A8新媒体集团
A8 NEW MEDIA GROUP

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 00800

2019
ANNUAL REPORT

蓝蓝蓝影视传媒（天津）有限公司
FOUR BLUE FILM MEDIA CO.,LTD.

MU77

A8影视
A8 Film & Television

黑岩
heiyan.com

a8
LIVE

青松基金
QINGSONG FUND

映客直播

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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
Industrial and Commercial Bank of China (Asia) Limited
Shanghai Pudong Development Bank Co., Ltd.

REGISTERED OFFICE

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

HEAD OFFICE

24/F, A8 Music Building
No. 1002, Keyuan Road, Hi-tech Park
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Shenzhen City
Guangdong Province
The PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suites 3306-12, 33/F
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6-8 Harbour Road
Wanchai
Hong Kong

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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183 Queen's Road East
Wanchai
Hong Kong

WEBSITE

www.a8nmg.com

STOCK CODE

00800

Financial Summary and Highlights

CONSOLIDATED RESULTS

	Year ended 31 December				
	2019	2018	2017	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**108,438**	151,814	139,118	148,468	148,355
Profit/(loss) before tax	**(65,721)**	(65,768)	42,111	31,862	32,069
Income tax credit/(expense)	**7,138**	(24,780)	(17,101)	(7,722)	(10,394)
Profit/(loss) for the year	**(58,583)**	(90,548)	25,010	24,140	21,675
Attributable to:					
Owners of the Company	**(51,085)**	(85,159)	25,030	24,145	22,006
Non-controlling interests	**(7,498)**	(5,389)	(20)	(5)	(331)
	(58,583)	(90,548)	25,010	24,140	21,675

CONSOLIDATED ASSETS, LIABILITIES AND EQUITY

	As of 31 December				
	2019	2018	2017	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**1,806,032**	1,855,752	1,699,558	1,368,034	1,277,834
Total liabilities	**(342,537)**	(420,044)	(300,220)	(278,126)	(228,491)
Non-controlling interests	**(2,247)**	(9,125)	532	702	697
	1,461,248	1,426,583	1,399,870	1,090,610	1,050,040

The consolidated results of A8 New Media Group Limited (the "Company") and its subsidiaries (together the "Group") for the year ended 31 December 2019 and the consolidated assets, liabilities and equity of the Group as at 31 December 2019 are those set out in the audited financial statements.

Chairman's Statement

I am pleased to submit to the shareholders the annual report of the company for the year ended 31 December 2019.

BUSINESS REVIEW AND OUTLOOK

The pan-entertainment market consisting of online literature, online games, film and television, short videos, music, etc., along with the vertical development of IP's long chain, continuously integrates and develops between various sub-sectors, and provides content support to each other, driving sustained and high-speed development of the domestic pan-entertainment industry. According to the latest data from the "Half-year Report of the Pay Market 2019" released by Quest Mobile, the scale of China's pan-entertainment users has exceeded 1 billion, and the scale of the pay market has reached 100 billion. At the time when the domestic pan-entertainment market continues to show rapid development, in order to regulate the development of the industry, China has further increased the supervision of the content of the pan-entertainment industry. Facing changes in the market environment and regulatory policies, during the reporting period, the Group continued to optimize the top-level design. While actively adjusting the operating strategies of various business segments, it also strictly controlled risks, adjusted internal resource allocation, and suspended the projects which are inconsistent with the Group's long-term plan.

Digital Entertainment Services

The Group provides digital entertainment services including online games, film and television, and online literature. During the reporting period, the Group's gross revenue (revenue before excluding certain taxes and surcharges) ("**gross revenue**") derived from the provision of digital entertainment services was RMB31.6 million, a decrease of approximately 59.1% as compared to 2018.

Game Business

In 2018, the National Radio and Television Administration suspended the approval of game license. The negative impact on the entire game industry continued during the reporting period. Since the approval of the game license restarted in early 2019, the approval has become stricter. The number of new online games has decreased significantly compared with previous years, and industry-related policies continue to give high priority to high-quality original games from leading companies. In this context, we rely on our past accumulation in the sub-sectors, focus our energy and resources on the furnishing of boutique games, while controlling costs and streamlining the number of projects to cope with the increasing competition in the gaming industry.

Affected by factors such as the market and the overall industry environment, the Group made structural adjustments and optimizations to its online game business line during the reporting period, reduced the scale of game distribution, and focused on game research and development. During the reporting period, the Group's gross revenue from the online game business was mainly derived from a card game "Card Monster" operated by Mu77 (the Group's subsidiary jointly invested with Tencent). At the same time, during the reporting period, Mu77 had been developing the original game "Colossus Knights" (「巨像騎士團」) and, which is currently in the normal development cycle and is expected to be launched in 2020.

Chairman's Statement

Film & Television Business

During the reporting period, the lightly funny idol costume drama "Matchmakers of Great Zhou Dynasty" (「大周小冰人」), produced by the Group, was launched on the iQIYI video platform in March 2019, and has attracted a lot of attention from the audience and the media. However, in the same month, the National Radio and Television Administration issued regulations restricting the broadcast of costume dramas, and thus the publicity of this web-drama was greatly affected, resulting in lower final ratings than the Group expected. In view of the overall environment of the film and television development industry and other factors, the Group slowed down the development of this business segment in the second half of 2019, but we are still optimistic about the Chinese film and television industry and will continue to actively expand and evaluate new film and television projects more cautiously in the future.

In addition, as of 31 December 2019, the Group held a total of 29.52% of the Lanlanlanlan Film & Television Media (Tianjin) Co., Ltd.（藍藍藍藍影視傳媒（天津）有限公司）("**Lanlanlanlan Film & Television**"). The company is mainly engaged in writing, sales and adaptation of scripts and online video content production.

Online literatures

北京掌文信息技術有限公司 (Beijing Zhangwen Information Technology Co., Ltd.) ("**Beijing Zhangwen**"), 35% equity interest of which is held by the Group, is mainly engaged in the business of online literature reading and incubation and operation of literature IP. Beijing Zhangwen mainly operates four literary platforms: Heiyan.com (黑岩網), Ruochu.com (若初網), Ruoxia.com (若夏網) and Lemon Read (檸檬免費小說網). As at 31 December 2019, the number of users registered on Beijing Zhangwen's self-owned platforms maintained a compound annual growth rate of over 60% for three years. During the reporting period, Beijing Zhangwen contributed approximately at RMB13.0 million to profit of the Group, representing an increase of 49% as compared to 2018. The growth is mainly derived from the development of audio works, comics, and film and television investments business of Beijing Zhangwen.

The hours of audio works at Beijing Zhangwen increased by more than 25,000 hours as compared with last year, among which, various audio works entered top ranking lists of platforms like Himalayan FM (喜馬拉雅 FM), lrts.me (懶人聽書), Dragonfly FM (蜻蜓FM), and Penguin Audio Books (企鵝聽書). Beijing Zhangwen's numerous self-copyrighted comics also entered top ranking lists of Tencent Comic, kuaikanmanhua.com, xiaomingtaiji.com, and buka.cn.

