shanghai) Co., Ltd. (蘊清網絡科技(上海)有限公司) (the "WFOE"), the indirect non wholly-owned subsidiary of the Company, has effective control over the finance and operation of MU77SH and enjoys the entire economic interests and benefits generated by MU77SH.

1. *Particulars of MU77SH and its registered owners*

上海木七七網絡科技有限公司 ("MU77SH")

MU77SH is a limited liability company established in the PRC. The registered shareholders of MU77SH are Yunhai Qingtian (51%), Tianjin Muba Business Management Consulting Center (Limited Partnership) (天津木巴企業管理咨詢中心(有限合夥))("Tianjin Muba") (39%) and Linzhi Tencent Technology Co., Ltd. (林芝騰訊科技有限公司)("Linzhi Tencent") (10%).

2. *Description of MU77SH's business*

MU77SH is principally engaged in mobile online game research and development and operation in the PRC and overseas.

3. *Summary of the Major Terms of the Underlying Contracts of the 2018 Contractual Arrangements*

   a. *The Exclusive Business Cooperation Agreement*

   MU77SH shall engage the WFOE as the exclusive service provider to provide MU77SH with comprehensive business support, technical and consulting services, including but not limited to, technical services, internet network support, business consultation, intellectual property licensing, equipment or leasing of equipment, market consultation, system integration, research and development of products and system maintenance and all or part of the services within the business scope of MU77SH as determined by the WFOE from time to time ("Services").

   During the term of the Exclusive Business Cooperation Agreement, without the prior written consent of the WFOE, MU77SH is not allowed to engage or cooperate with any third party for the provision of the Services. The WFOE has the right to designate a third party to provide the Services to MU77SH.

   The WFOE has the entire and exclusive rights and interests to all the rights, proprietary rights, interests and intellectual properties, including but not limited to, copyright, patents, patent applications, trademarks, software, know-how, trade secrets and others, whether developed or created by the WFOE or by MU77SH, from the performance of the Exclusive Business Cooperation Agreement.

MU77SH shall pay to the WFOE a service fee which is equal to 100% of its net income on a monthly basis ("Service Fee"). During the term of the Exclusive Business Cooperation Agreement, the WFOE has the right to adjust the Service Fee without the consent of MU77SH. The Service Fee was determined by the parties to ensure that the WFOE will enjoy the economic benefits of the VIE Agreements.

The Exclusive Business Cooperation Agreement has a term of 10 years from the date of execution, unless otherwise extended or terminated by the parties thereto. The term of the Exclusive Business Cooperation Agreement may be extended by written confirmation of the WFOE and by such period of time at the decision of the WFOE, to which MU77SH shall accept without any conditions.

b. *The Equity Pledge Agreement*

According to the Equity Pledge Agreement, the PRC equity owners, namely Yunhai Qingtian, Tianjin Muba and Linzhi Tencent, shall undertake the following obligations to WFOE:

(i) not to transfer or agree others to transfer all or any part of the PRC Equity Owners' equity interests in MU77SH or create or allow the encumbrance thereon of any pledged equity interests or other properties which may affect the rights and benefits of the WFOE without the WFOE's prior written consent, save in respect of the performance in accordance with the Exclusive Call Option Agreement;

(ii) to compensate all loss and damage caused to the WFOE if the PRC Equity Owners fail to perform or partly perform their warranties, undertakings, agreements, representations and conditions under the Equity Pledge Agreement;

(iii) if there is a possibility of decline in the value of the equity interest which may jeopardise the interest of the WFOE, the WFOE may require the PRC Equity Owners to provide additional pledge or security, and if the PRC Equity Owners fail to provide the same, the WFOE may at any time put up the pledged equity interests for auction or sell the pledged equity interests, the proceeds from which may be used to early repay the secured indebtedness and any expenses incurred thereby shall be borne by the PRC Equity Owners; and

(iv) the PRC Equity Owners and/or MU77SH shall not (or procure other parties to) increase, decrease or transfer the registered capital of MU77SH (or invested capital to MU77SH) or create any encumbrance thereon of the registered capital of MU77SH (including equity interest).

The Pledge shall become effective on the date when the Pledge is duly registered with the relevant Administration for Market Regulation or Administration for Industry and Commerce (the "Register Administration"), until all payment obligations secured by the Pledge have been fulfilled. The term of the Pledge under the Equity Pledge Agreement will be extended accordingly if the term of the Exclusive Business Cooperation Agreement is extended.

c. *The Exclusive Call Option Agreement*
The PRC Equity Owners irrevocably grant to the WFOE an exclusive option, at any time and from time to time, to purchase or designate any individual(s) and/or entity(ies) ("Designated Purchaser(s)") to purchase all or part of the equity interest in MU77SH held by the PRC Equity Owners through a single or a series of transaction(s), subject to compliance with applicable PRC laws and regulations. The PRC Equity Owners and MU77SH undertake that, among other things, they shall not without the prior written consent of the WFOE:

(i) in any manner supplement, alter or revise the articles of association and regulations of MU77SH, increase or decrease its registered capital, or alter the structure of its registered capital in other manners;

(ii) sell, transfer, mortgage or dispose of in any other manner the legal or beneficial interest in any assets, business or revenues of MU77SH, or allow the encumbrance thereon of any security interest;

(iii) sell, transfer, mortgage or dispose of in any other manner the legal or beneficial interest in the equity interest in MU77SH, or allow the encumbrance thereon of any security interest, save in respect of the Pledge in accordance with the terms of the Equity Pledge Agreement;

(iv) cause or permit MU77SH to merge, consolidate with, acquire or invest with any person; and

(v) in any manner distribute dividends to the shareholder(s) of MU77SH.

The consideration for the purchase of the equity interest in MU77SH shall be a minimum purchase price as permitted by the prevailing PRC laws, unless valuation is required by the applicable PRC laws at the time of exercise of option by the WFOE. The PRC Equity Owners undertake to return the full amount of consideration received by them to the WFOE or the Designated Purchaser(s). The purchase price was determined by the parties to ensure that the WFOE will enjoy the economic benefits of the VIE Agreements.

The Exclusive Call Option Agreement has an initial term of 10 years from the date of its execution and will be extended automatically and for such period of time to be confirmed by the WFOE, unless otherwise determined by the WFOE.

d. *The Powers of Attorney*
The PRC Equity Owners irrevocably appoint the WFOE or its successors (including the liquidator of the WFOE upon liquidation of the WFOE) as their exclusive agent and authorized person to act for all matters pertaining to MU77SH and to exercise all of their rights as shareholders of MU77SH, including but not limited to:

(i) proposing to convene, call and attend shareholders' meetings of MU77SH and signing minutes;

(ii) exercising all the rights and voting rights as shareholders of MU77SH provided for under the PRC laws and the articles of association of MU77SH, including but not limited to sale, transfer, pledge or disposal of any or all the equity interests in MU77SH and filing documents with the relevant Administration for Market Regulation or Administration for Industry and Commerce; and

(iii) nominating and appointing the legal representative (i.e. chairman of the board), directors, supervisors, chief executive officer (or manager) and other senior management of MU77SH.

The Power of Attorney shall take effect from the date of its execution and remain irrevocable and effective so long as the PRC Equity Owners remain the shareholders of MU77SH, unless otherwise instructed by the WFOE.

Dispute resolution

The VIE Agreements are governed by and construed in accordance with the PRC laws. Each of the VIE Agreements contains a dispute resolution clause to the effect that, amongst others, any dispute arising from the VIE Agreements between the parties should first be resolved through negotiation. In the event that the dispute cannot be resolved within 30 days through negotiation, any party may submit the said dispute to Shanghai International Economic and Trade Arbitration Commission (Shanghai International Arbitration Center) (上海國際經濟貿易仲裁委員會（上海國際仲裁中心）) for arbitration in accordance with the then prevailing arbitration rules. The arbitration shall be conducted in Shanghai and the language used in the arbitration shall be Chinese. The decision of the arbitration shall be final, conclusive and binding on the parties. Further, the arbitrators may award remedies over the shares and/or assets (including but not limited to land and properties) of MU77SH, injunctive reliefs (such as for the conduct of business and mandatory transfer of equity interest or assets) or order the winding up of MU77SH. The courts of competent jurisdictions (i.e. the courts in the PRC, Hong Kong, the Cayman Islands and locations where the principal assets of the parties are located) are empowered to grant interim remedies pending the formation of an arbitral tribunal or under appropriate circumstances.

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

The consolidated financial statements include the total revenue of MU77SH amounted to RMB6,762,000 for the nine months period from the acquisition date, which represented 4% of the consolidated total revenue of the Group.

The 2018 Contractual Arrangements were executed on 28 December 2018. As at 31 December 2018, the consolidated total assets and the consolidated total net assets of MU77SH for the year ended 31 December 2018 were approximately RMB21,162,000 and RMB13,437,000, respectively.

5. *Risks Relating to the Contractual Arrangements*

(1) *The PRC government may determine that the VIE Agreements do not comply with the applicable laws and regulations*

There can be no assurance that the VIE Agreements will be deemed by the relevant governmental or judicial authorities to be in compliance with the existing or future applicable PRC laws and regulations, or the relevant governmental or judicial authorities may in the future interpret the existing laws or regulations with the result that the VIE Agreements will be deemed to be in compliance with the PRC laws and regulations.

(2) *Possible impact of the Draft Foreign Investment Law*

Accordingly, if the Draft Foreign Investment Law is adopted and becomes law, in the event that the mobile online game business of MU77SH is still classified as prohibited or restricted foreign investment businesses in the Negative List 2018, then there may be great uncertain impact on the existing corporate structure, corporate governance and the viability of business operations.

(3) *The VIE Agreements may not be as effective as direct ownership in providing control over MU77SH*
The Group relies on contractual arrangements under the VIE Agreements with MU77SH to operate the mobile online game business in the PRC. The VIE Agreements may not be as effective as direct ownership in providing the Group with control over MU77SH. For example, if the WFOE has direct ownership of MU77SH, it will be able to exercise its rights as a shareholder to effect changes in the board of directors of MU77SH. However, under the VIE Agreements, the Group relies on the performance by the PRC Equity Owners of their obligations under the VIE Agreements to exercise control over MU77SH. In addition, if the PRC Equity Owners or MU77SH fail to perform their respective obligations under the VIE Agreements or otherwise have disputes with the Group, the Group may have to initiate arbitration or other legal proceedings, which involve significant uncertainty. There can be no assurance that the outcome will be in the Group's favor and it may adversely affect the Group's ability to control MU77SH.

(4) *The PRC Equity Owners may potentially have a conflict of interests with the Group*
The Group's control over MU77SH is based on the contractual arrangement under the VIE Agreements. Therefore, conflict of interests of the PRC Equity Owners will adversely affect the interests of the Company. Pursuant to the Powers of Attorney, the PRC Equity Owners will irrevocably appoint the WFOE as their exclusive agent and authorized person to exercise their rights as the shareholders of MU77SH. Therefore, it is unlikely that there will be potential conflict of interests between the Group and the PRC Equity Owners. However, in the unlikely event that conflict of interests arises and cannot be resolved, the Group will consider removing and replacing the PRC Equity Owners through procuring the WFOE to exercise its option under the Exclusive Call Option Agreement.

(5) *The contractual arrangements may be subject to scrutiny of the PRC tax authorities and transfer pricing adjustments and additional tax may be imposed*
The Group may face material adverse tax consequence if the PRC tax authorities determine that the arrangement under the VIE Agreements was not entered into on an arm's length basis. If the PRC tax authorities determine that the VIE Agreements were not entered into on an arm's length basis, they may adjust income and expenses of the WFOE and/or MU77SH for PRC tax purposes, which could result in higher tax liabilities on the WFOE and/or MU77SH.

The operating and financial results of the Group may be materially and adversely affected if the tax liabilities of MU77SH or the WFOE increase significantly or if they are required to pay interest on late payments and other penalties.

(6) *Certain terms of the VIE Agreements may not be enforceable under PRC laws*
The VIE Agreements are governed by the PRC laws and all disputes which cannot be resolved by negotiations will be submitted for arbitration, whose ruling will be final and binding. Accordingly, the VIE Agreements would be interpreted in accordance with the PRC laws and disputes would be resolved in accordance with PRC legal procedures. The uncertainties in the PRC legal system could limit the Group's ability to enforce the VIE Agreements. In the event that the Group is unable to enforce the VIE Agreements, or if the Group suffers significant time delays or other obstacles in the process of enforcing them, it would be very difficult to exert control over MU77SH.

(7) *A substantial amount of costs and time may be involved in transferring the ownership of MU77SH to the Group under the Exclusive Call Option Agreement*
The Exclusive Call Option Agreement grants the WFOE a right to purchase all or part of the equity interest in MU77SH at the lowest price permitted by PRC law, under which the WFOE or its designated individual(s) and/or entity(ies) is entitled to purchase the equity interest in MU77SH from the PRC Equity Owner through a single or a series of transaction(s).

In case the WFOE exercises its option to acquire all or part of the equity interests in MU77SH under the Exclusive Call Option Agreement, such acquisition may only be conducted to the extent as permitted by the applicable PRC laws and will be subject to necessary approvals and relevant procedures under the PRC laws. In addition, such acquisition may be subject to a minimum price limitation (such as an appraised value for the equity interests in MU77SH) or other price limitations as imposed by the applicable PRC laws. Further, a substantial amount of costs and time may be involved in transferring the ownership of MU77SH to the WFOE or its designated individual(s) and/or entity(ies), which may have a material adverse impact on the Group's business, prospects and results of operation.

(8) *The Company does not have any insurance which covers the risks relating to the VIE Agreements and the transactions contemplated thereunder*
The insurance of the Group does not cover the risks relating to the VIE Agreements and the transactions thereunder and the Company has no intention to purchase any new insurance in this regard. If any risk arises from the VIE Agreements in the future, such as those affecting the enforceability of the VIE Agreements and the operation of MU77SH, the results of the Group may be adversely affected.

(9) *Economic risks the WFOE bears as the primary beneficiary of MU77SH, financial support to MU77SH and potential exposure of the Group to losses*
As the primary beneficiary of MU77SH, the WFOE will share both profit and loss of MU77SH and bears economic risks which may arise from difficulties in the operation of MU77SH's business. The WFOE may have to provide financial support in the event of financial difficulty of MU77SH. Under these circumstances, the Group's financial results and financial position may be adversely affected by the worsening financial performance of MU77SH and the need to provide financial support to it.

A PRC legal opinion has been obtained by the Company, pursuant to which the PRC lawyers advice that the VIE Agreement does not violate any PRC laws and regulations applicable to the business of MU77SH and the WFOE, nor would be deemed as "concealing illegal intention with a lawful form" and does not violate the "PRC Contract Law".

6. *Material Change*

Save as disclosed above, as at the date of this report, there is no material change in the 2018 Contractual Arrangements and/or the circumstances under which they were adopted.

7. *Unwinding of Structure Contracts*

As at the date of this report, there is no unwinding of any of the 2018 Contractual Arrangements or failure to unwind when the restrictions that led to the adoption of the 2018 Contractual Arrangements are removed.

SUFFICIENCY OF PUBLIC FLOAT

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

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

None of the Directors or substantial shareholders of the Company or any of their respective associates has engaged in any business that competes or may compete with the business of the Group. On 26 May 2008, each of the then controlling shareholders (within the meaning under the Listing Rules) of the Company, namely Mr. Liu Xiaosong, Prime Century, Ever Novel and Grand Idea, entered into a deed of non-competition dated 26 May 2008 (the "Deed of Non-competition") in favor of the Company (for itself and the benefits of other members of the Group), pursuant to which he/it has undertaken to the Company that he/it would not, and would procure that his/its associates would not, during the restricted period set out below, directly or indirectly, either on his/its own account or in conjunction with or on behalf of any person, firm or company, among other things, carry on, participate or be interested or engaged in or acquire or hold (in each case whether as a shareholder, partner, agent, employee or otherwise) any business which is or may be in competition with the business of any member of the Group from time to time. Details of the non-competition undertaking have been set out in the subsection headed "Non-competition undertaking" under the section headed "Relationship with Controlling Shareholders" of the Prospectus.