During the reporting period, the online movie "MEGA Crocodile" (巨鱷), adapted from "MEGA Crocodile", the science fiction of the same name of Heiyan.com, was launched by Beijing Zhangwen on Youku (優酷). Prior to the air of MEGA Crocodile, there were 175,000 pre-subscriptions, a new record for online films played on Youku. "MEGA Crocodile" ranked No. 1 of Youku's Online Film Popular Playing List and New Movie List since its broadcast and became one of the most popular online movies of the year. As of 31 December 2019, "MEGA Crocodile" ranked 3rd among Youku online films for the year in terms of accumulated sharing income, representing a milestone for Beijing Zhangwen to pursue the business model of "synchronous film & television, comics and audio books based on one IP of the same online novel". Beijing Zhangwen will continue to strengthen the development of various IP forms of online novels and the exploration of business patterns.

Chairman's Statement

Property Investment Business

During the reporting period, in terms of property investment business, the Group's gross revenue was derived from the rent and property services income of the National Music Industry Park — A8 Music Building. A8 Music Building is located in the core area of Shenzhen Bay Area. It has a superior location with a total gross floor area of 52,500 square meters. It integrates music performance, office and business services. In 2019, this segment business contributed approximately RMB76.9 million in consolidated gross revenue to the Group, representing an increase of approximately 3.0% as compared to 2018.

In 2019, the decline in national macroeconomic growth has affected the leasing decisions of enterprises to a certain extent. New supply in first-tier cities has further increased office vacancy rates and increased industry competitiveness. Facing the challenges, the Group adheres to the business philosophy of "Focusing on customers and demand innovation", and continuously improved the quality of property services during the reporting period. With professional and meticulous property management services, the Group won the award of Guangdong Province "Property Management Demonstration Project" in 2019.

Relying on the A8 Music Building, the Group's A8Live is an offline performance brand that integrates functions such as music performance theater, professional recording studio and music maker cafe. A8Live is committed to creating a healthy business and social environment for the A8 Music Building and surrounding communities, and providing high-quality music and entertainment services. During the reporting period, the A8Live Music Performance Theater held 72 performances, the recording studio performed 305 recordings, and held 50 public welfare music performances in the outdoor plaza of the A8 Music Building. Among them, at the end of 2019, A8Live held a public welfare concert with the theme of "Supporting Shenzhen Original Bands" in cooperation with Yuehai Street office in Nanshan District and other enterprises in Shenzhen High-tech Industrial Park. A8Live not only provides first-class hardware facilities and professional supporting services for domestic and foreign musicians, but also creates a platform for music lovers in the surrounding communities and the Greater Bay Area to enjoy high-quality music. We will also continue to deepen branding and content and further explore the possibility of diversifying A8Live's operations.

Chairman's Statement

Business Outlook for 2020

Looking forward to 2020, the outbreak of new coronavirus pneumonia (the "**Outbreak**") in early 2020 will pose a challenge to the global business environment. After the Outbreak, a series of prevention and control measures have been implemented and continued throughout China. Despite limited impacts on the online pan-entertainment market, the impact of the Outbreak on commercial real estate and cultural and entertainment markets is expected to last for a long time, and the extent of the impact depends on the duration of the epidemic, the strength of regulatory policies and the implementation of related protective measures. As at 31 December 2019, the operating and financial performance of the Group has not been adversely affected for the time being. The Group will remain alert to the development and status of the epidemic, continue to assess its impact on the Group's financial position and operating results, and take necessary actions to reduce the business risks. The Group will continue to pursue its major operation in the pan-entertainment market, including online literature, online gaming, film and TV shows, short videos, and music so that we can develop our IP value chain on the horizontal level to support various segments for mutual support and constant integration. In the meantime, the Group will strictly exercise cost control in various areas, including optimization of the talent structure, improvement of the procurement system and procedures, and enhancement of project management. Although the external environment is under some pressure, it also has tremendous opportunities and room for development. The improvement in the industrial policies of pan-entertainment industry will facilitate the healthy development of the pan-entertainment industry. The PRC government continues to strengthen the protection of intellectual property rights, while the awareness of subscription among users continue to grow stronger, the percentage of content subscription fees will continue to increase, driving the continuous development of the pan-entertainment industry in the PRC in the future. Leveraging the policy advantages and the huge potential of the pan-entertainment market, coupled with the rich resources and mature operating capabilities of the management team, we are confident that the Group's operating performance and competitive strength will be further increased.

Management Discussion and Analysis

1 FINANCIAL REVIEW

Revenue

For the year ended 31 December 2019, the gross revenue of the Group amounted to approximately RMB108.4 million, representing a decrease of approximately 28.6% as compared with 2018 (2018: approximately RMB151.8 million).

Digital entertainment services

For the year ended 31 December 2019, the gross revenue of digital entertainment services amounted to approximately RMB31.6 million, representing a decrease of approximately 59.1% as compared with 2018 (2018: approximately RMB77.2 million). The decrease was mainly resulted from the decrease of approximately RMB54.1 million in gross revenue from game related services as compared with 2018, which was offset by the increase in gross revenue of approximately RMB9.2 million from film and television production.

Property investment business

For the year ended 31 December 2019, the gross revenue of property investment business derived from the rentals and management fee amounted to approximately RMB76.9 million, representing an increase of approximately 3.0% as compared with 2018 (2018: approximately RMB74.6 million).

Cost of services provided

For the year ended 31 December 2019, cost of services provided by the Group amounted to approximately RMB50.5 million, representing a decrease of approximately 37.3% as compared with 2018 (2018: approximately RMB80.5 million). The decrease was mainly due to the decrease of approximately RMB43.1 million in related cost as compared with 2018 accompanied with the decrease in gross revenue from game related services, which was offset by an increase of approximately RMB16.8 million in the production cost of the network drama “Matchmaker of Great Zhou Dynasty”.

Digital entertainment services

For the year ended 31 December 2019, the cost of services provided of digital entertainment services amounted to approximately RMB33.0 million, representing a decrease of approximately 44.6% as compared with 2018 (2018: approximately RMB59.6 million). It mainly comprises gross revenue shared with mobile operators, distribution channels, business alliances, production cost of network films and dramas and other costs such as game copyrights and direct labor costs.

Property investment business

For the year ended 31 December 2019, the cost of services provided of property investment business amounted to approximately RMB17.5 million, representing a decrease of approximately 16.5% as compared with 2018 (2018: approximately RMB20.9 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 2019, the gross profit of the Group amounted to approximately RMB58.0 million, representing a decrease of approximately 14.6% as compared with 2018 (2018: approximately RMB67.9 million). The overall gross margin of the Group (which is calculated based on gross profit divided by gross revenue) was 53.4% for 2019, as compared with 44.7% for 2018. The increase of gross margin was resulted from the increased gross profit of property investment business for the year.

Other income and gains, net

For the year ended 31 December 2019, the other income and gains, net of the Group were approximately RMB17.7 million, representing a decrease of approximately 82.6% as compared with a net gain of approximately RMB101.8 million for 2018.

The decrease was mainly due to the recognition of gain on fair value change of financial assets at fair value through profit or loss mainly in relation to fund investments and gain on fair value change investment properties amounted to approximately RMB61.7 million and RMB18.0 million, respectively, for the year ended 31 December 2018 while loss on fair value change of financial assets at fair value through profit or loss mainly in relation to the investment in Lanlanlanlan Film & Television and fund investments and investment properties amounted to approximately RMB36.3 million and RMB7.0 million were recognized under other expenses, net for the year ended 31 December 2019.