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

1) the shares of the Company remain listed on the Stock Exchange;

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

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

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

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

AUDIT COMMITTEE

The Audit Committee of the Company, all members of which are independent non-executive Directors with the Chairman Mr. Chan Yiu Kwong having appropriate professional qualifications and experience in financial matters, has reviewed the accounting policies, accounting standards and practices adopted by the Group, discussed auditing, internal control and financial reporting matters, and reviewed the consolidated financial statements and results of the Group for the year ended 31 December 2018.

AUDITORS

The consolidated financial statements of the Group for the year ended 31 December 2018 have been audited by the Company's auditors, Ernst & Young, who will retire in the forthcoming annual general meeting. A resolution for their re-appointment as auditors of the Company will be proposed at the forthcoming annual general meeting of the Company.

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

ON BEHALF OF THE BOARD
Liu Xiaosong
Chairman

Hong Kong
28 March 2019

Corporate Governance Report

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

The corporate governance principles of the Company emphasize a quality Board, sound internal controls, and transparency and accountability to all shareholders. Throughout the year ended 31 December 2018, the Company has applied the principles and complied with all code provisions, and where applicable, the recommended best practices as set out in the Corporate Governance Code (the "CG Code"), except for the deviation from code provision A.2.1 as explained on page 43 in the section headed "Chairman and Chief Executive Officer".

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

THE BOARD

Responsibilities of the Board

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

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

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

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

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

Delegation of Management Functions

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

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

Board Composition

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

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

During the year ended 31 December 2018, the Board has at all time met the relevant requirements of the Listing Rules relating to having at least one-third of independent non-executive Directors, comprising at least three independent non-executive Directors and having one independent non-executive Director with the appropriate professional qualifications and accounting and related financial management expertise.

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

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

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

Appointment, Re-election and Removal of Directors

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

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

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

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

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

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

The Nomination Committee recommended the re-appointment of the Directors Mr. Liu Xiaosong, Mr. Chan Yiu Kwong standing for re-election at the next forthcoming annual general meeting of the Company. The Company's circular dated 17 April 2018 contains detailed information of the directors standing for re-election.

Induction and Continuous Professional Development for Directors

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

Development and training of Directors is an ongoing process. During the year, (1) the Company Secretary irregularly circulates details of training courses which may be of interest to Directors. All Directors are encouraged to attend relevant training courses with appropriate emphasis on the roles, functions and duties of the Directors, at the Company's expense; (2) the Company Secretary also irregularly send relative laws, regulations and latest cases to directors in order to assist the directors to perform their duties appropriately; (3) the Company encourages the Directors to participate in continuing professional development training, the Company Secretary assists them to handle the relevant formalities, and the Company would bear all the relevant costs; (4) the Company Secretary assists the directors in making continuing professional development training program.

The Company has received written confirmations from all of the Directors on their training records for the year ended 31 December 2018; the Board has reviewed and evaluated such training records in the board meeting dated 28 March 2019.

According to the aforementioned records, a summary of the training received in 2018 by the Directors is set out as follows:

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

Board Meetings

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

During the period ended 31 December 2018, five Board meetings were held for reviewing and approving the financial and operating performance, granted options to Directors, joint investment with Tencent in MU77SH and MU77HK, etc. The attendance records of each Director at the Board meetings for the period ended 31 December 2018 are set out below:

Name of Directors	Number of Meetings and Directors' Attendance
Executive Directors	
Mr. Liu Xiaosong *(Chairman)*	5/5
Mr. Lin Qian	5/5
Independent non-executive Directors	
Mr. Chan Yiu Kwong	5/5
Ms. Wu Shihong	4/5
Mr. Li Feng	4/5

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

General Meetings

During the period ended 31 December 2018, one general meeting was held by the Company. The Chairman of the Board and executive director attended the annual general meeting in 25 May 2018, and were available to answer questions. The attendance records of each Director at the general meetings are set out below:

Members of the Board	Attendance
Executive Directors	
Mr. Liu Xiaosong *(Chairman of the Board)*	1/1
Mr. Lin Qian	1/1
Independent Non-executive Directors	
Mr. Chan Yiu Kwong	0/1
Ms. Wu Shihong	0/1
Mr. Li Feng	0/1

Practices and Conduct of Meetings

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

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

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

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

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

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

Dividend Policy

The board has adopted the Dividend Policy in December 2018. Dividends may be paid out by way of cash or by other means that the Directors consider appropriate. Declaration and payment of any dividends would require the recommendation of the Board and will be at its discretion. In addition, any final dividends for a financial year will be subject to the approval of the shareholders of the Company. A decision to declare or to pay any dividends in the future, and the amount and rates of such dividends, will be subject to, among other things, the Group's results of operations, cash flow, financial conditions, operating and capital requirements and other factors which the Directors consider important.

Declaration and payment of dividends by the Company is subject to compliance with applicable laws and regulations including the laws of the Cayman Islands and the articles of association of the Company.

The Board will review the Dividend Policy from time to time and may exercise its sole and absolute discretion to update, amend and/or modify the Dividend Policy at any time as it deems fit and necessary. There is no assurance that dividends will be declared or paid in any particular amount for any given period.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code provision A.2.1 in the CG Code stipulates that the roles of Chairman and CEO should be separate and should not be performed by the same individual. In the year ended 31 December 2018, the chairman and chief executive officer of the Company are both held by Mr. Liu Xiaosong, the Company did not comply with code provision A.2.1. Considering Mr. Liu Xiaosong has diversified experience in the technology, media and telecommunication industry and has been being responsible for overall management and strategic planning of the Group, the Board considered that Mr. Liu is able to lead the Board in making business decision for the Group. Therefore, Mr. Liu has had the dual roles of the Chairman and CEO of the Company despite deviation from code provision A.2.1 during the year ended 31 December 2018.

BOARD COMMITTEES

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

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

Remuneration Committee

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

The primary objectives of the Remuneration Committee include:

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

- To make recommendations to the Board on the remuneration packages of individual executive Directors and senior management;

  These shall include benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment;

- Considering at any time and pay reasonable attention to the performance of Directors and senior management, their time commitment and responsibilities, interests of shareholders, the Company's financial state, market conditions, salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group;

- Reviewing and approving compensation payable to executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;

- Reviewing and approving compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate;

- Ensuring that no Director or any of his/her associates is involved in deciding his/her own remuneration.

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

For the year ended 31 December 2018, three meetings were held by the Remuneration Committee for reviewing the Group's remuneration structure and policy, assessing all Directors' and senior management's remuneration with reference to the Group's and individual performance in 2018 and setting target for 2019, suggesting granting options to Chief Executive Officer and to independent non-executive Directors. The attendance records of the Remuneration Committee are set out below:

Members of the Remuneration Committee	**Attendance**
Ms. Wu Shihong *(Chairman of the Remuneration Committee and Independent Non-executive Director)*	3/3
Mr. Liu Xiaosong	3/3
Mr. Li Feng	2/3

Audit Committee

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

In accordance with the requirements of the CG Code, the terms of reference of the Audit Committee were revised from time to time in terms substantially the same as the provisions set out in the CG Code. The latest version of the terms of reference of the Audit Committee is available on the websites of the Company and the Stock Exchange.

The principal duties of the Audit Committee include the review and supervision of the Group's financial reporting system and internal control procedures, review of the Group's financial information and review of the relationship with the external auditor of the Company. Regular meetings have been held by the Audit Committee since its establishment.

The main duties of the Audit Committee include the following:

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

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

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

For the year ended 31 December 2018, three meetings were held by the Audit Committee for considering and reviewing the financial results and reports, financial reporting and compliance procedures and the re-appointment of the external auditors. The external auditors were invited to attend the meetings to discuss with the Audit Committee issues arising from the audit and financial reporting matters.

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

Members of the Audit Committee	Attendance
Mr. Chan Yiu Kwong *(Chairman of the Audit Committee and Independent Non-executive Director)*	3/3
Ms. Wu Shihong	2/3
Mr. Li Feng	3/3

The Company's annual results for the year ended 31 December 2018 have been reviewed by the Audit Committee.

Nomination Committee

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

The primary objectives of the Nomination Committee include:

- To review the structure, size and composition (including the skills, knowledge and experience) of the Board at least once a year and make recommendations on any proposed changes to the Board to implement the Company's corporate strategy;

- To identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;

- To assess the independence of independent non-executive Directors;

- To make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the Chairman and the chief executive;

- To review the policy concerning diversity of board members, as appropriate; and review the measurable objectives that the Board has set for implementing the Board Diversity Policy, and the progress on achieving the objectives; and

- To review, supervise and make disclosure of the policy for the nomination of Directors by the Committee in the corporate governance report annually.

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

The attendance record of such meeting is set out below:

Members of the Nomination Committee	Attendance
Mr. Liu Xiaosong *(Chairman of the Nomination Committee)*	1/1
Ms. Wu Shihong	1/1
Mr. Li Feng	1/1

Board Diversity Policy

The Board revised and adopted the Board Diversity Policy on 31 December 2018. The main purpose of this policy is to diversify board members. According to this policy, selection of candidates to be appointed to the Board and the continuation of those appointments will be based a range of objective factors, including (but not limited to) gender, age, cultural and educational background, race, professional experience, skills, knowledge and service tenure. All appointments of the directors are based on the principle of talent, and when considering candidates, the benefits of diversity of board members will be fully taken into account in accordance with objective conditions. The Nomination Committee will review the Board Diversity Policy from time to time to ensure the effectiveness of the Board Diversity Policy. The Nomination Committee will discuss and propose any amendments to the Board Diversity Policy as it thinks fit, and recommend any such amendments to the Board for consideration and approval.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted its Own Code on terms no less exacting than the Model Code as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Own Code and the Model Code throughout the year ended 31 December 2018.

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

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2018.

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

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

EXTERNAL AUDITORS AND AUDITORS' REMUNERATION

The statement of the external auditors of the Company about their reporting responsibilities for the financial statements is set out in the "Independent Auditor's Report" on page 52 to 57. During the year ended 31 December 2018, the remuneration paid to the Company's external auditors, Ernst & Young, is set out below:

Category of services	**Fee paid/ payable** (RMB'000)
Audit services	2,286
Non-audit services – other services	523
Total	2,809

INTERNAL CONTROLS

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

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

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

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

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

- The organizational structure is clearly defined with distinct lines of authority and control responsibilities.
- A comprehensive financial accounting system has been established to provide indicators for performance measurement and to ensure compliance with relevant rules.
- Plans for financial reporting, operations and compliance with reference to potential significant risks are prepared annually by the senior management.
- Unauthorized expenditures and release of confidential information are strictly prohibited.
- Proper policy is in place to ensure the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programmers and budget.
- The control process and risk factors are reviewed, evaluated, and monitored on a regular basis so that any findings and measures to address the variances and identified risks could be reported to the Audit Committee.

During the year under review, the Company engaged personnel related to internal audit to review and check internal control regularly and systematically. Internal audit reports by the Company were presented to and reviewed by the Audit Committee.

SHAREHOLDER RIGHTS

Procedures for shareholders to convene EGM

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

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

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

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

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

Procedures for Nomination of Directors

The Board has revised and adopted the Procedures for Nomination of Directors on December 31, 2018. Shareholder(s) of the Company (each a "Shareholder") may nominate person(s), other than a retiring director of the Company ("Director") and the Shareholder himself/herself, to be appointed as a Director ("Proposed Director"). Details of the procedures for Shareholders to propose a person for election as a Director at a general meeting (either an annual general meeting or extraordinary general meeting) of the Company ("Meeting") are set out below.

- Submit a written notice duly signed by the nominating Shareholder(s), together with the Proposed Director's resume with contact details, a written notice of Proposed Director's willingness to be elected, copy of identification documents, information and other details (including but not limited to details as required by Rule 13.51(2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong or other applicable rules) of the Proposed Director, to the Company's principal place of business in Hong Kong: Suites 06-12, 33/F., Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong, for the attention of the Company Secretary.

- Acknowledgement of receipt of the written notice will be provided by the Company;

- The Nomination Committee will review and consider if the Proposed Director is appropriate to be appointed as a Director:

  (a) If the Proposed Director is considered appropriate, the resolution for the appointment of the Proposed Director will be inserted to the agenda of the Meeting or the adjourned Meeting and an announcement in relation to such Meeting will be issued by the Company.

  (b) If the Proposed Director is considered not appropriate, written notice with reasons will be given to the nominating Shareholder(s).

Details of the Procedures for Nomination of Directors are provided in the section "Corporate Governance" on the Company's website.

Voting by poll at general meetings

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

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

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

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

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

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

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

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

Investors Relationship Contact Details:

Address: 24/F, A8 Music Building, No.1002 Keyuan Road,
Hi-tech Park, Nanshan District, Shenzhen, PRC.
Telephone: +86 755 3332 6333–8002
Email: ir@a8.com
Website: www.a8nmg.com

Company Secretary

During the reporting period, Ms. Ho Wing Yan acts as the Company Secretary of the Company.

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

During the financial year ended 31 December 2018, Ms. Ho has complied with Article 3.29 of the Listing Rules and taken over 15 hours of relevant professional training to refresh their skills and knowledge.

Constitutional Documents

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

Independent Auditor's Report

EY 安永

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

OPINION

We have audited the consolidated financial statements of A8 New Media Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 58 to 156, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

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

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

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Revenue recognition of mobile game publishing services	
Revenue recognised for the mobile game publishing business was approximately RMB72 million for the year, representing 47% of the Group's total revenue. This is significant to the financial statements both in terms of the amount of the revenue and also the degree of management judgement required to account for revenue from the mobile game publishing services, principally on the application of the user-based revenue model which recognises revenue over the estimated average user life of paying players. The accounting policy, the accounting judgements and estimates related to the revenue recognition of mobile game publishing services, and disclosures of the revenue recognition of mobile game publishing services are included in notes 3.3, 4 and 6 to the consolidated financial statements.	Our audit procedures included, amongst others, evaluating the Group's revenue recognition accounting policies against the requirements in the standard. We tested the Group's manual controls and the Information Technology general controls in relation to systems over the calculation of revenue and contract liabilities and the timing of revenue recognition. We also assessed the estimated average user life of paying players by testing the underlying historical operating data used for the estimation. We performed analytical review procedures to consider any unusual trends that could indicate a material misstatement of revenue recognition. Moreover, we sample tested the Group's monthly reconciliations with the game developers and mobile-based publishing platforms together with related bank advices. Furthermore, we assessed the adequacy of the disclosures of the revenue recognition of mobile game publishing services.

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

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of investments in associates and goodwill	
The gross carrying amount of the Group's investments in associates was approximately RMB346.2 million before impairment provision of approximately RMB76.1 million as at 31 December 2018. The investments in associates were stated at the Group's share of net assets under the equity method of accounting, less any impairment losses at the end of each reporting period. The Group engaged an independent professional qualified valuer (the "external valuer") to determine the recoverable amount of the investment in a significant associate which has indication of impairment. The gross carrying amount of the Group's goodwill arising from acquisition of subsidiaries was approximately RMB88.4 million before impairment provision of approximately RMB35 million as at 31 December 2018. The Group engaged the external valuer to determine the recoverable amount of the cash-generating unit to which the goodwill is allocated. The impairment assessments of investments in associates and goodwill are significant to our audit due to (i) the significance of the carrying amounts as at 31 December 2018 and the amounts of impairment made during the year; and (ii) the determination of the recoverable amounts of the investments in associates and the cash-generating unit to which the goodwill is allocated requires significant management's judgements and estimates. The accounting policies, the accounting judgements and estimates and disclosures of impairment of goodwill and investments in associates are included in notes 3.3, 4, 16 and 18 to the consolidated financial statements.	We assessed management's process for identifying the objective evidence of impairment in respect of the investments in associates and goodwill arising from an acquisition of a subsidiary. We evaluated management's comparison of the carrying amounts and the recoverable amounts of the associate and the cash-generating unit to which the goodwill is allocated. We evaluated and tested the assumptions and methodology adopted by the external valuer in the impairment assessments. We assessed the key assumptions adopted in the cash flow projections of the associate and cash-generating unit with reference to historical or market available information. For the discount rates applied to the cash flow projections, we assessed the inputs used to determine the rates with reference to market data. We involved our internal valuation specialists to assist us in testing the methodology and discount rates adopted in the cash flow projections. We evaluated the objectivity, independence, capabilities and competence of the external valuer engaged by the Group. Furthermore, we assessed the adequacy of the disclosures of the impairment of investments in associates and impairment of goodwill.

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

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Valuations of financial assets at fair value	
At 31 December 2018, the Group's financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income of approximately RMB180 million and RMB100 million, respectively, were categorised as Level 3 within the fair value hierarchy, which represented 12.5% and 7%, respectively, of the Group's net assets. The Group engaged an external valuer to apply valuation techniques to determine the fair values of the financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income that are not quoted in active markets. These valuation techniques, in particular those that included significant unobservable inputs, involved subjective judgements and assumptions. The sensitivity of the assumptions used may have material impact on the valuation of these financial assets. The accounting policies, the accounting judgements and estimates related to the valuations of financial assets at fair value, and disclosures of the fair values of such financial assets are included in notes 3.3, 4, 20, 24 and 42 to the consolidated financial statements.	With the assistance from our internal valuation specialists, we evaluated the valuation methodologies and assumptions adopted by the external valuer in the valuations of the financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income that were categorised as Level 3 within the fair value hierarchy by (i) examining the terms of the financial instruments and the relevant agreements; (ii) assessing the reasonableness of valuation methodologies; and (iii) assessing the key parameters used against available market information. We evaluated the objectivity, independence, capabilities and competence of the external valuer engaged by the Group. We also evaluated the adequacy of related disclosures of valuations of financial assets at fair value.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Chung Chi Ming.

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

28 March 2019

Consolidated Statement of Profit or Loss

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
REVENUE, net of taxes and surcharges	6	**148,400**	137,631
Cost of services provided		**(80,482)**	(70,948)
Gross profit		**67,918**	66,683
Other income and gains, net	6	**101,791**	66,708
Selling and marketing expenses		**(43,598)**	(27,434)
Administrative expenses		**(56,203)**	(33,737)
Other expenses, net		**(114,790)**	(26,692)
Finance costs	8	**(8,163)**	(3,808)
Share of profits and losses of associates, net	18	**(12,723)**	2,440
Share of losses of joint ventures	19	**–**	(2,049)
PROFIT/(LOSS) BEFORE TAX	7	**(65,768)**	42,111
Income tax expense	10	**(24,780)**	(17,101)
PROFIT/(LOSS) FOR THE YEAR		**(90,548)**	25,010
Attributable to:			
Owners of the Company		**(85,159)**	25,030
Non-controlling interests		**(5,389)**	(20)
		(90,548)	25,010
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	12		
Basic (RMB per share)		**(3.16 cents)**	1.0 cent
Diluted (RMB per share)		**(3.16 cents)**	1.0 cent

Consolidated Statement of Comprehensive Income

Year ended 31 December 2018

	2018 RMB'000	2017 RMB'000
PROFIT/(LOSS) FOR THE YEAR	**(90,548)**	25,010
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of financial statements	**15,836**	(31,936)
Other comprehensive income/(loss) will not be reclassified to profit or loss in subsequent periods:		
Share of other comprehensive loss of an associate	**(63,831)**	–
Change in fair value of equity investments at fair value through other comprehensive income, net of tax	**28,405**	–
Net other comprehensive loss that will not be reclassified to profit or loss in subsequent periods	**(35,426)**	–
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	**(19,590)**	(31,936)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	**(110,138)**	(6,926)
Attributable to:		
Owners of the Company	**(104,749)**	(6,906)
Non-controlling interests	**(5,389)**	(20)
	(110,138)	(6,926)

Consolidated Statement of Financial Position

31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**144,720**	149,888
Investment properties	14	**438,000**	420,000
Prepaid land lease payments	15	**12,546**	12,869
Goodwill	16	**53,366**	–
Prepayments	23	**–**	8,100
Intangible assets	17	**14,510**	21,927
Investments in associates	18	**270,054**	223,458
Financial assets at fair value through profit or loss	24	**163,964**	16,050
Financial assets at fair value through other comprehensive income	20	**100,382**	–
Available-for-sale investments	20	**–**	93,944
Deferred tax assets	30	**1,843**	2,586
Total non-current assets		**1,199,385**	948,822
CURRENT ASSETS			
Network films and dramas under production	21	**19,116**	3,277
Trade receivables	22	**10,082**	14,624
Prepayments, other receivables and other assets	23	**25,365**	20,647
Financial assets at fair value through profit or loss	24	**15,796**	332
Available-for-sale investments	20	**–**	32,272
Restricted cash balances and pledged deposits	25	**274,533**	133,513
Cash and cash equivalents	26	**311,475**	546,071
Total current assets		**656,367**	750,736
CURRENT LIABILITIES			
Trade payables	27	**19,403**	26,474
Other payables and accruals	28	**75,775**	67,248
Interest-bearing bank borrowings	29	**195,058**	117,150
Tax payable		**9,114**	9,788
Total current liabilities		**299,350**	220,660
NET CURRENT ASSETS		**357,017**	530,076
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,556,402**	1,478,898

	Notes	2018 RMB'000	2017 RMB'000
NON-CURRENT LIABILITIES			
Deferred tax liabilities	30	**116,624**	72,860
Deferred income		**4,070**	6,700
Total non-current liabilities		**120,694**	79,560
Net assets		**1,435,708**	1,399,338
EQUITY			
Equity attributable to owners of the Company			
Share capital	31	**22,818**	22,984
Reserves	34	**1,403,765**	1,376,886
		1,426,583	1,399,870
Non-controlling interests		**9,125**	(532)
Total equity		**1,435,708**	1,399,338

Liu Xiaosong
Director

Lin Qian
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2018

	Attributable to owners of the Company													Non-controlling interests RMB'000	Total equity RMB'000
	Share capital RMB'000 (note 31)	Share premium account RMB'000 (note 31)	Treasury shares RMB'000 (note 34(i))	Shares held under share award scheme RMB'000	Merger reserve RMB'000 (note 34(ii))	Surplus contributions RMB'000 (note 34(iii))	Employee share-based compensation reserve RMB'000	Exchange fluctuation reserve RMB'000	Capital reserve RMB'000	Statutory reserve fund RMB'000 (note 34(iv))	Reserve fund RMB'000 (note 34(iv))	Retained profits RMB'000	Total 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 year	–	–	–	–	–	–	–	–	–	–	–	25,030	25,030	(20)	25,010
Other comprehensive loss for the year:															
Exchange differences on translation of financial statements	–	–	–	–	–	–	–	(31,936)	–	–	–	–	(31,936)	–	(31,936)
Total comprehensive loss for the year	–	–	–	–	–	–	–	(31,936)	–	–	–	25,030	(6,906)	(20)	(6,926)
Issue of shares	8,253	330,129	–	–	–	–	–	–	–	–	–	–	338,382	–	338,382
Share issue expenses	–	(1,178)	–	–	–	–	–	–	–	–	–	–	(1,178)	–	(1,178)
Capital contributions from non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	–	–	–	190	190
Equity-settled share-based payment arrangements	–	–	–	–	–	–	2,436	–	–	–	–	–	2,436	–	2,436
Shares repurchased	–	–	(23,474)	–	–	–	–	–	–	–	–	–	(23,474)	–	(23,474)
Cancellation of shares repurchased	(392)	(18,231)	18,623	–	–	–	–	–	–	–	–	–	–	–	–
At 31 December 2017	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

	Notes	Share capital RMB'000 (note 31)	Share premium account RMB'000 (note 31)	Treasury shares RMB'000 (note 34(i))	Shares held under share award scheme RMB'000	Merger reserve RMB'000 (note 34(ii))	Surplus contributions RMB'000 (note 34(iii))	Employee share-based compensation reserve RMB'000	Exchange fluctuation reserve RMB'000	Capital reserve RMB'000	Statutory reserve fund RMB'000 (note 34(iv))	Reserve fund RMB'000 (note 34(iv))	Fair value reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
		Attributable to owners of the Company															
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
Effect of adoption of IFRS 9	3.1(b)	–	–	–	–	–	–	–	–	–	–	–	138,179	(6,636)	131,543	–	131,543
At 1 January 2018 (restated)		22,984	973,928	(4,851)	(4,672)	29,135	10,522	32,519	(18,124)	10,016	21,701	4,422	138,179	315,654	1,531,413	(532)	1,530,881
Loss for the year		–	–	–	–	–	–	–	–	–	–	–	–	(85,159)	(85,159)	(5,389)	(90,548)
Other comprehensive income/(loss) for the year:																	
Changes in fair value of equity investments at fair value through other comprehensive income, net of tax		–	–	–	–	–	–	–	–	–	–	–	28,405	–	28,405	–	28,405
Exchange differences on translation of financial statements		–	–	–	–	–	–	–	15,836	–	–	–	–	–	15,836	–	15,836
Share of other comprehensive loss of an associate		–	–	–	–	–	–	–	–	–	–	–	(63,831)	–	(63,831)	–	(63,831)
Total comprehensive loss for the year		–	–	–	–	–	–	–	15,836	–	–	–	(35,426)	(85,159)	(104,749)	(5,389)	(110,138)
Acquisition of subsidiaries	35	–	–	–	–	–	–	–	–	–	–	–	–	–	–	13,061	13,061
Capital contributions from non-controlling shareholders		–	–	–	–	–	–	–	–	–	–	–	–	–	–	2,360	2,360
Deemed disposal of non-controlling interests		–	–	–	–	–	–	–	–	375	–	–	–	–	375	(375)	–
Equity-settled share-based payment arrangements		–	–	–	–	–	–	2,012	–	–	–	–	–	–	2,012	–	2,012
Shares repurchased		–	–	(2,468)	–	–	–	–	–	–	–	–	–	–	(2,468)	–	(2,468)
Cancellation of shares repurchased		(166)	(7,153)	7,319	–	–	–	–	–	–	–	–	–	–	–	–	–
Transfer of reserve upon the forfeiture or expiry of share options		–	–	–	–	–	–	(1,353)	–	–	–	–	–	1,353	–	–	–
Release of award shares		–	–	–	3,227	–	–	(3,227)	–	–	–	–	–	–	–	–	–
At 31 December 2018		22,818	966,775*	–*	(1,445)*	29,135*	10,522*	29,951*	(2,288)*	10,391*	21,701*	4,422*	102,753*	231,848*	1,426,583	9,125	1,435,708

* These reserve accounts comprise the consolidated reserves of RMB1,403,765,000 (2017: RMB1,376,886,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		**(65,768)**	42,111
Adjustments for:			
Depreciation	7	**8,765**	8,760
Amortisation of prepaid land lease payments	7	**323**	323
Amortisation of intangible assets	7	**5,607**	3,840
Impairment of intangible assets	7	**10,413**	2,734
Write-off of intangible assets	7	**–**	867
Loss on disposal of items of property, plant and equipment	7	**80**	74
Fair value gains on financial assets at fair value through profit or loss	7	**(61,699)**	(38)
Fair value gains on investment properties	6	**(18,000)**	(50,000)
Bank interest income	6	**(15,904)**	(13,219)
Share of profits and losses of associates, net	7	**12,723**	(2,440)
Share of losses of joint ventures		**–**	2,049
Impairment of an available-for-sale investment	7	**–**	5,000
Impairment of goodwill	7	**35,040**	–
Impairment of prepayments	7	**3,656**	402
Write-off of a trade receivable	7	**3,068**	621
Reversal of impairment of trade receivables	7	**(26)**	–
Reversal of impairment of financial assets included in prepayments, other receivables and other assets	7	**(94)**	–
Write-off of trade payables	7	**(4,365)**	(7,938)
Write-off of other payables	7	**–**	(2,511)
Impairment of investments in associates	7	**76,149**	–
Impairment of investments in joint ventures	7	**–**	20,884
Equity-settled share option expenses	7	**2,012**	2,436
Gain on deemed disposal of an investment in an associate	6	**(2,785)**	–
Finance costs	8	**8,163**	3,808
		(2,642)	17,763
Decrease/(increase) in trade receivables		**5,681**	(6,604)
Increase in network films and dramas under production		**(18,839)**	(277)
Decrease/(increase) in prepayments, other receivables and other assets		**16,936**	(6,840)
Increase/(decrease) in trade payables		**(5,800)**	3,768
Increase in other payables and accruals		**1,189**	8,843
Decrease in deferred income		**(5,299)**	(2,179)
Cash generated from/(used in) operations		**(8,774)**	14,474
Tax paid		**(2,075)**	(2,738)
Net cash flows from/(used in) operating activities		**(10,849)**	11,736

	Notes	2018 RMB'000	2017 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of equity investments at fair value through other comprehensive income/available-for-sale investments		–	(61,490)
Purchases of items of property, plant and equipment		(4,091)	(10,139)
Purchases of intangible assets		(7,613)	(11,118)
Increase in a prepayment for acquisition of an available-for-sale investment		–	(8,100)
Purchase of shareholdings in an associate		(71,932)	(87,500)
Acquisition of a subsidiary	35	(72,268)	–
Purchase of financial assets at fair value through profit or loss		(43,345)	(16,050)
Interest received		16,637	13,219
Increase in restricted cash balances and pledged deposits		(141,020)	(99,849)
Decrease in time deposits with original maturity of more than three months when acquired		19,003	6,012
Proceeds from disposal of financial assets at fair value through profit or loss		16,772	–
Net cash flows used in investing activities		(287,857)	(275,015)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	31(a)	–	338,382
Share issue expenses	31(a)	–	(1,178)
Capital contributions by non-controlling shareholders		2,000	190
New bank loans		199,614	137,150
Repayment of bank loans		(123,706)	(46,870)
Shares repurchased	34(i)	(2,468)	(23,474)
Interest paid		(8,163)	(3,808)
Net cash flows from financing activities		67,277	400,392
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(231,429)	137,113
Cash and cash equivalents at beginning of year		522,068	416,891
Effect of foreign exchange rate changes, net		15,836	(31,936)
CASH AND CASH EQUIVALENTS AT END OF YEAR		306,475	522,068
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		110,760	150,965
Non-pledged time deposits		200,715	395,106
Cash and cash equivalents as stated in the consolidated statement of financial position		311,475	546,071
Time deposits with original maturity of more than three months when acquired		(5,000)	(24,003)
Cash and cash equivalents as stated in the consolidated statement of cash flows		306,475	522,068

1. CORPORATE AND GROUP INFORMATION

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

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

- provision of digital entertainment services
- property investment

Information about subsidiaries

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

Company name	Place of incorporation/ registration and business	Issued ordinary/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
A8 Music Group Limited ("A8 Music")	British Virgin Islands/ Mainland China	Ordinary shares US$64,500 Preferred shares US$9,300	100	–	Investment holding
佳仕域信息科技(深圳)有限公司 Cash River Information Technology (Shenzhen) Co., Ltd. ("Cash River") *#	PRC	HK$40,000,000 Registered capital	–	100	Development of computer software and provision of technical and management consultancy services
深圳市華動飛天網絡技術開發有限公司 Shenzhen Huadong Feitian Network Development Co., Ltd. ("Huadong Feitian") (note (i))*@	PRC	RMB28,680,000 Registered capital	–	100	Provision of internet information service, property investment and music performance
深圳市雲海情天文化傳播有限公司 Shenzhen Yunhai Qingtian Cultural Broadcasting Co., Ltd. ("Yunhai Qingtian") (note (i))*@	PRC	RMB10,000,000 Registered capital	–	100	Provision of game publishing services
深圳市快通聯科技有限公司 Shenzhen Kuaitonglian Technology Co., Ltd. ("Kuaitonglian") (note (i))*@	PRC	RMB10,000,000 Registered capital	–	100	Provision of mobile value-added services and property investment
北京創盟音樂文化發展有限公司 Beijing Chuangmeng Yinyue Culture Development Co., Ltd. (note (i))*@	PRC	RMB5,000,000 Registered capital	–	100	Provision of mobile value-added services