Selling and marketing expenses

For the year ended 31 December 2019, the selling and marketing expenses of the Group amounted to approximately RMB6.3 million, representing a significant decrease of approximately 85.6% as compared with 2018 and approximately 19.9% of the gross revenue from digital entertainment services (2018: approximately RMB43.6 million, representing approximately 56.5% of the gross revenue from digital entertainment services). The decrease in selling and marketing expenses was mainly due to the decrease of the game promotion expenses and labor expenses amounting to approximately RMB29.0 million and RMB7.3 million, respectively as a result of the reduction of game related publishing business.

Administrative expenses

For the year ended 31 December 2019, the administrative expenses of the Group amounted to approximately RMB54.1 million, representing a decrease of approximately 3.7% as compared with 2018 (2018: approximately RMB56.2 million). The decrease was mainly resulted from cost control of the Group.

Other expenses, net

For the year ended 31 December 2019, the other expenses, net of the Group amounted to approximately RMB80.6 million, representing a decrease of approximately 29.8% as compared with 2018 (2018: approximately RMB114.8 million). This change was mainly attributable to the fact that the Group did not recognize the impairment in associates during the year, whilst impairment of approximately RMB76.1 million was recognized for several associates in last year. This change was partially offset by a decrease of approximately RMB34.7 million and RMB7 million in the fair values of financial assets at fair value through profit or loss in relation to the Group's investment in Lanlanlanlan Film & Television and investment properties.

During the year, the Group's other expenses, net mainly comprised a decrease of approximately RMB34.7 million in the fair value of financial assets at fair value through profit or loss with respect to the investment in Lanlanlanlan Film & Television, impairment of approximately RMB34.5 million recognized on goodwill arising from acquisition of Mu77, and a decrease of approximately RMB7 million in the fair value of investment properties.

Affected by national policies on the film and television industry, under which total online TV distribution is subject to government control, while approval requirements become increasingly stringent with a longer review period, Lanlanlanlan Film & Television's results remained to be loss-making during 2019. The management of the Company recognized a decrease of approximately RMB34.7 million in the fair value of a financial asset at fair value through profit or loss with respect to investment in Lanlanlanlan Film & Television based on a valuation conducted by an independent valuer after taking into consideration that the on-going impact of relevant policies on the performance of Lanlanlanlan Film & Television as well as considering the repayment capability of the founders.

Given that the increasingly stringent approval of game distribution permits results in a delay or restriction on the launch of games, Mu77 continued to record losses. Considering that the industrial landscape and relevant policies will continue to affect the performance of Mu77 and with reference to the assessment results of the independent valuer, the Group continued to provide impairment allowances of approximately RMB34.5 million for goodwill arising from acquisition of Mu77 for the year (2018: approximately RMB35 million).

Share of profits and losses of associates, net

For the year ended 31 December 2019, the Group's share of profits of associates amounted to approximately RMB6.2 million, compared to share of losses of associates of approximately RMB12.7 million in 2018. The change was mainly due to the increase of share of profit of Beijing Zhangwen amounting to approximately RMB4.3 million and the decrease of share of loss of Lanlanlanlan Film & Television amounting to approximately RMB14.3 million for the year.

Income tax credit/(expense)

For the year ended 31 December 2019, income tax credit of the Group amounted to approximately RMB7.1 million, while the income tax expense for 2018 was approximately RMB24.8 million. This change was mainly due to the deferred tax credit of approximately RMB10.8 million arising from the decreased fair value of financial asset at fair value through profit or loss and investment property for the year ended 31 December 2019, as compared with the deferred tax expenses of approximately RMB22.9 million arising from the increased fair value of financial asset at fair value through profit or loss and investment property for the same period last year.

Loss attributable to equity holders of the Company

For the year ended 31 December 2019, loss attributable to equity holders of the Company amounted to approximately RMB51.1 million, representing a decrease of 40.0% as compared to loss in 2018 (2018: approximately RMB85.2 million). This change was mainly due to the fact that (i) labor expenses and promotion expenses decreased as a result of the shrinking game publishing business during the year; (ii) the Group did not recognize the impairment in associates during the year, whilst impairment of approximately RMB76.1 million was recognized for several associates in last year; and (iii) income tax credits were recorded as a result of a decrease in the fair values of financial assets at fair value through profit or loss with respect to the Group's investment in funds and Lanlanlanlan Film & Television during the year, while income tax expenses was recorded as a result of an increase in the fair value of the same financial assets for the same period last year.

Liquidity and Financial Resources

As at 31 December 2019, cash and cash equivalents and highly liquid short-term assets of the Group including, restricted cash and pledged deposits and financial assets at fair value through profit or loss amounted to approximately RMB571.9 million (2018: approximately RMB601.8 million). Among which, approximately RMB228.6 million, or approximately 40.0% was denominated in RMB.

As at 31 December 2019, the Group has interest-bearing bank borrowings of approximately RMB130.0 million (2018: RMB195.1 million) in aggregate, and the gearing ratio which is measured by the net borrowings over the total assets is approximately 7.2% (2018: 10.5%).

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 2019, the Group did not have any derivatives for hedging against both the interest and exchange rate risks.

Financial assets at fair value through profit or loss

As at 31 December 2019, the Group's financial assets at fair value through profit or loss amounted to approximately RMB144.4 million (2018: approximately RMB179.8 million), which was comprised of investments in funds and the derivative financial assets with respect to investments in Lanlanlanlan Film & Television included in non-current assets and wealth management products and listed investments included in current assets. As at 31 December 2019, the fair value of investments in funds and derivative financial assets are determined by the independent professional valuer appointed by the Group using the market comparable approach and income approach, respectively. Wealth management products are provided by the large state-owned or famous financial institutions in China, all of which allows any divestment within the investment periods. These investments are measured at fair value determined with reference to the estimated yield rate of relevant investments. The fair values of listed investments is determined at market fair value.

Set out below are details of financial assets at fair value through profit or loss as at 31 December 2019:

Investment category	Carrying amount as at 31 December 2019 (RMB'000)	Carrying amount as at 31 December 2018 (RMB'000)	Percentage increase/ (decrease)
Fund investments[1]	124,731	126,278	–1.2%
Wealth management products	16,500	15,500	6.5%
Derivative financial asset[2]	2,971	37,686	–92.1%
Listed equity investment	239	296	–19.2%
Total	144,441	179,760	–19.6%

Notes:

(1) Including investments in Shenzhen Qianhai Qingsong Venture Investment Fund Management Enterprise (Limited Partnership) ("**Qingsong Fund II**"), Shenzhen Qingsong Phase III Equity Investment Fund Partnership Enterprise (Limited Partnership) ("**Qingsong Fund III**"), and Shenzhen Qianhai Tianhe Cultural Industry Investment Center (Limited Partnership)（深圳前海天和文化產業投資中心（有限合夥））. For the investments in Qingsong Fund II and Qingsong Fund III, please refer to the announcements of the Group dated 24 January 2014 and 12 May 2017, respectively.

(2) Derivative financial asset is related to the investment in Lanlanlanlan Film & Television, details of which are set out in the announcement of the Group dated 26 March 2019. The Group also engaged an independent professional valuer to measure the fair value of such asset. For the decrease in the fair value of the asset, please refer to the relevant description in "Other expenses, net" above.