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

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

Company name	Place of incorporation/ registration and business	Issued ordinary/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
北京愛樂空間文化傳播有限公司 Beijing Aiyue Cultural Broadcasting Co., Ltd. (note (i))*@	PRC	RMB10,000,000 Registered capital	–	100	Provision of mobile value-added services
北京樂聲飛揚音樂文化傳播有限公司 Beijing Yuesheng Feiyang Music Culture Broadcasting Co., Ltd. (note (i))*@	PRC	RMB10,000,000 Registered capital	–	100	Provision of mobile value-added services
北京天籟印象文化傳播有限公司 Beijing Tianlai Cultural Broadcasting Co., Ltd. (note (i))*@	PRC	RMB20,000,000 Registered capital	–	100	Provision of mobile value-added services
江蘇廣視科貿發展有限公司 Jiangsu Guangshi Science and Trade Development Limited (note (i))*@	PRC	RMB10,070,000 Registered capital	–	100	Provision of mobile value-added services
普好有限公司 Total Plus Limited	Hong Kong/ Mainland China	HK$97,045 Issued capital	–	100	Investment holding
北京布拉琪音樂文化傳播有限公司 Beijing Bulaqi Music Cultural Broadcasting Co., Ltd. (note (i))*@	PRC	RMB1,000,000 Registered capital	–	100	Holding of music patents and licences
北京掌中地帶信息科技有限公司 Beijing Zhangzhong Didai Information Technology Co., Ltd. (note (i))*@	PRC	RMB10,000,000 Registered capital	–	100	Provision of game publishing services
深圳市掌翼天下科技有限公司 Shenzhen Zhangyi Tianxia Technology Co., Ltd. (note (i))*@	PRC	RMB3,000,000 Registered capital	–	100	Property investment
茂御有限公司 Phoenix Success Limited ("Phoenix Success")	Hong Kong/ Mainland China	HK$1 Issued capital	100	–	Investment holding

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

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

Company name	Place of incorporation/ registration and business	Issued ordinary/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
深圳市指游方寸網絡科技有限公司 Shenzhen Finger Fun Network Technology Co., Ltd. ("Finger Fun") *#	PRC	HK$300,000,000 Registered capital	–	100	Investment holding of game business
北京德木欣潤文化傳播有限公司 Beijing Demo Xinrun Cultural Broadcasting Co., Ltd. (note (i))*@	PRC	RMB1,000,000 Registered capital	–	80	Production of live music shows and music channels
極速蝸牛影視傳媒(深圳)有限公司 Jisu Woniu Film & Television Media (Shenzhen) Co., Limited (note (i))*@	PRC	RMB5,000,000 Registered capital	–	100	Production of network dramas, videos and films
小鹿咚咚(深圳)科技有限責任公司 Xiaolu Dongdong (Shenzhen) Technology Co., Ltd. (note (i))*@	PRC	RMB1,154,000 Registered capital	–	55	Development of social networking apps
蘊清網絡科技(上海)有限公司 Yunqing Network Technology (Shanghai) Limited ("Yunqing")*#	PRC	US$150,000 Issued capital	–	51	Investment holding
香港木七七網絡科技有限公司 Mu77 Network Technology Hongkong Limited	Hong Kong/ Mainland China	HK$1 Issued capital	–	51	Provision of game publishing services
上海木七七網絡科技有限公司 Shanghai Mu77 Network Technology Company Limited ("MU77SH") (note (i))*@	PRC	RMB1,111,111 Registered capital	–	51	Games development and provision of game publishing services

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

\# Registered as wholly-foreign-owned enterprises under PRC law

@ Registered as domestic limited liability companies under PRC law

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

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

Note:

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

(1) between Cash River and

(a) Huadong Feitian and its registered shareholders, and
(b) Kuaitonglian and its registered shareholders, respectively;

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

(3) between Yunqing, MU77SH and its registered shareholders,

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

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

(b) Controlled special purpose entity

The Company has set up a trust, A8 New Media share award trust (the "Trust"), for the purpose of administering the share award scheme established by the Company (note 33). In accordance with IFRS 10 *Consolidated Financial Statements*, the Company is required to consolidate the Trust as the Company has control over the Trust and can derive benefits from the contributions of employees who have been awarded the shares through their employment with the Group.

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

2. BASIS OF PREPARATION

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

They have been prepared under the historical cost convention, except for investment properties, financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income, which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2018. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

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

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

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

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

3.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

Except for the amendments to IFRS 4 and *Annual Improvements to 2014-2016 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised IFRSs are described below:

(a) Amendments to IFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet an employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The amendments have had no impact on the financial position or performance of the Group as the Group does not have any cash-settled share-based payment transactions and has no share-based payment transactions with net settlement features for withholding tax.

3.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(b) IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

With the exception of hedge accounting, which the Group has applied prospectively, the Group has recognised the transition adjustments against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under IAS 39.

Classification and measurement

The following information sets out the impacts of adopting IFRS 9 on the statement of financial position, including the effect of replacing IAS 39's incurred credit loss calculations with IFRS 9's expected credit losses ("ECLs").

A reconciliation between the carrying amounts under IAS 39 and the balances reported under IFRS 9 as at 1 January 2018 is as follows:

		IAS 39 measurement					IFRS 9 measurement	
	Notes	Category	Amount RMB'000	Re-classification RMB'000	ECL RMB'000	Other (Note v) RMB'000	Amount RMB'000	Category
Financial assets								
Equity investments designated at fair value through other comprehensive income		N/A	–	49,944	–	26,515	76,459	FVOCI[1] (equity)
From: Available-for-sale investments	(i)			49,944	–	–		
Available-for-sale investments		AFS[2]	126,216	(126,216)	–	–	–	N/A
To: Equity investments designated at fair value through other comprehensive income	(i)			(49,944)	–	–		
To: Financial assets at fair value through profit or loss	(ii)			(76,272)	–	–		
Trade receivables	(iii)	L&R[3]	14,624	–	(242)	–	14,382	AC[4]
Financial assets included in prepayments, other receivables and other assets	(iii)	L&R	12,518	–	(550)	–	11,968	AC
Financial assets at fair value through profit or loss		FVPL[5]	16,382	76,272	–	19,069	111,723	FVPL
From: Available-for-sale investments	(ii)			76,272	–	–		
Pledged deposits and restricted cash balances		L&R	133,513	–	–	–	133,513	AC
Cash and cash equivalents		L&R	546,071	–	–	–	546,071	AC
			849,324	–	(792)	45,584	894,116	

3.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(b) (continued)

Classification and measurement (continued)

	Notes	IAS 39 measurement Category	Amount RMB'000	Re-classification RMB'000	ECL RMB'000	Other (Note v) RMB'000	IFRS 9 measurement Amount RMB'000	Category
Other assets								
Investments in associates	(iv)		223,458	–	–	97,949	321,407	
Deferred tax assets	(iii)		2,586	–	–	198	2,784	
			226,044	–	–	98,147	324,191	
			1,075,368	–	(792)	143,731	1,218,307	
Other liabilities								
Deferred tax liabilities			72,860	–	–	11,396	84,256	

1 FVOCI: Financial assets at fair value through other comprehensive income
2 AFS: Available-for-sale investments
3 L&R: Loans and receivables
4 AC: Financial assets or financial liabilities at amortised cost
5 FVPL: Financial assets at fair value through profit or loss

Notes:

(i) The Group has elected the option to irrevocably designate certain of its previous available-for-sale equity investments as equity investments at fair value through other comprehensive income.

(ii) The Group has classified its unlisted investments previously classified as available-for-sale investments as financial assets measured at fair value through profit or loss as these non-equity investments did not pass the contractual cash flow characteristics test in IFRS 9.

(iii) The Group has remeasured the carrying amount of the trade receivables and financial assets included in prepayments, other receivables and other assets based on the ECL allowance and deferred tax.

(iv) An associate of the Group has elected the option to irrevocably designate its previous available-for-sale equity investment as an equity investment at fair value through other comprehensive income and remeasured based on fair value.

(v) "Other" represented remeasurement of equity investments previously measured at cost under IAS 39 and deferred tax.

3.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(b) (continued)

Impairment

The following table reconciles the aggregate opening impairment allowances under IAS 39 to the ECL allowances under IFRS 9. Further details are disclosed in notes 22 and 23 to the financial statements.

	Impairment allowances under IAS 39 at 31 December 2017 RMB'000	Re-measurement RMB'000	ECL allowances under IFRS 9 1 January 2018 RMB'000
Trade receivables	95	242	**337**
Financial assets included in prepayments, other receivables and other assets	–	550	**550**
	95	792	**887**

Impact on reserves and retained profits

The impact of transition to IFRS 9 on reserves and retained profits is as follows:

	RMB'000
Fair value reserve under IFRS 9 (available-for-sale investment revaluation reserve under IAS 39)	
Balance as at 31 December 2017 under IAS 39	–
Reversal of impairment losses under IAS 39 for equity investments designated at fair value through other comprehensive income previously classified as available-for-sale investments	(5,000)
Remeasurement of equity investments designated at fair value through other comprehensive income previously measured at cost under IAS 39	26,515
Share of fair value reserve of an associate's remeasurement of its equity investments designated at fair value through other comprehensive income previously measured at cost under IAS 39	123,293
Deferred tax in relation to the above	(6,629)
Balance as at 1 January 2018 under IFRS 9	138,179

3.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(b) (continued)

Impact on reserves and retained profits (continued)

	RMB'000
Retained profits	
Balance as at 31 December 2017 under IAS 39	322,290
Reversal of impairment losses under IAS 39 for equity investments designated at fair value through other comprehensive income previously classified as available-for-sale investments	5,000
Recognition of expected credit losses for trade receivables and financial assets included in prepayments, other receivables and other assets under IFRS 9	(792)
Remeasurement of the equity investments previously measured at cost under IAS 39	19,069
Share the losses of investment in an associate upon remeasurement of its equity investments designated at fair value through other comprehensive income previously measured at cost under IAS 39	(25,344)
Deferred tax in relation to the above	(4,569)
Balance as at 1 January 2018 under IFRS 9	315,654

(c) IFRS 15 and its amendments replace IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. IFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The disclosures are included in notes 4 and 6 to the financial statements. As a result of the application of IFRS 15, the Group has changed the accounting policy with respect to revenue recognition in note 3.3 to the financial statements.

The Group has adopted IFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018.

The cumulative effect of the initial application of IFRS 15 was not significant to the Group's financial statements. The comparative information was not restated and continues to be reported under IAS 11, IAS 18 and related interpretations.

3.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(c) (continued)

Set out below are the amounts by which each financial statement line item was affected as at 1 January 2018 and 31 December 2018 as a result of the adoption of IFRS 15. The adoption of IFRS 15 has had no impact on other comprehensive income or on the Group's operating, investing and financing cash flows. The first column shows the amounts recorded under IFRS 15 and the second column shows what the amounts would have been had IFRS 15 not been adopted:

Consolidated statement of financial position as at 1 January 2018:

		Amounts prepared under		
			Previous	Increase/
		IFRS 15	IFRS	(decrease)
	Note	RMB'000	RMB'000	RMB'000
Contract liabilities	(i)	1,737	–	1,737
Deferred income		10,344	11,999	(1,655)
Other payables and accruals	(i)	61,867	61,949	(82)

Consolidated statement of financial position as at 31 December 2018:

		Amounts prepared under		
			Previous	**Increase/**
		IFRS 15	**IFRS**	**(decrease)**
	Note	**RMB'000**	**RMB'000**	**RMB'000**
Contract liabilities	(i)	**4,894**	**–**	**4,894**
Deferred income		**6,700**	**7,224**	**(524)**
Other payables and accruals	(i)	**68,251**	**72,621**	**(4,370)**

The nature of the adjustments as at 1 January 2018 and the reasons for the significant changes in the statement of financial position as at 31 December 2018 are described below:

(i) Consideration received from customers in advance

Before the adoption of IFRS 15, the Group recognised consideration received from customers in advance as other payables and deferred income. Under IFRS 15, the amounts are classified as contract liabilities which are included in other payables and accruals.

Therefore, upon adoption of IFRS 15, the Group reclassified RMB1,737,000 from other payables and deferred income to contract liabilities as at 1 January 2018 in relation to the consideration received from customers in advance as at 1 January 2018.

As at 31 December 2018, under IFRS 15, RMB4,894,000 was reclassified from other payables and deferred income to contract liabilities in relation to the consideration received from customers in advance.

3.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(d) Amendments to IAS 40 clarify when an entity should transfer property, including property under construction or development, into or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments have had no impact on the financial position or performance of the Group.

(e) IFRIC 22 provides guidance on how to determine the date of the transaction when applying IAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. The interpretation has had no impact on the Group's financial statements as the Group's accounting policy for the determination of the exchange rate applied for initial recognition of non-monetary assets or non-monetary liabilities is consistent with the guidance provided in the interpretation.

3.2 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

Amendments to IFRS 3	*Definition of a Business*[2]
Amendments to IFRS 9	*Prepayment Features with Negative Compensation*[1]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
IFRS 16	*Leases*[1]
IFRS 17	*Insurance Contracts*[3]
Amendments to IAS 1 and IAS 8	*Definition of Material*[2]
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
IFRIC 23	*Uncertainty over Income Tax Treatments*[1]
Annual Improvements 2015-2017 Cycle	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after 1 January 2021
4 No mandatory effective date yet determined but available for adoption

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

Further information about those IFRSs that are expected to be applicable to the Group is described below.

Amendments to IFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020.

Amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to IFRS 10 and IAS 28 was removed by the IASB in December 2015 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

IFRS 16 replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC 15 *Operating Leases – Incentives* and SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in IAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from the accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between operating leases and finance leases. IFRS 16 requires lessees and lessors to make more extensive disclosures than under IAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group will adopt IFRS 16 from 1 January 2019. The Group plans to adopt the transitional provisions in IFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019 and will not restate the comparatives.

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

In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying IAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application. The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. During 2018, the Group has performed a high-level assessment on the impact of adoption of IFRS 16. As disclosed in note 38 to the financial statements, at 31 December 2018, the Group had future minimum lease payments under non-cancellable operating leases in aggregate of approximately RMB452,000. The Group currently is still assessing whether, upon adoption of IFRS 16, certain amounts included therein will need to be recognised as new right right-of-use assets and lease liabilities. Further detailed analysis, however, will be needed to determine the amount of new right-of-use assets and lease liabilities to be recognised, including, but not limited to any amounts relating to leases of low value assets and short-term leases, other practical expedients and reliefs chosen.

Amendments to IAS 1 and IAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 28 clarify that the scope exclusion of IFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies IFRS 9, rather than IAS 28, including the impairment requirements under IFRS 9, in accounting for such long-term interests. IAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group expects to adopt the amendments on 1 January 2019 and will assess its business model for such long-term interests based on the facts and circumstances that exist on 1 January 2019 using the transitional requirements in the amendments. The Group also intends to apply the relief from restating comparative information for prior periods upon adoption of the amendments.

IFRIC 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of IAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The interpretation is not expected to have any significant impact on the Group's financial statements.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

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

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

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

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

Business combinations and goodwill

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

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

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

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

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

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

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

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

Fair value measurement

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

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

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

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

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

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

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

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

Impairment of non-financial assets

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

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

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

Related parties

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

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

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties (continued)

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

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

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

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Property, plant and equipment and depreciation

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

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

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

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

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

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

Investment properties

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

Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year of the retirement or disposal.

Intangible assets (other than goodwill)

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

Trademarks, licences and software

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

Music copyrights

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

Mobile game licences

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill) (continued)

Research and development costs

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

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

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

Operating leases

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

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

Investments and other financial assets (policies under IFRS 9 applicable from 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, 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. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (policies under IFRS 9 applicable from 1 January 2018) (continued)

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

Financial assets designated at fair value through other comprehensive income (equity investments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to the statement of profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (policies under IFRS 9 applicable from 1 January 2018) (continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

Investments and other financial assets (policies under IAS 39 applicable before 1 January 2018)

Initial recognition and measurement

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

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (policies under IAS 39 applicable before 1 January 2018) (continued)

Subsequent measurement

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

Financial assets at fair value through profit or loss

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

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

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

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

Loans and receivables

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

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

Available-for-sale financial investments

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (policies under IAS 39 applicable before 1 January 2018) (continued)

Available-for-sale financial investments (continued)

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

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

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

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

Derecognition of financial assets (policies under IFRS 9 applicable from 1 January 2018 and policies under IAS 39 applicable before 1 January 2018)

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

- the rights to receive cash flows from the asset have expired; or

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

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets (policies under IFRS 9 applicable from 1 January 2018 and policies under IAS 39 applicable before 1 January 2018) (continued)

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

Impairment of financial assets (policies under IFRS 9 applicable from 1 January 2018)

The Group recognises an allowance for ECLs for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments are 180 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (policies under IFRS 9 applicable from 1 January 2018) (continued)

Simplified approach

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For trade receivables and contract assets that contain a significant financing component and lease receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

Impairment of financial assets (policies under IAS 39 applicable before 1 January 2018)

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

Financial assets carried at amortised cost

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

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

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

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (policies under IAS 39 applicable before 1 January 2018) (continued)

Available-for-sale financial investments

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

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

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

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

Financial liabilities (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

Initial recognition and measurement

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

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

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018) (continued)

Subsequent measurement

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

Financial liabilities at fair value through profit or loss (policies under IFRS 9 applicable from 1 January 2018)

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

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss. The net fair value gain or loss recognised in profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in IFRS 9 are satisfied. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities at fair value through profit or loss (policies under IAS 39 applicable before 1 January 2018)

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

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

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

Loans and borrowings

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

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial liabilities (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

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

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

Offsetting of financial instruments (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

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

Treasury shares

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

Network films and dramas under production

Network films and dramas under production include production costs, costs of services, direct labour costs, facilities and raw materials consumed in the creation of network films or drama series. Network films and dramas under production are accounted for on a project-by-project basis and are stated at cost at the date incurred, less any identified impairment losses. Network films and dramas under production are transferred to network films and dramas upon completion.

An impairment loss is made if there has been a change in the estimates used to determine the recoverable amount and the carrying amount exceeds the recoverable amount.

Cash and cash equivalents

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

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

Provisions

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

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax

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

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

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

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

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

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

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

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

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

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

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

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government grants

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

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

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

Game publishing services

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

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

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Game publishing services (continued)

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

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

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

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

Music-related services

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

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

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Music-related services (continued)

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

Management fee income

Revenue from the provision of management services is recognised over the scheduled period on a straight-line basis because the customer simultaneously receives and consumes the benefits provided by the Group.

Rental income

Rental income is recognised on a time proportion basis over the lease terms.

Interest income

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

Contract liabilities (applicable from 1 January 2018)

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

Employee benefits

Employee leave entitlements

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

Pension obligations

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Equity compensation benefits

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

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using the Binomial Option Pricing Model, further details of which are given in note 32 to the financial statements.

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

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

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

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

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

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Shares held under share award scheme

As disclosed in note 33 to the financial statements, the Group has set up a trust for the share award scheme, where the trust purchases shares issued by the Group, and the consideration paid by the Company, including any directly attributable incremental costs, is presented as "Shares held under Share Award Scheme" and deducted from the Group's equity.

Foreign currencies

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

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

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

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

For the purpose of the consolidated statement of cash flows, the cash flows of operations with functional currencies other than RMB are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of these operations which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

(i) Judgements

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

Accounting for companies governed under contractual arrangements as subsidiaries

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

Classification between investment properties and owner-occupied properties

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

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

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

Deferred tax on investment properties

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

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

(ii) Estimation uncertainty

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

Estimation of the user life of paying players

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

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

Recognition of telecommunications value-added services

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

Fair value of investment properties

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

Impairment of mobile game licences

The Group assesses whether there are any indicators of impairment for the mobile game licences at the end of each reporting period. An impairment exists when the carrying value of the mobile game licence exceeds its recoverable amount. In performing the impairment assessment of the mobile game licences, management determined the recoverable amount with reference to the gross receipts of the mobile game based on the industry experience, such as the popularity of the mobile games and estimated life cycle of the mobile games, and taking into consideration of the trial run or technical test results of each mobile game with information such as game recharging amount and retention rate of active game players. As at 31 December 2018, the Group has mobile game licences of RMB13,626,000 (2017: RMB21,001,000).

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Further details are given in note 16.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

(ii) Estimation uncertainty (continued)

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Provision for expected credit losses on trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns.

The provision matrix is initially based on the Group's historical observed default rates. As appropriate, the Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions are expected to deteriorate over the next year which can lead to an increased number of defaults in the sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 22 to the financial statements.

Fair value measurement of financial instruments

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair values are determined using valuation techniques including the use of comparable recent arm's length transactions and other valuation techniques commonly used by other market participants. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as the implied equity value, volatility and risk-free rate. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

5. OPERATING SEGMENT INFORMATION

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

(a) the digital entertainment segment engages in the provision of (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 resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted profit/loss before tax. The adjusted profit/loss before tax is measured consistently with the Group's profit/loss before tax except that bank interest income, finance costs and corporate and other unallocated income and expenses are excluded from such measurement.

For the year ended 31 December

	Digital entertainment		Property investment		Total	
	2018 RMB'000	2017 RMB'000	**2018 RMB'000**	2017 RMB'000	**2018 RMB'000**	2017 RMB'000
Segment net revenue	**76,654**	73,591	**71,746**	64,040	**148,400**	137,631
Cost of services provided	**(59,553)**	(51,595)	**(20,929)**	(19,353)	**(80,482)**	(70,948)
Gross profit	**17,101**	21,996	**50,817**	44,687	**67,918**	66,683
Segment results	**(140,686)**	(36,062)	**68,817**	94,687	**(71,869)**	58,625
Reconciliation:						
Bank interest income					**15,904**	13,219
Finance costs					**(8,163)**	(3,808)
Corporate and other unallocated income and expenses, net					**(1,640)**	(25,925)
Profit/(loss) before tax					**(65,768)**	42,111
Income tax expense					**(24,780)**	(17,101)
Profit/(loss) for the year					**(90,548)**	25,010

5. OPERATING SEGMENT INFORMATION (continued)

For the year ended 31 December (continued)

	Digital entertainment		Property investment		Total	
	2018 RMB'000	2017 RMB'000	**2018 RMB'000**	2017 RMB'000	**2018 RMB'000**	2017 RMB'000
Other segment information						
Depreciation and amortisation						
– operating segments	**9,247**	7,532	**–**	–	**9,247**	7,532
– corporate					**5,448**	5,391
					14,695	12,923
Capital expenditure*	**11,912**	25,261	**–**	1,639	**11,912**	26,900
Fair value gains on investment properties	**–**	–	**18,000**	50,000	**18,000**	50,000
Equity-settled share option expense						
– operating segments	**–**	–	**–**	–	**–**	–
– corporate					**2,012**	2,436
					2,012	2,436
Share of profits and losses of associates, net	**12,723**	(2,440)	**–**	–	**12,723**	(2,440)
Share of losses of joint ventures	**–**	2,049	**–**	–	**–**	2,049
Impairment losses recognised in the statement of profit or loss	**125,258**	29,020	**–**	–	**125,258**	29,020
Impairment losses reversed in the statement of profit or loss	**(120)**	–	**–**	–	**(120)**	–
Investments in associates	**270,054**	223,458	**–**	–	**270,054**	223,458

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

Geographical information

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

Information about major customers

During the year ended 31 December 2018, revenue of approximately RMB21,038,000 and RMB18,912,000, respectively, were derived from sales to two largest customers which each contributed 10% or more sales to the Group's revenue.

During the year ended 31 December 2017, the Group had no transaction with any single external customer which contributed over 10% of the Group's total revenue for the year.

6. REVENUE, OTHER INCOME AND GAINS, NET

An analysis of revenue is as follows:

	2018 RMB'000	2017 RMB'000
Revenue from contracts with customers		
Digital entertainment revenue	77,167	73,798
Property management services	17,305	16,000
	94,472	89,798
Revenue from other sources		
Gross rental income	57,342	49,320
	151,814	139,118
Less: Taxes and surcharges	(3,414)	(1,487)
Net revenue	148,400	137,631

Revenue from contracts with customers

(i) Disaggregated revenue information

For the year ended 31 December 2018

Segments

	Digital entertainment RMB'000	Property investment RMB'000	Total RMB'000
Type of services			
Game-related revenue	71,966	–	71,966
Music-based entertainment	5,201	–	5,201
Management services	–	17,305	17,305
Total revenue from contracts with customers	77,167	17,305	94,472
Timing of revenue recognition			
Over time	77,167	17,305	94,472
Total revenue from contracts with customers	77,167	17,305	94,472

6. REVENUE, OTHER INCOME AND GAINS, NET (continued)

Revenue from contracts with customers (continued)

(i) Disaggregated revenue information (continued)

Set out below is the reconciliation of the revenue from contracts with customers with the amounts disclosed in the segment information:

For the year ended 31 December 2018

Segments

	Digital entertainment RMB'000	Property investment RMB'000	Total RMB'000
Revenue from contracts with customers			
External customers	77,167	17,305	94,472
Total revenue from contracts with customers	77,167	17,305	94,472

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period and recognised from performance obligations satisfied in previous periods:

	2018 RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:	
Game-related revenue	1,655
Music-based entertainment	82
	1,737

6. REVENUE, OTHER INCOME AND GAINS, NET (continued)

Revenue from contracts with customers (continued)

(ii) Performance obligations

Information about the Group's performance obligations is summarised below:

Game-related revenue
The performance obligation is satisfied by rendering of game-related services to the customers.

Music-based entertainment
The performance obligation is satisfied by rendering of music-related services to the customers.

Management services
The performance obligation is satisfied over time as services are rendered.

	2018 RMB'000	2017 RMB'000
Other income and gains, net		
Fair value gains on investment properties	18,000	50,000
Bank interest income	15,904	13,219
Fair value gain on financial assets at fair value through profit or loss	61,699	38
Gain on deemed disposal of an investment in an associate	2,785	–
Write-off of other payables	–	2,511
Foreign exchange differences, net	1,404	798
Others	1,999	142
	101,791	66,708

7. PROFIT/(LOSS) BEFORE TAX

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

	Notes	2018 RMB'000	2017 RMB'000
Depreciation	13	**8,765**	8,760
Amortisation of intangible assets	17	**5,607**	3,840
Impairment of goodwill**	16	**35,040**	–
Minimum lease payments under operating leases		**2,672**	1,480
Amortisation of prepaid land lease payments#	15	**323**	323
Auditor's remuneration		**2,809**	1,880
Employee benefit expense (including directors' remuneration) (note 9):			
Wages, salaries and bonuses		**34,308**	21,447
Staff education fee		**29**	95
Welfare, medical and other expenses		**3,504**	2,092
Contributions to social security plans		**5,424**	2,305
Equity-settled share option expense	32(a)	**2,012**	2,436
		45,277	28,375
Foreign exchange differences, net***		**(1,404)**	(798)
Impairment of investments in associates**	18	**76,149**	–
Write-off of a trade receivable**	22	**3,068**	621
Reversal of impairment of trade receivables**	22	**(26)**	–
Reversal of impairment of financial assets included in prepayments, other receivables and other assets**	23	**(94)**	–
Impairment of prepayments*	23	**3,656**	402
Impairment of intangible assets*	17	**10,413**	2,734
Write-off of intangible assets*	17	**–**	867
Mobile and Telecom Charges*		**3,142**	2,741
Game publishing service charges*		**21,288**	27,072
Direct operating expenses (including repairs and maintenance) arising from rental-earning investment properties*		**20,929**	19,353
Loss on disposal of items of property, plant and equipment**		**80**	74
Impairment of investments in joint ventures**	19	**–**	20,884
Impairment of an available-for-sale investment**	20(d)	**–**	5,000
Write-off of other payables***		**–**	(2,511)
Write-off of trade payables*		**(4,365)**	(7,938)
Fair value gains on financial assets at fair value through profit or loss***		**(61,699)**	(38)
Government grants##		**(4,567)**	(11,410)
Gain on deemed disposal of an investment in an associate***		**(2,785)**	–

7. PROFIT/(LOSS) BEFORE TAX (continued)

Included in "Administrative expenses" on the face of the consolidated statement of profit or loss

Included in "Selling and marketing expenses" on the face of the consolidated statement of profit or loss. Various government grants have been received for developing the cultural industry in Shenzhen in relation to Shenzhen's government policy. The government grants received have been deducted from the selling and marketing expenses to which they relate. There are no unfulfilled conditions or contingencies relating to these grants. Government grants received for which related expenditure has not been utilised are included in deferred income in the consolidated statement of financial position.

* Included in "Cost of services provided" on the face of the consolidated statement of profit or loss

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

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

8. FINANCE COSTS

An analysis of finance costs is as follows:

	2018 RMB'000	2017 RMB'000
Interest on bank loans	8,163	3,808

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

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

(a) *Directors' remuneration*

	2018 RMB'000	2017 RMB'000
Fees	755	727
Other emoluments:		
Salaries, allowances and benefits in kind	396	396
Performance related bonuses	210	210
Equity-settled share option expense	1,795	2,057
Pension scheme contributions	182	166
	2,583	2,829
	3,338	3,556

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

(a) Directors' remuneration (continued)

During the current and prior years, certain directors were granted share options, in respect of their services to the Group, under the share option schemes of the Company. The fair value of these options, which has been recognised in the consolidated statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current and prior years is included in the above directors' remuneration disclosures. Further details are set out in note 32 to the financial statements.

(i) Independent non-executive directors

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

	Fees RMB'000	Equity-settled share option expense RMB'000	Total remuneration RMB'000
2018			
Independent non-executive directors:			
Mr. Chan Yiu Kwong	**163**	**132**	**295**
Ms. Wu Shihong	**93**	**114**	**207**
Mr. Li Feng	**93**	**115**	**208**
	349	**361**	**710**
2017			
Independent non-executive directors:			
Mr. Chan Yiu Kwong	156	9	165
Ms. Wu Shihong	78	9	87
Mr. Li Feng	78	24	102
	312	42	354

There were no other emoluments payable to the independent non-executive directors during the year (2017: Nil).

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

(a) Directors' remuneration (continued)

(ii) Executive directors and the chief executive

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Equity-settled share option expense RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2018						
Executive directors:						
Mr. Liu Xiaosong ("Mr. Liu") *	**–**	**120**	**–**	**1,098**	**60**	**1,278**
Mr. Lin Qian **	**406**	**276**	**210**	**336**	**122**	**1,350**
	406	**396**	**210**	**1,434**	**182**	**2,628**
2017						
Executive directors:						
Mr. Liu *	–	120	–	1,562	60	1,742
Mr. Lin Qian **	415	276	210	453	106	1,460
	415	396	210	2,015	166	3,202

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

** Appointed as executive director on 6 April 2017

(b) Five highest paid individuals

The five highest paid individuals included two (2017: two) directors, details of whose remuneration are set out above. Details of the remuneration of the remaining three (2017: three) non-director, highest paid individuals for the year are as follows:

	2018 RMB'000	2017 RMB'000
Salaries, allowances and benefits in kind	**1,880**	1,940
Performance related bonuses	**605**	416
Equity-settled share option expense	**152**	270
Pension scheme contributions	**307**	282
	2,944	2,908

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

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

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

	Number of employees 2018	2017
Nil to HK$1,000,000	**2**	2
HK$1,000,001 to HK$1,500,000	**1**	–
HK$1,500,001 to HK$2,000,000	**–**	1
	3	3

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

10. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the year. No provision for Hong Kong profit tax had been made as the Group did not generate any assessable profits arising in Hong Kong during the prior year.