Financial assets at fair value through other comprehensive income

As at 31 December 2019, the Group's financial assets at fair value through other comprehensive income amounted to approximately RMB233.4 million (2018: approximately RMB100.4 million). The increase was mainly attributable to the significant increase in the performance of a game development company in 2019, which resulted in the increase in fair value of the game development company. These financial assets at fair value through other comprehensive income was comprised of listed and unlisted equity investments, the fair values of which were determined by an independent professional valuer engaged by the Group using market comparable approach.

Set out below are details of financial equity assets at fair value through other comprehensive income as at 31 December 2019:

Investment category	Carrying amount as at 31 December 2019 (RMB'000)	Carrying amount as at 31 December 2018 (RMB'000)	Percentage increase
Game development companies[1]	225,189	93,263	141.5%
Information technology services company[2]	8,225	7,119	15.5%
Total	233,414	100,382	132.5%

Notes:

(1) Game development companies include 3 companies, namely Xiamen Mengjia Network Technology Co., Ltd. ("**Xiamen Mengjia**"), Shanghai Hanqu Network Technology Co., Ltd. (上海瀚趣網絡科技有限公司) and Shanghai Modie Network Technology Co., Ltd. (上海魔蝶網絡科技有限公司). Among them, Xiamen Mengjia was listed on the National Equities Exchange and Quotations (the "**NEEQ**") (stock code: 839039), and delisted from NEEQ on 2 January 2019. The Group engages an independent professional valuer to determine its fair value using market comparable approach.

(2) Information technology services company refers to Shenzhen Lemon Network Technology Co., Ltd ("**Lemon Network**"), a company listed on NEEQ (stock code: 835924). Given that the shares of the NEEQ listed companies are all transferred by agreement, the trading of the shares is not active and the trading volume of the shares is thin, the Group engages an independent professional valuer to determine its fair value using market comparable approach.

Contingent Liabilities

As at 31 December 2019, 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 ("**Ever Novel Holdings**") pursuant to which the Company allotted and issued 931,800,000 new shares of the Company at a subscription price of HK$0.41 per Share ("**Subscription**") to Ever Novel Holdings. 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 disclosed in the circular of the Company dated 25 January 2017, the net proceeds from the Subscription were intended to be used for the Group's investment in the industry chain of mobile online game when appropriate opportunity arise.

As of 31 December 2019, approximately RMB101.3 million of the proceeds from the Subscription were utilized. Among which, approximately RMB59.6 million were utilized for the acquisition of 51% equity interest in MU77SH, approximately RMB41.7 million were used for the acquisition of MU77HK and controlling MU77SH through implementing a series of VIE agreements and arrangements. MU77SH and MU77HK are engaged in mobile online game research and development and operation in the PRC and overseas, respectively. The use of the proceeds of the Subscription is the same as the intended usage previously disclosed by the Company.

On the date of this report, the remaining amount of the proceeds from the Subscription was approximately RMB236.0 million. The Company has no plans to change the intended usage of the proceeds from the Subscription for the time being. The remaining unutilized proceeds from the Subscription will be used as intended. Currently, the Company placed such unutilized proceeds as short-term interest-bearing deposits in licensed bank in Hong Kong.

3 MATERIAL PURCHASES AND DISPOSAL AND MATERIAL INVESTMENTS

Reference is made to the Company's circular dated 5 June 2019 and the announcement dated 25 March 2020, regarding the issue of a written notice by the Company to the founders of Lanlanlanlan Film & Television pursuant to the related investment agreement requesting the founders of Lanlanlanlan Film & Television to purchase 23.56% equity interests of Lanlanlanlan Film & Television held by the Group at an equity purchase price of RMB146,380,434 (equivalent to approximately HK$172,212,000) (the "**Equity Purchase Price**") ("**Major Disposal**"). As of the date of this report, the Major Disposal has not been completed, and Lanlanlanlan Film & Television has only paid RMB5 million to the Group as the first payment of the Equity Purchase Price. The founders of Lanlanlanlan Film & Television made a written undertaking to the Group, pursuant to which the founders have undertaken to perform their obligations to complete the Major Disposal by 24 March 2020.

As at the date of this report, the Group holds 29.52% equity interests in Lanlanlanlan Film & Television and it is accounted as an associate of the Group in the Group's financial statements. If the Major Disposal is completed, the Group will hold a 5.96% equity interests in Lanlanlanlan Film & Television.

Save as disclosed above, for the year ended 31 December 2019, the Company did not have any material purchase and disposal, and any material investments. However, the Group will continue to consolidate the current businesses, while seeking new opportunities to complement and strengthen our existing business operations.

4 HUMAN RESOURCES

As at 31 December 2019, the Group had 107 employees (2018: 164). The average headcounts of 2019 was 124 while it was 168 in 2018. 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 2019, including directors' emoluments, amounted to approximately RMB35.4 million, representing a decrease of approximately 18.2% as compared with 2018 (2018: approximately RMB43.3 million). The decrease in employee costs was mainly resulted from the reduction of game publishing business.

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 new game licences, and the adjustment of the approval standards of the State 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 2019, HK Dollars and US Dollars denominated cash and cash equivalents held by the Group were approximately HK$5.9 million and US$48.4 million. The Group's main business is located in Mainland 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

Update on the fulfillment of performance guarantee by Lanlanlanlan Film & Television

As at the date of this report, the Group held an aggregate of 29.52% share in Lanlanlanlan Film & Television, an associate of the Company, which was acquired through capital increase, share acquisition and equity compensation. As Lanlanlanlan Film & Television and its subsidiaries did not meet the respective target profit for the financial years ended 31 December 2017, 2018 and 2019, pursuant to the relevant transaction documents, the Group shall be compensated by the founders of Lanlanlanlan Film & Television by cash or equity. Also, the disposal of an aggregate of 23.56% equity interests in Lanlanlanlan Film & Television by the Group, has yet to be completed. As at the date of this report, only RMB5 million has been paid by the founders to the Group for such disposal.

The founders of Lanlanlanlan Film & Television have undertaken to the Group to perform its obligations in relation to the compensation and the disposal by 24 March 2022.

For further details of the capital increase, acquisition, disposal and compensation, please refer to the announcements of the Company dated 18 December 2017, 13 March 2018, 3 September 2018, 25 March 2019 and 25 March 2020 and the circular of the Company dated 5 June 2019.

Management Discussion and Analysis

Investment in Qingsong Fund IV

After the reporting period, 深圳市快通聯科技有限公司 (Shenzhen Kuaitonglian Technology Co., Ltd.) ("**Kuaitonglian**"), a wholly-owned subsidiary of the Company, entered into limited partnership with Shenzhen Qianhai Qingsong Venture Investment Fund Management Enterprise (Limited Partnership) and other independent investors on 21 January 2020, pursuant to which, Kuaitonglian acting in the capacity of limited partner invested RMB10 million to subscribe for approximately 11.11% interest in Shenzhen Qingsong Small and Medium Enterprises Development Investment Partnership Enterprise (Limited Partnership) ("**Qingsong Fund IV**"). Qingsong Fund IV will engage in equity investments focusing on new industries such as new technology and application and new consumption models. In accordance with Chapter 14 of the Listing Rules, the transaction constitutes a disclosable transaction of the Company. Please refer to the announcement of the Company dated 21 January 2020 for details.