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

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

	2018 RMB'000	2017 RMB'000
Current – Hong Kong		
Charge for the year	**72**	–
Underprovision in prior years	**–**	774
Current – PRC		
Charge for the year	**1,262**	3,405
Underprovision/(overprovision) in prior years	**(396)**	17
Deferred (note 30)	**23,842**	12,905
Total tax charge for the year	**24,780**	17,101

For the year ended 31 December 2018, a subsidiary of the Group was entitled to a preferential tax rate.

10. INCOME TAX EXPENSE (continued)

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

	2018		2017	
	RMB'000	%	RMB'000	%
Profit/(loss) before tax	(65,768)		42,111	
Tax at the statutory tax rate	(16,030)	24.4	13,018	30.9
Preferential tax rate	1,231	(1.9)	–	–
Super-deduction of eligible research and development expenditure	(1,218)	1.9	–	–
Adjustments in respect of current tax of previous periods	(396)	0.6	791	1.9
Income not subject to tax	(6,173)	9.4	(4,769)	(11.3)
Expenses not deductible for tax	33,991	(51.8)	7,778	18.4
Losses/(profits) attributable to joint ventures and associates	3,165	(4.8)	(239)	(0.6)
Tax losses utilised from previous periods	(1)	0.1	(5,325)	(12.6)
Tax losses not recognised	10,211	(15.6)	5,847	13.9
Tax charge at the Group's effective rate	24,780	(37.7)	17,101	40.6

The share of tax attributable to associates and joint ventures amounting to RMB1,136,000 (2017: RMB315,000) and nil (2017: Nil), respectively, is included in "Share of profits and losses of associates, net and joint ventures" in the consolidated statement of profit or loss.

11. DIVIDENDS

No dividends have been paid or declared by the Company for the year ended 31 December 2018 (2017: Nil).

12. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic loss per share amounts for the year ended 31 December 2018 is based on the loss for the year attributable to ordinary equity holders of the Company of RMB85,159,000 (2017: profit for the year of RMB25,030,000), and the weighted average number of ordinary shares in issue less shares held under the share award scheme and treasury shares during the year of 2,691,118,000 (2017: 2,609,659,000).

No adjustment has been made to the basic loss per share amount presented for the year ended 31 December 2018 in respect of a dilution as the impact of the share options outstanding and the awarded shares had an anti-dilutive effect on the basic loss per share amount presented.

No adjustment had been made to the basis earnings per share amount presented for the year ended 31 December 2017 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during the year ended 31 December 2017.

13. PROPERTY, PLANT AND EQUIPMENT

	Building RMB'000	Computer equipment RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Leasehold improve-ments RMB'000	Total RMB'000
31 December 2018						
At 31 December 2017 and at 1 January 2018:						
Cost	131,848	15,082	13,783	1,264	21,766	183,743
Accumulated depreciation	(10,049)	(11,807)	(4,003)	(1,264)	(6,732)	(33,855)
Net carrying amount	121,799	3,275	9,780	–	15,034	149,888
At 1 January 2018, net of accumulated depreciation	121,799	3,275	9,780	–	15,034	149,888
Additions	–	3,250	47	–	18	3,315
Acquisition of a subsidiary (note 35)	–	153	4	205	–	362
Disposals	–	(68)	(12)	–	–	(80)
Depreciation provided during the year	(3,015)	(1,433)	(1,549)	(70)	(2,698)	(8,765)
At 31 December 2018, net of accumulated depreciation	118,784	5,177	8,270	135	12,354	144,720
At 31 December 2018:						
Cost	131,848	18,040	13,785	1,469	21,784	186,926
Accumulated depreciation	(13,064)	(12,863)	(5,515)	(1,334)	(9,430)	(42,206)
Net carrying amount	118,784	5,177	8,270	135	12,354	144,720

13. PROPERTY, PLANT AND EQUIPMENT (continued)

	Building RMB'000	Computer equipment RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Leasehold improve-ments RMB'000	Total RMB'000
31 December 2017						
At 1 January 2017:						
Cost	131,848	16,584	12,151	1,264	18,044	179,891
Accumulated depreciation	(7,034)	(11,132)	(2,792)	(1,264)	(4,587)	(26,809)
Net carrying amount	124,814	5,452	9,359	–	13,457	153,082
At 1 January 2017, net of accumulated depreciation	124,814	5,452	9,359	–	13,457	153,082
Additions	–	558	1,781	–	3,722	6,061
Disposals	–	(495)	–	–	–	(495)
Depreciation provided during the year	(3,015)	(2,240)	(1,360)	–	(2,145)	(8,760)
At 31 December 2017, net of accumulated depreciation	121,799	3,275	9,780	–	15,034	149,888
At 31 December 2017:						
Cost	131,848	15,082	13,783	1,264	21,766	183,743
Accumulated depreciation	(10,049)	(11,807)	(4,003)	(1,264)	(6,732)	(33,855)
Net carrying amount	121,799	3,275	9,780	–	15,034	149,888

14. INVESTMENT PROPERTIES

	2018 RMB'000	2017 RMB'000
Carrying amount at 1 January	**420,000**	370,000
Fair value gains on investment properties	**18,000**	50,000
Carrying amount at 31 December	**438,000**	420,000

The Group's investment properties were revalued on 31 December 2018 and 2017 based on valuations performed by Asset Appraisal Limited, independent professionally qualified valuers.

The investment properties are leased to third parties under operating leases, further summary details of which are included in note 38(a) to the financial statements.

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

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

In the opinion of the directors, the current use of the investment properties is their highest and best use. The investment properties measured at fair value in the aggregate carrying amounts of RMB438,000,000 and RMB420,000,000 as at 31 December 2018 and 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 as at 31 December 2018 using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Recurring fair value measurement for:				
Commercial buildings	–	–	438,000	438,000

14. INVESTMENT PROPERTIES (continued)

Fair value hierarchy (continued)

	Fair value measurement as at 31 December 2017 using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Recurring fair value measurement for:				
Commercial buildings	–	–	420,000	420,000

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2017: Nil).

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

	Valuation technique	Significant unobservable inputs	Range (weighted average) 2018	2017
Commercial buildings	Income approach	Estimated rental value (per sq.m. and per month)	**RMB162**	RMB129
		Rental growth rate (per annum)	**5.0%**	5.0%
		Discount rate	**10.4%**	10.3%

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

15. PREPAID LAND LEASE PAYMENTS

	2018 RMB'000	2017 RMB'000
Carrying amount at 1 January	**13,192**	13,515
Recognised during the year	**(323)**	(323)
Carrying amount at 31 December	**12,869**	13,192
Current portion included in prepayments, other receivables and other assets (note 23)	**(323)**	(323)
Non-current portion	**12,546**	12,869

16. GOODWILL

	RMB'000
At 1 January 2017 and 31 December 2017:	
Cost	1,515
Accumulated impairment	(1,515)
Net carrying amount	–
Cost at 1 January 2018, net of accumulated impairment	–
Acquisition of subsidiaries (note 35)	88,406
Impairment during the year	(35,040)
Net carrying amount as at 31 December 2018	53,366
At 31 December 2018:	
Cost	89,921
Accumulated impairment	(36,555)
Net carrying amount	53,366

16. GOODWILL (continued)

Impairment testing of goodwill

Goodwill acquired through business combinations is allocated to the game-related entertainment cash-generating unit for impairment testing.

Game-related entertainment cash-generating unit

The recoverable amount of the game-related entertainment cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections was 17.18% and cash flows beyond the five-year period were extrapolated using a growth rate of 3%.

During the current year, the game page number tightening strategy implemented by the State Administration of Radio Film and Television adversely affected the operating performance of Shanghai Mu77 Network Technology Co., Ltd. and Mu77 Hongkong Limited (collectively "Mu77"). Management re-assessed the outlook and future performance of Mu77 and determined the recoverable amount of this cash-generating unit is RMB58 million which is lower than its carrying amount. Accordingly, an impairment of RMB35 million was recognised in the consolidated statement of profit or loss for the year.

Assumptions were used in the value in use calculation of the game-related entertainment cash-generating unit at 31 December 2018. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted revenue – The basis used to determine the value assigned to the budgeted revenue is the average revenue achieved in the year immediately before the budget year, increased for expected efficiency improvements, and expected market development.

Discount rate – The discount rate used are before tax and reflect specific risks relating to the unit.

The values assigned to the key assumptions on market development of game-related industry, discount rate and price inflation are consistent with external information sources.

17. INTANGIBLE ASSETS

	Trademarks, licences and software RMB'000	Music copyrights RMB'000	Mobile game licences RMB'000	Total RMB'000
31 December 2018				
Cost at 1 January 2018, net of accumulated amortisation and impairment	926	–	21,001	21,927
Additions	–	–	8,603	8,603
Amortisation provided during the year	(41)	–	(5,566)	(5,607)
Impairment during the year (note)	(1)	–	(10,412)	(10,413)
At 31 December 2018	884	–	13,626	14,510
At 31 December 2018:				
Cost	39,282	7,030	65,543	111,855
Accumulated amortisation and impairment	(38,398)	(7,030)	(51,917)	(97,345)
Net carrying amount	884	–	13,626	14,510
31 December 2017				
At 1 January 2017:				
Cost	39,282	7,030	37,101	83,413
Accumulated amortisation and impairment	(38,292)	(7,030)	(29,562)	(74,884)
Net carrying amount	990	–	7,539	8,529
Cost at 1 January 2017, net of accumulated amortisation and impairment	990	–	7,539	8,529
Additions	–	–	20,839	20,839
Amortisation provided during the year	(64)	–	(3,776)	(3,840)
Impairment during the year (note)	–	–	(2,734)	(2,734)
Write-off	–	–	(867)	(867)
At 31 December 2017	926	–	21,001	21,927
At 31 December 2017:				
Cost	39,282	7,030	56,940	103,252
Accumulated amortisation and impairment	(38,356)	(7,030)	(35,939)	(81,325)
Net carrying amount	926	–	21,001	21,927

Note:

An impairment was recognised and charged to profit or loss for certain mobile game licences with a total carrying amount of RMB10,412,000 (2017: RMB2,734,000) which was considered to be not recoverable based on value in use due to the results of the game public trial testing being far below the expectation of management. As such, management considered that it was not commercially viable for the Group to continue to develop and launch the games to the market based on the testing results, and hence, the recoverable amount was nil.

18. INVESTMENTS IN ASSOCIATES

	2018 RMB'000	2017 RMB'000
Share of net assets	**65,673**	14,224
Goodwill on acquisition	**280,530**	209,234
	346,203	223,458
Provision for impairment	**(76,149)**	–
	270,054	223,458

During the year ended 31 December 2017, an unlisted equity investment amounted to RMB192,604,000 was reclassified from a non-current asset held for sale to an investment in an associate with management's strategic consideration of the Group's future direction to further expand its footprint in the pan-entertainment field. Management changed the investment strategy to retain the unlisted equity investment as a strategic investment and does not intend to dispose it in the near future.

During the year ended 31 December 2018, the Group acquired equity interests in Lanlanlanlan Film & Television Media (Tianjin) Co., Ltd. ("Lanlanlanlan Film & Television") through various transactions (the "Transactions") taken by the Group including (i) the exercise of a profit guarantee; and (ii) acquisitions of additional ordinary shares of Lanlanlanlan Film & Television. Upon the completion of the Transactions in April 2018, the Group's equity interest in Lanlanlanlan Film & Television was 23.56%. Thereafter, Lanlanlanlan Film & Television became an associate of the Group and is accounted for using equity method.

During the year ended 31 December 2018, an associate launched an animated movie and the performance of this movie box office was not satisfactory. Management re-assessed the outlook and future performance of that associate and recognised an impairment of goodwill of RMB72,041,000 in the current year based on the value in use of the associate using discount rate of 14.3%. Moreover, impairments of RMB4,108,000 were recognised during the year ended 31 December 2018 for investments in two associates which were considered to be not recoverable based on value in use because these companies had either been loss-making for years or the outlook was lower than originally expected, and management expected the recoverable amounts of these companies to be nil. As such, management determined to recognise impairments in these companies.

18. INVESTMENTS IN ASSOCIATES (continued)

Particulars of the material associate are as follows:

Name	Particulars of issued shares held	Place of incorporation/ registration and business	Percentage of ownership interest attributable to the Group	Principal activities
Beijing Zhangwen Information Technology Co., Ltd. ("Beijing Zhangwen")	Ordinary shares	PRC	35	Incubation and operations of intellectual property ("IP") and provision of online book reading

Beijing Zhangwen, which is considered a material associate of the Group, is mainly engaged in incubation and operations of IP and provision of online book reading and is accounted for using the equity method.

The following table illustrates the summarised financial information in respect of Beijing Zhangwen adjusted for any differences in accounting policies and reconciled to the carrying amount in the consolidated financial statements:

	2018 RMB'000	2017 RMB'000
Current assets	97,107	49,846
Non-current assets	11,075	11,490
Current liabilities	(49,483)	(26,686)
Non-current liabilities	(1,793)	(2,690)
Net assets	56,906	31,960
Reconciliation to the Group's interest in the associate:		
Proportion of the Group's ownership	35%	35%
Group's share of net assets of the associate, excluding goodwill	19,917	11,186
Goodwill on acquisition (less cumulative impairment)	185,105	185,105
Carrying amount of the investment	205,022	196,291
Revenue	169,342	162,749
Profit for the year	24,946	10,534
Other comprehensive income	–	–
Total comprehensive income for the year	24,946	10,534

18. INVESTMENTS IN ASSOCIATES (continued)

The following table illustrates the aggregate financial information of the Group's associates that are not individually material.

	2018 RMB'000	2017 RMB'000
Share of the associates' losses for the year	(21,454)	(1,247)
Share of the associates' other comprehensive loss	(63,831)	–
Share of the associates' total comprehensive loss	(85,285)	(1,247)
Aggregate carrying amount of the Group's investments in the associates	65,032	27,167

As disclosed in note 3.1, an associate of the Group, Beijing Duomi Online Technology Co., Ltd., has elected the option to irrevocably designate its previous available-for-sale equity investment as equity investment at fair value through other comprehensive income and remeasured based on fair value upon the adoption of IFRS 9. The Group has taken up the unrecognised losses in the previous years of this associate of RMB25,344,000.

19. INVESTMENTS IN JOINT VENTURES

	2018 RMB'000	2017 RMB'000
Share of net assets	1,667	1,667
Goodwill on acquisition	19,217	19,217
	20,884	20,884
Impairment (note)	(20,884)	(20,884)
	–	–

Note:

An impairment was recognised for the investments in joint ventures, which were considered to be not recoverable based on value in use because these companies had been loss-making for years and management expected the recoverable amounts of these companies to nil. As such, management determined to recognise impairment for the investments in these companies as at 31 December 2017.

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

	2018 RMB'000	2017 RMB'000
Share of the joint ventures' losses for the year	–	(2,049)
Share of the joint ventures' total comprehensive losses	–	(2,049)
Aggregate carrying amount of the Group's investments in the joint ventures	–	–

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/AVAILABLE-FOR-SALE INVESTMENTS

	Notes	2018 RMB'000	2017 RMB'000
Current			
Available-for-sale investments			
Unlisted financial products, at fair value	(a)	–	17,500
Structured financial products, at fair value		–	14,772
		–	32,272
Non-current			
Financial asset at fair value through other comprehensive income			
Listed equity investments, at fair value		91,647	–
Unlisted equity investments, at fair value		8,735	–
	(b)	100,382	–
Available-for-sale investments			
Listed equity investments, at cost	(c)	–	21,994
Unlisted equity investments, at cost	(d)	–	76,950
		–	98,944
Impairment	(e)	–	(5,000)
		–	93,944
		100,382	126,216

Notes:

(a) As at 31 December 2017, the investments were unlisted financial products purchased from banks in the PRC which were principal unprotected with expected interest rates ranging from 4.5% to 5.2% per annum.

In order to determine the fair value of the unlisted financial products, which had been categorised as level 3 hierarchy in fair value measurement, significant unobservable inputs including expected rate of return of 4.5% to 5.2% had been used.

The sensitivity of fair value of the input was a 1% increase/(decrease) in expected rate of return would result in increase/(decrease) in fair value by RMB175,000/(RMB175,000).

(b) The equity investments were irrevocably designated at fair value through other comprehensive income as the Group considers these investments to be strategic in nature.

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/AVAILABLE-FOR-SALE INVESTMENTS (continued)

Notes: (continued)

(c) As at 31 December 2017, the non-current listed equity investments with an aggregate carrying amount of RMB21,994,000 were stated at cost less impairment because the variability in the range of reasonable fair value estimates was so significant that the directors were of the opinion that its fair value could not be measured reliably. The Group did not intend to dispose of these investments in the near future.

Included in the balance was a 20% equity interest in an internet company of RMB4,000,000 which was not regarded as an associate of the Group because the Group was unable to exercise significant influence over this company pursuant to the arrangement with the other investors.

(d) As at 31 December 2017, the non-current unlisted equity investments with an aggregate carrying amount of RMB71,950,000 were stated at cost less impairment because the variability in the range of reasonable fair value estimates was so significant that the directors were of the opinion that its fair value cannot be measured reliably. The Group did not intend to dispose of these investments in the near future.

(e) An impairment was recognised for an unlisted equity investment which was considered to be not recoverable based on value in use because the company did not have sufficient operating funds to support its core business and thus, was suspended during the year ended 31 December 2017, and hence, the recoverable amount was nil. As such, management determined to recognise impairment for the investment in the company as at 31 December 2017.

21. NETWORK FILMS AND DRAMAS UNDER PRODUCTION

	2018 **RMB'000**	2017 RMB'000
At 1 January	**3,277**	–
Additions	**15,839**	3,277
At 31 December	**19,116**	3,277

22. TRADE RECEIVABLES

	2018 RMB'000	2017 RMB'000
Trade receivables	**10,393**	14,719
Impairment	**(311)**	(95)
	10,082	14,624

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

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

	2018 RMB'000	2017 RMB'000
Billed		
Within 1 month	**22**	279
1 to 2 months	**2,703**	1,130
2 to 3 months	**231**	773
Over 3 months	**1,453**	2,630
	4,409	4,812
Unbilled	**5,673**	9,812
	10,082	14,624

22. TRADE RECEIVABLES (continued)

The movements in the loss allowance for impairment of trade receivables are as follows:

	2018 RMB'000	2017 RMB'000
At beginning of year	95	95
Effect of adoption of IFRS 9	242	–
At beginning of year (restated)	337	95
Impairment losses, net (note 7)	3,042	621
Amount written off as uncollectible	(3,068)	(621)
At end of year	311	95

Impairment under IFRS 9 for the year ended 31 December 2018

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., product type and customer type). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December 2018

	Past due					
	Current	Less than 1 month	1 to 3 months	Over 3 months	Default customers	Total
Expected credit loss rate	0.89%	2.55%	5.23%	9.90%	100%	2.99%
Gross carrying amount (RMB'000)	8,338	235	745	980	95	10,393
Expected credit losses (RMB'000)	74	6	39	97	95	311

22. TRADE RECEIVABLES (continued)

Impairment under IAS 39 for the year ended 31 December 2017

Included in the above provision for impairment of trade receivables, which was measured based on incurred credit losses under IAS 39, as at 31 December 2017 was a provision for individually impaired trade receivables of RMB95,000 with a carrying amount before provision of RMB95,000.

The individually impaired trade receivables as at 31 December 2017 related to customers that were in financial difficulties or were in default in interest and/or principal payments and only a portion of the receivables was expected to be recovered.

The ageing analysis of the billed trade receivables as at 31 December 2017 that were neither individually nor collectively considered to be impaired under IAS 39 is as follows:

	2017 RMB'000
Neither past due nor impaired	279
Less than 1 month past due	1,130
1 to 2 months past due	1,209
Over 2 months past due	2,194
	4,812

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

Receivables that were past due but not impaired related to a number of independent customers that had a good track record with the Group. Based on past experience, the directors of the Company were of the opinion that no provision for impairment under IAS 39 was necessary in respect of these balances as there had not been a significant change in credit quality and the balances were still considered fully recoverable.

23. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2018 RMB'000	2017 RMB'000
Prepayments	**23,669**	29,316
Prepaid land lease payments (note 15)	**323**	323
Deposits and other receivables	**18,572**	12,195
	42,564	41,834
Prepayments included in non-current assets (note)	**–**	(8,100)
	42,564	33,734
Impairment allowance	**(17,199)**	(13,087)
Current portion	**25,365**	20,647

Note:

The prepayments as at 31 December 2017 included a prepayment for acquisition of an available-for-sale investment of RMB8,100,000.

The financial assets as at the end of the reporting period relate to receivables for which there was no recent history of default.

Included in the other receivables is an amount due from the Group's associate of RMB836,000 (2017: RMB844,000), which is unsecured, interest-free and repayable on demand.

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

	2018 RMB'000	2017 RMB'000
At 1 January	**13,087**	12,685
Effect of adoption of IFRS 9	**550**	–
At 1 January (restated)	**13,637**	12,685
Reversal of impairment (note 7)	**(94)**	–
Impairment losses recognised (note 7)	**3,656**	402
At 31 December	**17,199**	13,087

Included in the above provision for prepayments and other receivables is a provision for individually impaired receivables of RMB16,743,000 (2017: RMB13,087,000) with a gross carrying amount of RMB16,743,000 (2017: RMB13,087,000).

Expected credit losses on financial assets included in prepayments, other receivables and other assets are estimated by applying a loss rate approach with reference to historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. The loss rate applied for as at 31 December 2018 ranged from 0.5% to 20.5%.

24. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Notes	2018 RMB'000	2017 RMB'000
Listed equity investments, at fair value	(a)	296	332
Derivative financial instruments, at fair value	(b)	37,686	16,050
Unlisted financial products, at fair value	(c)	15,500	–
Other unlisted investments, at fair value	(d)	126,278	–
		179,760	16,382
Current portion		(15,796)	(332)
Non-current portion		163,964	16,050

Notes:

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

(b) Pursuant to the capital injection agreement and sales and purchase agreements of equity interests of Lanlanlanlan Film & Television, the Group may request the founders or Lanlanlanlan Film & Television to purchase back all or part of the equity interest in Lanlanlanlan Film & Television acquired by the Group if the audited net profit of Lanlanlanlan Film & Television for any of the financial years ended/ending 31 December 2017, 2018 and 2019 is less than RMB20 million, RMB30 million and RMB45 million, respectively (the "Put Option").

The Put Option was initially recognised at fair value and its fair value is revalued at the end of each reporting period. As at 31 December 2018, management with the assistance of external valuer assessed that the fair value of the Put Option was RMB37,686,000. The fair value of the Put Option has been categorised as Level 3 of the fair value hierarchy. A significant increase/(decrease) in the business value of the invested company would result in a significant increase/(decrease) in the fair value of the Put Option.

The balance as at 31 December 2017 represented the fair value of the profit guarantee in relation to the capital injection agreement of Lanlanlanlan Film & Television, of which its founders undertake that the audited net profit of Lanlanlanlan Film & Television shall not be less than RMB40 million, RMB60 million and RMB90 million for the years ended/ending 31 December 2017, 2018 and 2019, respectively (collectively, the "Guaranteed Profits"). The founders will compensate on the basis of either cash or shares of Lanlanlanlan Film & Television, whenever there is any shortfall between the Guaranteed Profits and actual profits for the relevant years. During the year ended 31 December 2018, the Group obtained 5.96% of shares of Lanlanlanlan Film & Television in relation to the profit guarantee for the year ended 31 December 2017.

(c) As at 31 December 2018, the investments were unlisted financial products purchased from banks in the PRC which were principal unprotected with expected interest rates ranging from 4.5% to 5.2% per annum.

In order to determine the fair value of the unlisted financial products, which had been categorised as Level 3 of the fair value hierarchy, significant unobservable inputs including expected rate of return of 4.5% to 5.2% had been used.

The sensitivity of fair value of the input was a 1% increase/(decrease) in expected rate of return would result in increase/(decrease) in fair value by RMB155,000/(RMB155,000).

(d) The unlisted investments as at 31 December 2018 were investments in seed capital funds. They were mandatorily classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest.

25. RESTRICTED CASH BALANCES AND PLEDGED DEPOSITS

	Notes	2018 RMB'000	2017 RMB'000
Restricted cash balances	(a)	**48**	3,939
Pledged deposits	(b)	**274,485**	129,574
		274,533	133,513

Notes:

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

(b) Bank balances of RMB274,485,000 (2017: RMB129,574,000) were pledged to secure bank loans (note 29) granted to the Group.

26. CASH AND CASH EQUIVALENTS

	2018 RMB'000	2017 RMB'000
Cash and bank balances	**306,475**	154,904
Time deposits	**279,533**	524,680
	586,008	679,584
Less: Restricted cash balances and pledged deposits (note 25)	**(274,533)**	(133,513)
Cash and cash equivalents	**311,475**	546,071
Denominated in:		
RMB	**85,362**	137,631
USD	**196,302**	312,422
Other currencies	**29,811**	96,018
Cash and cash equivalents	**311,475**	546,071

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

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

27. TRADE PAYABLES

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

	2018 RMB'000	2017 RMB'000
Within 1 month	**8,195**	12,878
1 to 3 months	**836**	4,254
4 to 6 months	**654**	1,717
Over 6 months	**9,718**	7,625
	19,403	26,474

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

As at 31 December 2018, included in the trade payables are amounts due to an associate of RMB344,000 (2017: RMB344,000) and due to a joint venture of RMB46,000 (2017: RMB46,000), which are unsecured, interest-free and repayable on demand.

28. OTHER PAYABLES AND ACCRUALS

	Note	2018 RMB'000	2017 RMB'000
Other payables		**50,832**	48,223
Accruals		**15,515**	12,829
Contract liabilities	(a)	**4,894**	–
Deferred income	(b)	**2,630**	5,299
Receipt in advance		**1,904**	897
		75,775	67,248

As at 31 December 2017, included in other payables was an amount due to an associate of RMB3 million, which was unsecured, interest-free and repayable on demand. The amount was settled during the year ended 31 December 2018.

28. OTHER PAYABLES AND ACCRUALS (continued)

Note:

(a) Details of contract liabilities as at 31 December 2018 and 1 January 2018 are as follows:

	31 December 2018 RMB'000	1 January 2018 RMB'000
Short-term advances received from customers		
Game-related services	4,581	1,655
Music-based entertainment	30	82
Film and television production	283	–
Total contract liabilities	4,894	1,737

Contract liabilities include short-term advances received to render game-related, music-based entertainment and film and television production services.

(b) The balance was presented separately on the consolidated statement of financial position in the prior year, and was reclassified to other payables and accruals to conform with the current year's presentation.

29. INTEREST-BEARING BANK BORROWINGS

	2018			2017		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans – secured	4.53–6.01	2019	195,058	3.92–4.50	2018	117,150

	2018 RMB'000	2017 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	195,058	117,150

Notes:

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

(i) the pledge of certain of the Group's time deposits amounting to RMB274 million (2017: RMB130 million) (note 25);

(ii) a corporate guarantee provided by a group company as at 31 December 2018 and 2017; and

(iii) personal guarantees provided by senior management of subsidiaries

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

30. DEFERRED TAX

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

Deferred tax assets

	Government grants RMB'000	Allowance for receivables RMB'000	Total RMB'000
At 1 January 2017	2,991	–	2,991
Deferred tax charged to the statement of profit or loss during the year (note 10)	(405)	–	(405)
At 31 December 2017	2,586	–	2,586
Impact of IFRS 9	–	198	198
At 1 January 2018	2,586	198	2,784
Deferred tax charged to the statement of profit or loss during the year (note 10)	(911)	(30)	(941)
At 31 December 2018	1,675	168	1,843

Deferred tax liabilities

	Transfer of profit derived from contractual agreements RMB'000	**Revaluation of investment properties** RMB'000	**Financial assets at fair value through profit or loss** RMB'000	**Financial assets at fair value through other comprehensive income** RMB'000	**Total** RMB'000
At 1 January 2017	(813)	(59,370)	(177)	–	(60,360)
Deferred tax charged to the statement of profit or loss during the year (note 10)	–	(12,500)	–	–	(12,500)
At 31 December 2017	(813)	(71,870)	(177)	–	(72,860)
Impact of IFRS 9	–	–	(4,767)	(6,629)	(11,396)
At 1 January 2018	(813)	(71,870)	(4,944)	(6,629)	(84,256)
Deferred tax charged to the statement of profit or loss during the year (note 10)	–	(4,500)	(18,401)	–	(22,901)
Deferred tax charged to the statement of other comprehensive loss during the year	–	–	–	(9,467)	(9,467)
At 31 December 2018	(813)	(76,370)	(23,345)	(16,096)	(116,624)

30. DEFERRED TAX (continued)

Deferred tax liabilities (continued)

The Group has tax losses arising in Mainland China of RMB43,791,000 (2017: RMB30,389,000) that will expire in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

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

At 31 December 2018, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in the PRC. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB267,763,000 at 31 December 2018 (2017: RMB347,349,000).

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

31. SHARE CAPITAL

Shares

	2018 RMB'000	2017 RMB'000
Authorised:		
3,000,000,000 (2017: 3,000,000,000) ordinary shares of HK$0.01 each	**26,513**	26,513
Issued and fully paid:		
2,700,886,628 (2017: 2,720,592,628) ordinary shares of HK$0.01 each	**22,818**	22,984

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

	Notes	**Number of issued and fully paid ordinary shares**	**Nominal value of ordinary shares**	**Share premium**	**Equivalent nominal value of ordinary shares**	**Equivalent share premium**	**Total**
			HK$'000	HK$'000	RMB'000	RMB'000	RMB'000
As at 1 January 2017		1,835,192,628	18,352	806,797	15,123	663,208	678,331
Issue of new shares	(a)	931,800,000	9,318	372,720	8,253	330,129	338,382
Share issue expenses		–	–	(1,335)	–	(1,178)	(1,178)
Cancellation of shares repurchased	34(i)	(46,400,000)	(464)	(21,561)	(392)	(18,231)	(18,623)
As at 31 December 2017 and 1 January 2018		2,720,592,628	27,206	1,156,621	22,984	973,928	996,912
Cancellation of shares repurchased	34(i)	(19,706,000)	(197)	(8,471)	(166)	(7,153)	(7,319)
As at 31 December 2018		2,700,886,628	27,009	1,148,150	22,818	966,775	989,593

Note:

(a) On 19 December 2016, the Company entered into a subscription agreement with Ever Novel Holdings Limited (the "Subscriber"), whose issued share capital is 100% beneficially owned by a family trust set up by Mr. Liu, pursuant to which the Subscriber agreed to subscribe an aggregate of 931,800,000 new shares of the Company at a price of HK$0.41 per share. The subscription was completed on 20 February 2017 and the Group raised a total of approximately HK$382.0 million (equivalent to RMB338.4 million), before expenses.

32. SHARE OPTION SCHEMES

(a) Share option scheme

The Company operates a share option scheme to motivate eligible persons to optimise their future contribution to the Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain ongoing relationships with those eligible persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group, and additionally in the case of executives, to enable the Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions. The share option scheme became effective on 26 May 2008 and was expired on 26 May 2018. A new share option scheme of the Company was approved and adopted by the shareholders at the annual general meeting held on 25 May 2018.

The maximum number of shares which may be issued upon exercise of all options that can be granted under the share option scheme and any other schemes of the Group shall not in aggregate exceed 10% of the shares of the Company in issue, i.e., 270,791,262 shares, as at 25 May 2018 on which an ordinary resolution was passed at the annual general meeting of the Company.

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the share option scheme and any other schemes of the Group shall not exceed 10% of the Company's issued share capital from time to time.