Entering into of new contractual arrangements

Due to the replacement of one of the registered shareholders of Shenzhen Huadong Feitian Network Development Co., Ltd. (深圳市華動飛天網絡技術開發有限公司, "**Huadong Feitian**"), being one of the Group's operating entities, from Mr. Liu Xiaosong ("**Mr. Liu**"), an executive Director and the controlling shareholder of the Company, to Mr. Liu Xiaofeng, the brother of Mr. Liu, the previous contractual arrangements in relation to Huadong Feitian entered into on 31 August 2015 were terminated and the relevant parties, namely Mr. Liu Xiaofeng, Ms. Cui Jingtao, Huadong Feitian and Cash River Information Technology (Shenzhen) Co. Ltd. (佳仕域信息科技（深圳）有限公司) entered into a series of new contractual arrangements in relation to Huadong Feitian on 13 March 2020. The new contractual arrangements as mentioned above were substantially on the same terms and conditions as the previous contractual arrangements and the financial results of Huadong Feitian would continue to be accounted for and consolidated into the accounts of the Group. For details of the new contractual arrangements in relation to Huadong Feitian, please refer to the announcement of the Company dated 13 March 2020.

Directors and Senior Management

DIRECTORS

The following table sets out certain information of the members of the Board as at the latest practicable date:

Name	Age	Position	Date of appointment
Mr. Liu Xiaosong	54	Executive Director and Chairman of the Board	2 October 2007
Mr. Lin Qian	37	Executive Director and Chief Financial Officer	6 April 2017
Mr. Chan Yiu Kwong	55	Independent Non-executive Director	9 November 2007
Ms. Wu Shihong	62	Independent Non-executive Director	27 March 2012
Mr. Li Feng	52	Independent Non-executive Director	30 May 2016

Set out below are the particulars of each Director:

Executive Directors

Mr. Liu Xiaosong ("Mr. Liu"), aged 54, 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 years of 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 the 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"), 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).

Directors and Senior Management

Mr. Lin Qian ("Mr. Lin"), aged 37, 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 55, 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 62, 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 52, 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 Silicon Valley 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

The senior management of the Company is comprised of all executive Directors of the Company, namely, Mr. Liu Xiaosong and Mr. Lin Qian, the particulars of which are set out in the section headed "Executive Directors" in the preceding paragraphs.

As at 31 December 2019, Mr. Su Wei resigned as the Chief Investment Officer of the Group due to personal commitments.

CHANGE IN DIRECTORS' INFORMATION

Mr. Liu Xiaosong has been appointed as the independent non-executive director of China Dongxiang (Group) Co., Ltd. (stock code: 03818.HK), a listed company on the Main Board of the Stock Exchange, with effect from 27 March 2019.

Mr. Liu Xiaosong had resigned as director of Beijing Zhangwen with effect from 11 December 2018.

Save for the above, there is no change in Directors' information for the year ended 31 December 2019, which is required to be disclosed under Rule 13.51B(1) of the Listing Rules.

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 2019.

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 2019 is set out in the section headed "Chairman's Statement" on pages 4 to 7 of this annual report.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2019 and the Group's financial position at that date are set out in the financial statements on pages 58 to 158.

No interim dividend was declared for the six months ended 30 June 2019 and the Board does not recommend the payment of final dividend for the year ended 31 December 2019.

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 2019 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, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

DISTRIBUTABLE RESERVES

As at 31 December 2019, the Company's reserves available for distribution amounted to approximately RMB741,673,000.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2019, revenues from the five largest customers of the Group accounted for approximately 29% of the Group's total revenues while revenues from the largest customer for the Group accounted for approximately 9% of the Group's total revenues. In addition, for the year ended 31 December 2019, purchases from the Group's five largest suppliers accounted for less than 35% 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 (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 reelection 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 17 to 19 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 2019 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 39 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 2019.

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 2019.

Save as disclosed in note 39 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 39 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 2019, 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	41,575,600	1.75%
Mr. Lin Qian	Beneficial Owner	Nil	5,000,000	0.19%
Mr. Chan Yiu Kwong	Beneficial Owner	Nil	1,415,000	0.05%
Ms. Wu Shihong	Beneficial Owner	Nil	1,320,000	0.05%
Mr. Li Feng	Beneficial Owner	Nil	1,050,000	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 2019 (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 2019, Prime Century directly held 379,496,303 shares and Ever Novel directly held 1,076,371,095 shares in 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 registered capital of Huadong Feitian held by Mr. Liu Xiaosong on 31 December 2019, the owner of which has changed to his brother Mr. Liu Xiaofeng on 13 March 2020.

3. Duomi Music is a company incorporated in the Cayman Islands with limited liability. As at 31 December 2019, 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 2019, 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 2019, 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 2019, 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

The "Pre-IPO Share Option Scheme" and the "2008 Share Option Scheme" adopted by the Company in 2008 (collectively referred to as "Lapsed Share Option Schemes") have been automatically lapsed, and no option may be granted subject to and/or according to the Lapsed Share Option Schemes, save that the provisions under the Lapsed Share Option Schemes remain in full force and effect in other aspects, and that options granted under such schemes prior to termination remain effective and exercisable in accordance with the terms of issuance.

To provide incentives or rewards to the Directors, chief executives or officers, employees, or other qualified persons, the shareholders of the Company adopted a new share option scheme ("2018 Share Option Scheme"), which takes effect from 29 May 2018.

For the year ended 31 December 2019, the Company granted a total of 78,207,000 share options under the 2018 Share Option Scheme.

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

			During the year						
Name/category of participants	Date of grant	At 1 January 2019	Exercised	Granted	Lapsed/ Cancelled	At 31 December 2019	Exercise price	Closing price of shares immediately before date of grant HK$ per share	End of exercise period
Directors of the Group									
Liu Xiaosong		**23,032,600**	**–**	**18,543,000**	**–**	**41,575,600**			
Including:	23 April 2014	7,600,000	–	–	–	7,600,000	0.65	0.65	23/4/2021
	14 May 2015	4,807,600	–	–	–	4,807,600	1.04	1.04	14/5/2022
	16 May 2016	8,910,000	–	–	–	8,910,000	0.56	0.54	16/5/2023
	9 January 2018	1,715,000	–	–	–	1,715,000	0.57	0.56	9/1/2025
	20 June 2019	–	–	18,543,000	–	18,543,000	0.221	0.22	20/6/2029
Lian Qian		**5,000,000**	**–**	**–**	**–**	**5,000,000**			
	5 April 2017	5,000,000	–	–	–	5,000,000	0.512	0.51	5/4/2024
Chan Yiu Kwong		**1,415,000**	**–**	**–**	**–**	**1,415,000**			
Including:	23 April 2014	315,000	–	–	–	315,000	0.65	0.65	23/4/2021
	7 May 2018	1,100,000	–	–	–	1,100,000	0.439	0.44	7/5/2025
Wu Shihong		**1,320,000**	**–**	**–**	**–**	**1,320,000**			
Including:	23 April 2014	420,000	–	–	–	420,000	0.65	0.65	23/4/2021
	7 May 2018	900,000	–	–	–	900,000	0.439	0.44	7/5/2025

Name/category of participants	Date of grant	At 1 January 2019	During the year: Exercised	Granted	Lapsed/ Cancelled	At 31 December 2019	Exercise price	Closing price of shares immediately before date of grant HK$ per share	End of exercise period
Li Feng		**1,050,000**	**–**	**–**	**–**	**1,050,000**			
Including:	21 April 2017	150,000	–	–	–	150,000	0.487	0.51	21/4/2024
	7 May 2018	900,000	–	–	–	900,000	0.439	0.44	7/5/2025
Sub-total		**31,817,600**	**–**	**18,543,000**	**–**	**50,360,600**			
Other employees and eligible persons of the Group									
	23 April 2014	1,250,000	–	–	–	1,250,000	0.65	0.65	23/4/2021
	14 January 2014	200,000	–	–	200,000	–	0.69	0.66	14/1/2019
	23 April 2014	1,377,053	–	–	–	1,377,053	0.65	0.65	23/4/2021
	28 June 2019	–	–	59,664,000	–	59,664,000	0.219	0.219	28/6/2029
Sub-total		2,827,053	–	59,664,000	200,000	62,291,053			
Total		34,644,653	–	78,207,000	200,000	112,651,653			

Date of grant	Vesting model
14 January 2014	One-fourth of the share options granted will be vested every 12-month period starting from 14 January 2015
23 April 2014	One-fourth of the share options granted will be vested every 12-month period starting from 23 April 2015
14 May 2015	One-fourth of the share options granted will be vested every 12-month period starting from 14 May 2016
16 May 2016	One-third of the share options granted will be vested every 12-month period starting from 16 May 2017
5 April 2017	One-fourth of the share options granted will be vested every 12-month period starting from 24 December 2017
21 April 2017	One-half of the share options granted will be vested at 24 April 2017 and 24 April 2018, respectively
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
7 May 2018	One-fourth of the share options granted was vested/will be vested on 7 May 2018, 7 May 2019, 7 May 2020, and 7 May 2021, respectively
20 June 2019	The share options granted was fully vested at one time on 20 June 2019
28 June 2019	50%, 30% and 20% of the share options granted was vested/ will be vested on 30 June 2019, 30 June 2020 and 30 June 2021, respectively

Save as disclosed above, no other share options were granted, exercised, lapsed, or canceled under the Share Option Scheme during the year.

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 2019, no awarded shares were granted under the Share Award Scheme, the Trustee has not purchased any of the Company's existing Shares on the market for the purpose of the Share Award Scheme, 108,500 awarded shares were released to awarders, no awarded shares were lapsed.

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

EQUITY-LINKED AGREEMENT

For the year ended 31 December 2019, the Group did not enter into any equity-linked agreement, nor did any such agreement subsist, save as disclosed in the sections headed "SHARE OPTION SCHEMES" and "SHARE AWARD SCHEME".

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31 December 2019, 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 2019 (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 2019, 1,543,747,398 Shares in total).

3. As at 31 December 2019, 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 2019, 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.

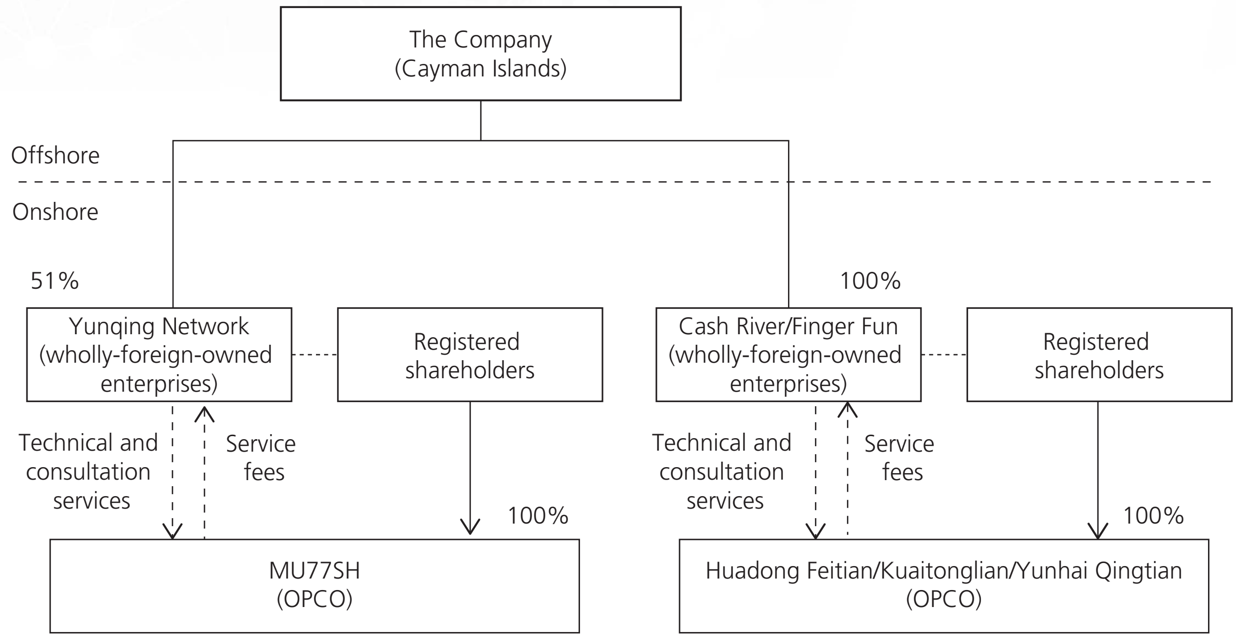
CONNECTED TRANSACTIONS

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 Arrangements"). Pursuant to the Contractual Arrangements, the Company acquired the de factor control over the business operations of the OPCOs, and is entitled to all economic benefits generated from the business operations of the OPCOs. In this regard, the Board is of opinion that the Company is able to consolidate the financial results of these OPCOs into the financial results of the Group as if they are the subsidiaries of the Company.

As at 31 December 2019, the Company entered into the agreements with Cash River, Finger Fun, Huadong Feitian, Kuaitonglian, Yunhai Qingtian, and their registered shareholders relating to the Contractual Arrangement (the "2004 Structure Contracts") 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 Structure Arrangements") to replace the 2004 Structure Contracts in order to align with such new regulatory requirements and the recent practices. In addition, the Group entered into the agreements with Yunqing Network, MU77SH, and their registered shareholders relating to the Contractual Arrangements ("2018 Structure Contracts"), pursuant to which Yunqing Network, an indirect wholly-owned subsidiary of the Company, may exercise effective control over the finance and operations of MU77SH, and is fully entitled to economic benefits generated from MU77SH ("2015 Contractual Arrangements" and "2018 Contractual Arrangements" collectively referred to as "Structure Contracts").

The following figure sets out the Contractual Arrangements entered into on 31 December 2019:



⟶ refers to direct legal and actual ownership of the equity interest;

----> refers to contractual relationship;

------ refers to the wholly-foreign-owned enterprise exercises control over the registered shareholders and OPCOs by virtue of
(i) exercising power of attorney/proxy agreements pertinent to the shareholder rights of the OPCOs;
(ii) acquiring the exclusivity options of the equity interests of the OPCOs in whole or in part; and
(iii) pledging the equity interests held by the registered shareholders in the OPCOs.

Particulars of OPCOs and its registered shareholders:

(1) Shenzhen Huadong Feitian Network Development Co., Ltd.* (深圳市華動飛天網絡技術開發有限公司) ("Huadong Feitian") is a limited liability company established in the PRC on 22 May 2000, the registered shareholders of which are Mr. Liu Xiaosong (75%) and Ms. Cui Jingtao (25%). Huadong Feitian and its subsidiaries are principally engaged in the provision of internet information service property investment and music performance.