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

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

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

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

32. SHARE OPTION SCHEMES (continued)

(a) *Share option scheme (continued)*

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

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

	2018		2017	
	Weighted average exercise price HK$ per share	Number of options '000	Weighted average exercise price HK$ per share	Number of options '000
At 1 January	0.71	51,532	0.73	46,382
Granted during the year	0.49	4,615	0.51	5,150
Lapsed during the year	1.27	(3,808)	–	–
Cancelled during the year	0.66	(17,695)	–	–
At 31 December	0.64	34,644	0.71	51,532

There were no share options exercised in the current and prior years.

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

2018

Number of options '000	Exercise price* HK$ per share	Exercise period
200	0.690	14-1-2014 to 14-1-2019
10,961	0.650	23-4-2014 to 23-4-2021
4,808	1.040	14-5-2015 to 14-5-2022
8,910	0.560	16-5-2016 to 16-5-2023
5,000	0.512	5-4-2017 to 5-4-2024
150	0.487	21-4-2017 to 21-4-2024
1,715	0.570	9-1-2018 to 8-1-2025
2,900	0.439	7-5-2018 to 7-5-2025
34,644		

32. SHARE OPTION SCHEMES (continued)

(a) Share option scheme (continued)

2017

Number of options '000	Exercise price* HK$ per share	Exercise period
919	2.416	5-10-2009 to 26-5–2018
2,889	0.903	15-10-2010 to 14-10-2018
1,500	0.690	14-1–2014 to 14-1–2019
3,178	0.684	24-1–2014 to 24-1–2021
24,178	0.650	23-4–2014 to 23-4–2021
4,808	1.040	14-5–2015 to 14-5–2022
8,910	0.560	16-5–2016 to 16-5–2023
5,000	0.512	5-4–2017 to 5-4–2024
150	0.487	21-4–2017 to 21-4–2024
51,532		

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

The fair value of the share options granted during the year was RMB914,000 (RMB0.20 per share option) (2017: RMB1,064,000 (RMB0.21 per share option)). The Group recognised a share option expense of RMB2,012,000 (2017: RMB2,436,000) during the year ended 31 December 2018 in respect of the share options granted in the current and prior years.

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

	2018	2017
Dividend yield (%)	**–**	–
Expected volatility (%)	**64.50% to 64.82%**	64.61% to 64.78%
Risk-free interest rate (%)	**2.31% to 2.82%**	1.90 to 2.10%
Expected life of options (years)	**0.00-3.00**	0.01-3.72
Weighted average share price (HK$ per share)	**0.44-0.57**	0.48-0.50

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

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

32. SHARE OPTION SCHEMES (continued)

(b) *Join Reach share option scheme*

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

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

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

No share options under the Join Reach share option scheme were outstanding as at 31 December 2018 and 2017. No share option has been granted, exercised or cancelled, or lapsed during the years.

At the end of the reporting period, the Company had approximately 34,644,000 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 34,644,000 additional ordinary shares of the Company and additional share capital of HK$346,000 and share premium of HK$21,826,000 (before issue expenses).

Subsequent to the end of the reporting period, no additional share options under the share option scheme were granted to an executive director of the Company in respect of his service to the Group in the forthcoming year.

At the date of approval of these financial statements, the Company had approximately 34,644,000 share options outstanding under the share option scheme, which represented approximately 1.28% of the Company's shares in issue as at that date.

33. SHARE AWARD SCHEME

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

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

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

The maximum number of all Award Shares must not be 10% or more of the issued share capital of the Company, i.e., 142,884,713 shares, as at 31 March 2015 on which a resolution was passed at the Board Meeting of the Company.

There were 12,277,000 share awards vested during the year ended 31 December 2018 (2017: Nil).

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

	2018 Number of shares held '000	2017 Number of shares held '000
At 1 January	**19,736**	19,736
Vested during the year	**(12,277)**	–
At 31 December	**7,459**	19,736

34. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 62 to 63 of the financial statements.

(i) Treasury shares

During the year ended 31 December 2018, the Company repurchased its own ordinary shares of 7,026,000 (2017: 59,080,000) on the Stock Exchange at an aggregate consideration of HK$2,913,000, equivalent to RMB2,468,000 (2017: HK$27,779,000, equivalent to RMB23,474,000), and 19,706,000 (2017: 46,400,000) ordinary shares were then cancelled by the Company. Upon the cancellation of 19,706,000 (2017: 46,400,000) shares repurchased, the issued share capital of the Company was reduced by the par value of HK$197,000, equivalent to RMB166,000 (2017: HK$464,000, equivalent to RMB392,000) and the premium paid on the repurchase of these cancelled shares of HK$8,471,000, equivalent to RMB7,153,000 (2017: HK$21,561,000, equivalent to RMB18,231,000), including transaction costs, was deducted from share premium of the Company.

(ii) Merger reserve

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

(iii) Surplus contributions

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

34. RESERVES (continued)

(iv) PRC statutory reserves

In accordance with the Companies Law of the PRC and the articles of association of the subsidiaries of the Company which are domestic enterprises established in the PRC, appropriations of their net profits after offsetting accumulated losses from prior years should be made to the statutory reserve fund maintained by these companies before any distributions are made to the investors. The percentage of appropriation to the statutory reserve fund is 10%. When the balance of the statutory reserve fund reaches 50% of the paid-up/registered capital, no further appropriations are required to be made. The statutory reserve fund shall not be less than 25% of the original registered capital.

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

35. BUSINESS COMBINATION

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 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 consolidated financial statements include the results of Mu77 for the nine months period from the acquisition date.

35. BUSINESS COMBINATION (continued)

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

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

	Notes	Fair value recognised on acquisition RMB'000
Assets		
Property, plant and equipment	13	362
Cash and cash equivalents		4,075
Trade receivables		4,423
Other receivables		26,141
		35,001
Liabilities		
Trade payables		(2,104)
Other payables		(3,779)
Tax payables		(463)
Interest-bearing bank borrowings		(2,000)
		(8,346)
Total identifiable net assets at fair value		26,655
Non-controlling interests		(13,061)
Goodwill on acquisition	16	88,406
Total consideration		102,000
Satisfied by:		
Cash		76,343
An other payable		25,657
Analysis of cash flow on acquisition:		
Net cash acquired with the subsidiary		4,075
Cash paid		(76,343)
Net cash outflow on acquisition (included in cash flows from investing activities)		(72,268)

35. BUSINESS COMBINATION (continued)

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

From the date of acquisition, Mu77 has contributed RMB9,529,000 of revenue and a loss of RMB9,053,000 to the profit of the Group. If the acquisition had taken place at the beginning of the year, the revenue of the Group and the loss of the Group for the year ended 31 December 2018 would have been RMB156,659,000 and RMB91,419,000, 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 consolidated statement of cash flows.

36. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

(i) During the year ended 31 December 2018, the investment cost of an associate of RMB13,950,000 was transferred from financial assets at fair value through other comprehensive income after the investment became an associate of the Group.

(ii) During the year ended 31 December 2018, the investment cost of an associate of RMB20,235,000 was transferred from financial assets at fair value through profit or loss upon exercise of profit guarantee.

(b) Changes in liabilities arising from financing activities

2018

	Interest-bearing bank borrowings RMB'000
At 1 January 2018	**117,150**
Changes from financing cash flows	**75,908**
Increase arising from acquisition of subsidiaries	**2,000**
At 31 December 2018	**195,058**

2017

	Interest-bearing bank borrowings RMB'000
At 1 January 2017	26,870
Changes from financing cash flows	90,280
At 31 December 2017	117,150

37. PLEDGE OF ASSETS

Details of the Group's assets pledged for the Group's bank loans are included in note 25 to the financial statements.

38. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 14) under operating lease arrangements, with leases negotiated for terms ranging from one to ten years. The terms of the leases generally allow the tenancies to be cancellable with any notice period no longer than 6 months, and also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions. At the end of the reporting period, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2018 **RMB'000**	2017 RMB'000
Within one year	**43,849**	41,698

(b) As lessee

The Group leases certain of its office properties under operating lease arrangements with lease terms ranging from two to three years.

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases in respect of building as follows:

	2018 **RMB'000**	2017 RMB'000
Within one year	**452**	204

39. COMMITMENTS

In addition to the operating lease commitments detailed in note 38(b) above, the Group had the following commitments at the end of the reporting period:

	2018 **RMB'000**	2017 RMB'000
Contracted, but not provided for:		
Investment	**–**	18,900

40. RELATED PARTY DISCLOSURES

(a) Outstanding balances with related parties:

Details of the Group's balances with its joint venture and associates as at the end of the reporting period are disclosed in notes 23, 27 and 28 to the financial statements.

(b) Compensation of key management personnel of the Group

	2018 **RMB'000**	2017 RMB'000
Short term employee benefits	**1,726**	1,735
Performance related bonuses	**486**	486
Pension scheme contributions	**304**	272
Equity-settled share option expense	**1,586**	2,227
Total compensation paid to key management personnel	**4,102**	4,720

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

41. FINANCIAL INSTRUMENTS BY CATEGORY

Other than financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income as disclosed in notes 24 and 20 to the financial statements, respectively, all financial assets and liabilities of the Group as at 31 December 2018 and 2017, were stated at amortised cost.

42. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

As at 31 December 2018 and 2017, the carrying amounts of the Group's financial assets and financial liabilities reasonably approximated to their fair values.

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 other receivables and other assets, 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 Group's finance department is responsible for determining the policies and procedures for the fair value measurement of financial instruments. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the senior management. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following method and assumptions were used to estimate the fair values:

The fair values of listed equity investments are based on quoted market prices.

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

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis:

	Valuation technique	Unobservable input	Range	Relationship of unobservable inputs to fair value
Financial assets at fair value through other comprehensive income	Market approach	Enterprise–value-to–revenue multiple ("EV/Revenue")	4.33 to 5.92	Increase/decrease in EV/Revenue would result in increase/decrease in fair value
		Discounts for lack of marketability ("DLOM")	16.3% to 22.1%	Increase/decrease in DLOM would result in decrease/increase in fair value
Financial assets at fair value through profit or loss	Market approach	EV/Revenue	0.88 to 14.25	Increase/decrease in EV/Revenue would result in increase/decrease in fair value
		DLOM	12.3% to 31%	Increase/decrease in DLOM would result in decrease/increase in fair value
	Income approach	Discount rate	1.73%	Increase/decrease in discount rate would result in decrease/increase in fair value
		DLOM	33%	Increase/decrease in DLOM would result in decrease/increase in fair value

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

Fair value hierarchy

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

Assets measured at fair value

As at 31 December 2018

	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	**296**	**–**	**179,464**	**179,760**
Financial assets at fair value through other comprehensive income	**–**	**–**	**100,382**	**100,382**
	296	**–**	**279,846**	**280,142**

As at 31 December 2017

	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, at fair value	–	–	17,500	17,500
Structured financial products, at fair value	–	14,772	–	14,772
	332	14,772	33,550	48,654

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

Fair value hierarchy (continued)

Assets measured at fair value (continued)

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

	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 (restated)	–	96,619	76,459
Total gains recognised in the consolidated statement of profit or loss included in other income and gains, net	–	61,735	–
Total gains recognised in the consolidated statement of comprehensive income	–	–	37,873
Reclassification to investments in associates (note ii)	–	–	(13,950)
Purchases	–	43,345	–
Disposals	–	(22,235)	–
As at 31 December 2018	–	179,464	100,382

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

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

(a) Credit risk

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

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

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

The credit risk relating to the end customers of the services offered by the Group was shared by the Mobile Telecommunications Operators and the Group.

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

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(b) Liquidity risk

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

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

	As at 31 December 2018 Within one year or on demand RMB'000
Interest-bearing bank borrowings	**195,058**
Trade payables	**19,403**
Financial liabilities included in other payables and accruals	**68,251**
	282,712

	As at 31 December 2017 Within one year or on demand RMB'000
Interest-bearing bank borrowings	117,150
Trade payables	26,474
Financial liabilities included in other payables and accruals	61,949
	205,573

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(c) Capital management

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

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

	2018 RMB'000	2017 RMB'000
Cash and cash equivalents	311,475	546,071
Interest-bearing bank borrowings	(195,058)	(117,150)
Trade payables	(19,403)	(26,474)
Financial liabilities included in other payables and accruals	(68,251)	(61,949)
Net cash over debt position	28,763	340,498

44. EVENTS AFTER THE REPORTING PERIOD

On 25 March 2019, the Group issued a notice ("Exercise Notice") to Ms. Liu Zewen and Mr. Zhang Jinsheng, the founders of Lanlanlanlan Film & Television (collectively, the "Founders"), pursuant to which the Group requested the Founders to compensate the Group with cash compensation for the non-fulfillment of the performance guarantee for 2018 and to exercise the put option by requesting the Founders to purchase the Group's 23.56% equity interests in Lanlanlanlan Film & Television ("Disposal").

On the same day, in response to the Exercise Notice, the Founders executed an undertaking letter ("Undertaking Letter") in favour of Yunhai Qingtian (a wholly-owned subsidiary of the Company) pursuant to which the Founders have undertaken to the Group to perform its obligations to compensate the Group by way of cash compensation and purchase the equity interests in Lanlanlanlan Film & Television as mentioned in the Exercise Notice (i.e., an aggregate of 23.56%) within three years from the date of the Undertaking Letter and will pay the default interest in accordance with the terms and conditions of the 2017 Capital Increase Supplemental Agreement, the 2017 Equity Transfer Supplemental Agreement, and the 2018 Equity Transfer Supplemental Agreement. The Founders have also undertaken that all cash dividend received from Lanlanlanlan Film & Television will be used for cash compensation or purchasing of the equity interests in Lanlanlanlan Film & Television as mentioned in the Exercise Notice. In anticipation of the non-fulfilment of the target profit for 2018 by Lanlanlanlan Film & Television, the Founders paid an aggregate of RMB5,000,000 to the Group as part of the equity purchase price for the Disposal in January 2019.

45. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

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

	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	44,273	42,726
Total non-current assets	44,273	42,726
CURRENT ASSETS		
Other receivables	283	339
Amounts due from subsidiaries	774,022	754,977
Available-for-sale investments	–	14,772
Cash and cash equivalents	8,919	56,969
Total current assets	783,224	827,057
CURRENT LIABILITIES		
Other payables and accruals	3,850	3,245
Total current liabilities	3,850	3,245
NET CURRENT ASSETS	779,374	823,812
Net assets	823,647	866,538
EQUITY		
Issued capital	22,818	22,984
Reserves (note)	800,829	843,554
Total equity	823,647	866,538

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

Note:

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

	Share premium account RMB'000	Treasury shares RMB'000	Shares held under share award scheme RMB'000	Capital reserve RMB'000	Exchange fluctuation reserve RMB'000	Employee share-based compensation reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2017	672,137	–	(4,672)	8,969	11,063	24,933	(35,050)	677,380
Total comprehensive loss for the year	–	–	–	–	(9,760)	–	(132,371)	(142,131)
Issue of shares, net of expenses	328,951	–	–	–	–	–	–	328,951
Shares repurchased	–	(23,474)	–	–	–	–	–	(23,474)
Cancellation of shares repurchased	(18,231)	18,623	–	–	–	–	–	392
Equity-settled share-based payment arrangements	–	–	–	–	–	2,436	–	2,436
At 31 December 2017 and 1 January 2018	982,857	(4,851)	(4,672)	8,969	1,303	27,369	(167,421)	843,554
Total comprehensive loss for the year	–	–	–	–	(1,070)	–	(41,365)	(42,435)
Shares repurchased	–	(2,468)	–	–	–	–	–	(2,468)
Cancellation of shares repurchased	(7,153)	7,319	–	–	–	–	–	166
Equity-settled share-based payment arrangements	–	–	–	–	–	2,012	–	2,012
Transfer of reserve upon the forfeiture or expiry of share options	–	–	–	–	–	(1,353)	1,353	–
Release of award shares	–	–	3,227	–	–	(3,227)	–	–
At 31 December 2018	975,704	–	(1,445)	8,969	233	24,801	(207,433)	800,829

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

46. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 March 2019.