(2) Shenzhen Kuaitonglian Technology Co., Ltd. (深圳市快通聯科技有限公司) ("Kuaitonglian") is a limited liability company established in the PRC on 10 May 2004, the registered shareholders of which are Mr. Zhang Shouqi (80%) and Ms. Ma Hongxia (20%). Kuaitonglian and its subsidiaries are principally engaged in the provision of mobile value-added services.

(3) Shenzhen Yunhai Qingtian Cultural Broadcasting Co., Ltd. (深圳市雲海情天文化傳播有限公司) ("Yunhai Qingtian") is a limited liability company established in the PRC on 9 December 2004, the registered shareholder of which is Mr. Cao Aiguo (100%). Yunhai Qingtian and its subsidiaries are principally engaged in the provision of game publishing services and value-added telecommunication services.

(4) Shanghai Mu77 Network Technology Company Limited (上海木七七網絡科技有限公司) ("MU77SH") is a limited liability company established in the PRC, the registered shareholders of which 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%). MU77SH is principally engaged in mobile online game research and development and operation.

Details of wholly-foreign-owned enterprises:

(1) Cash River Information Technology (Shenzhen) Co., Ltd. (佳士域信息科技 (深圳) 有限公司) ("Cash River"), an indirect wholly-owned subsidiary of the Group;

(2) Shenzhen Finger Fun Network Technology Co., Ltd. (深圳市指游方寸網絡科技有限公司) ("Finger Fun"), an indirect wholly-owned subsidiary of the Group;

(3) Yunqing Network Technology (Shanghai) Limited (蘊清網絡科技 (上海) 有限公司) ("Yunqing Network"), an indirect wholly-owned subsidiary of the Group.

Summary of the major terms of Structure Contracts

Set out below are the Contractual Arrangements entered into between each wholly-foreign-owned enterprise and OPCO, including various specific agreements.

(1) Exclusive Business Cooperation Agreement/Exclusive Business Cooperation and Service Agreement

The registered shareholders entered into the Exclusive Business Cooperation Agreements with wholly foreign-owned enterprises, respectively, pursuant to which 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. Without prior written consent by the wholly-foreign-owned enterprises within the validity of the Exclusive Business Cooperation Agreement, the OPCOs are not permitted to receive any other services provided by any third party, in which case, the wholly-foreign-owned enterprises are entitled to appoint a third party to provide services to the OPCOs. Furthermore, the wholly-foreign-owned enterprises provide certain technical, business, and consultation services to the OPCOs, and charge service fees, which shall be determined by both parties to ensure that the wholly-foreign-owned enterprises are entitled to economic benefits under the Contractual Arrangements.

(2) Power of Attorney/Proxy Agreements

The registered shareholders entered into the power of attorney/proxy agreements with wholly foreign-owned enterprises, respectively, pursuant to which the registered shareholders agree to authorize any person designated by the wholly-foreign-owned enterprises to exercise all of their rights and powers as shareholders, including convening and attending the shareholders' meeting, exercising the voting right and other shareholder's rights and powers, without seeking consent from the registered shareholders, and agree and undertake that the wholly-foreign-owned enterprises agree not to exercise all of their powers and rights attached to the equity interests as held by them in the domestic companies. With effect from the date of signing, the proxy agreements will remain in force until the registered shareholders are no longer the shareholders of the OPCOs. The power of attorney will remain effective to the extent that each of the registered shareholders holds the equity interests in the OPCOs.

(3) Share Disposition and Exclusive Option to Purchase Agreement/Exclusive Option to Purchase Agreement

The registered shareholders irrevocably grant the wholly-foreign-owned enterprises the exclusive options to make, or designate one person or many persons to make, to the extent as permitted under the PRC laws, one or more purchases of the equity interests in whole or in part of the OPCOs as held by the registered shareholders, at a purchase price of RMB1.00, or at the minimum option price as permitted by the PRC laws (in case that the minimum price as permitted by the then PRC laws in effect is higher than RMB1.00). The OPCOs and registered shareholders undertake that they will (including) neither directly or indirectly distribute dividends to the shareholders of the OPCOs without consent by the wholly-foreign-owned enterprises, nor make acquisitions or any investments in any person. The Share Disposition and Exclusive Option to Purchase Agreement/Exclusive Option to Purchase Agreement will always remain effective until all of the equity interests held by the registered shareholders in the OPCOs are transferred to the wholly-foreign-owned enterprises or the persons so designated by them.

(4) Equity Interest Pledge Agreement

The wholly-foreign-owned enterprises, OPCOs, and registered shareholders entered into the Equity Interest Pledge Agreements, respectively, pursuant to which the registered shareholders agree to pledge all of their respective equity interest in the OPCOs to the wholly-foreign-owned enterprises as secured interests for the performance of contractual liabilities. The pledge relating to OPCOs takes effect upon being registered with the relevant administration for commerce and industry, and remain effective until the registered shareholders and OPCOs fully fulfil all of the contractual obligations under the relevant Contractual Arrangements.

Each Structure Contract contains the clause governing settlement of dispute, pursuant to which, the Structure Agreement is governed by the PRC laws and regulations and construed under the PRC laws. In case of any dispute arising from the performance of or in connection with the Structure Agreement, any party thereto shall be entitled to submit such dispute to the arbitration commissions in the PRC (which are China International Economic and Trade Arbitration Commission South China Branch in case of Huadong Feitian, Kuaitonglian, Yunhai Qingtian, Cash River, Finger Fun, and their respective registered shareholders, or China International Economic and Trade Arbitration Commission Shanghai Branch in case of Yunqing Network, MU77SH, and their respective registered shareholders) for arbitration in accordance with the then arbitration rules in effect. The arbitration shall be kept confidential, during which, the language is Chinese. The arbitration ruling shall be final and bear binding effects on each party thereto. It is also provided in the clause governing settlement of disputes that the arbitration court may issue remedial measures in respect to the shares or assets of Huadong Feitian (including imposing business restrictions, constraints or limitations on transfer or disposal of shares or assets) or an order of liquidation against Huadong Feitian. Any party thereto may apply for temporary relief or injunction relief from the courts in Hong Kong, Cayman Islands (place of incorporation of the Company), the PRC, and the locations where the principal assets of Cash River or Huadong Feitian are located.

Entering into of new contractual arrangements (After 31 December 2019)

Due to the replacement of one of the registered shareholders of Shenzhen Huadong Feitian Network Development Co., Ltd. (深圳市華動飛天網絡技術開發有限公司, "**Huadong Feitian**"), being one of the Group's operating entities, from Mr. Liu Xiaosong ("**Mr. Liu**"), an executive Director and one of controlling shareholders of the Company, to Mr. Liu Xiaofeng, the brother of Mr. Liu, the previous contractual arrangements in relation to Huadong Feitian entered into on 31 August 2015 were terminated and the relevant parties, namely Mr. Liu Xiaofeng, Ms. Cui Jingtao, Huadong Feitian and Cash River Information Technology (Shenzhen) Co. Ltd. (佳仕域信息科技(深圳)有限公司) entered into a series of new contractual arrangements in relation to Huadong Feitian on 13 March 2020. The new contractual arrangements as mentioned above were substantially on the same terms and conditions as the previous contractual arrangements and the financial results of Huadong Feitian would continue to be accounted for and consolidated into the accounts of the Group. For details of the new contractual arrangements in relation to Huadong Feitian, please refer to the announcement of the Company dated 13 March 2020.

RISKS AND LIMITATIONS RELATING TO THE NEW VIE STRUCTURE

The PRC government may determine that the New Structure Contracts do not comply with the applicable laws and regulations

The Foreign Investment Law of the PRC (《中華人民共和國外商投資法》) (the "FIL"), which was adopted at the Second Session of the Thirteenth National People's Congress of the PRC on 15 March 2019 and came into force as of 1 January 2020, provides that "foreign investment" refers to the investment activities in the PRC carried out directly or indirectly by foreign individuals, enterprises or other organizations (the "Foreign Investors"), including the following: (i) Foreign Investors establishing foreign-invested enterprises in the PRC alone or collectively with other investors; (ii) Foreign Investors acquiring shares, equities, properties or other similar rights of Chinese domestic enterprises; (iii) Foreign Investors investing in new projects in the PRC alone or collectively with other investors; and (iv) Foreign Investors investing through other ways prescribed by laws and regulations or the State Council. The State Council adopts the management system of pre-establishment national treatment and negative list for foreign investment. The "pre-establishment national treatment" refers to granting to Foreign Investors and their investments, in the stage of investment access, the treatment no less favorable than that granted to domestic investors and their investments; and the "negative list" refers to special administrative measures for access of foreign investment in specific fields as stipulated by the State Council. The State Council will grant national treatment to foreign investments outside of the negative list. The Negative List 2019 was approved by the State Council and released by the relevant authorities on 30 June 2019. After the FIL came into effect, the FIL replaced the Foreign- Owned Enterprise Law and the Sino-foreign Equity Joint Venture Enterprise Law of the PRC.

Possible impact of the FIL

The FIL does not expressly stipulate the VIE structure as a form of foreign investment, we cannot assure you that future laws, administrative regulations or provisions to be issued by the State Council will not deem the VIE structure as a way of foreign investment, and then whether our New VIE Structure will be deemed to be in violation of the foreign investment access requirements remains uncertain. If the New VIE Structure is classified as a way of foreign investment, the Group may be required to terminate the New Structure Contracts and dispose of the business conducted by Huadong Feitian.

The Board will monitor the development of the FIL and discuss with the PRC Legal Adviser on a regular basis in order to assess its possible impacts on the New Structure Contracts and the business of the Company. In case there would be material impacts on the Group's or Huadong Feitian's business, the Company will timely publish announcements in relation to (i) any updates or material changes to the FIL and (ii) if any updates or material changes to the FIL is implemented, a clear description and analysis of the law, any material impact on the Company's operations and financial position and specific measures to be taken to comply with the law (supported by advice from the PRC Legal Adviser).

The New Structure Contracts may not be as effective as direct ownership in providing control over Huadong Feitian

The Group relies on contractual arrangements under the New Structure Contracts with Huadong Feitian to operate the telecommunications value-added services business in the PRC. The New Structure Contracts may not be as effective as direct ownership in providing the Group with control over Huadong Feitian. For example, if Cash River has direct ownership of Huadong Feitian, it will be able to exercise its rights as a shareholder to effect changes in the board of directors of Huadong Feitian. However, under the New Structure Contracts, the Group relies on the performance by the New Registered Shareholders of their obligations under the New Structure Contracts to exercise control over Huadong Feitian.

In addition, if the New Registered Shareholders or Huadong Feitian fail to perform their respective obligations under the New Structure Contracts 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 favour and it may adversely affect the Group's ability to control Huadong Feitian.

The New Registered Shareholders may potentially have a conflict of interests with the Group

The Group's control over Huadong Feitian is based on the contractual arrangement under the New Structure Contracts. Therefore, conflict of interests of the New Registered Shareholders will adversely affect the interests of the Company. Pursuant to the Proxy Agreements, the New Registered Shareholders irrevocably appointed Cash River or its designee as their exclusive agent and authorised person to exercise their rights as the shareholders of Huadong Feitian. Therefore, it is unlikely that there will be potential conflict of interests between the Group and the New Registered Shareholders. However, in the unlikely event that conflict of interests arises and cannot be resolved, the Group will consider removing and replacing the New Registered Shareholders through procuring Cash River to exercise its option under the Share Disposal and Exclusive Option to Purchase Agreements.

The New Structure Contracts 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 New Structure Contracts was not entered into on an arm's length basis. If the PRC tax authorities determine that the New Structure Contracts were not entered into on an arm's length basis, they may adjust income and expenses of Cash River and/or Huadong Feitian for PRC tax purposes, which could result in higher tax liabilities on Cash River and/or Huadong Feitian.

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

Certain terms of the New Structure Contracts may not be enforceable under PRC laws

The New Structure Contracts 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 New Structure Contracts 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 New Structure Contracts. In the event that the Group is unable to enforce the New Structure Contracts, 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 Huadong Feitian.

The New Structure Contracts provide that the arbitral tribunal of the PRC may award remedies over the equity interests or assets of Huadong Feitian or injunctive relief (such as for the conduct of business and mandatory transfer of equity interest or assets) or order the winding up of Huadong Feitian. The New Structure Contracts also include a clause in relation to dispute resolution among the parties where, when awaiting the formation of the arbitral tribunal or otherwise under appropriate conditions, the parties thereto may seek temporary injunctive relief or other temporary remedies from the courts in Hong Kong, the Cayman Islands, the PRC and the locations where the principal assets of Huadong Feitian are located.

However, the PRC Legal Adviser is of the view that pursuant to the PRC laws, the arbitral tribunal may have no power to grant the aforementioned remedies or injunctive relief or to issue a provisional or final liquidation order. In addition, even though the New Structure Contracts provide that overseas courts (e.g. courts in Hong Kong and the Cayman Islands) shall have the power to grant certain relief or remedies, such relief or remedies may not be recognised or enforced under the PRC laws. As a result, in the event that Huadong Feitian or any of the New Registered Shareholders breaches the terms of the New Structure Contracts, the Group may not be able to obtain sufficient remedies in a timely manner, and its ability to exert effective control over Huadong Feitian could be materially and adversely affected.

Furthermore, notwithstanding the relevant contractual provisions contained in the New Structure Contracts, courts of competent jurisdiction may grant interim remedies only to the extent permitted under the PRC laws. Therefore, such interim remedies may not be available under the PRC laws.

A substantial amount of costs and time may be involved in transferring the ownership of Huadong Feitian to the Group under the Share Disposal and Exclusive Option to Purchase Agreements

The Share Disposal and Exclusive Option to Purchase Agreements granted Cash River or its designee an irrevocable and exclusive right to purchase all or part of the equity interest in Huadong Feitian through a single or a series of transaction(s) at RMB1.00, or if the minimum price allowed by the PRC laws then in effect is higher than RMB1.00, then the equity interest purchase price shall be the lowest price allowed by the PRC laws.

In case Cash River exercises its option to acquire all or part of the equity interests in Huadong Feitian under the Share Disposal and Exclusive Option to Purchase Agreements, 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 Huadong Feitian) 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 Huadong Feitian to Cash River or its designee, which may have a material adverse impact on the Group's business, prospects and results of operation.

The Company does not have any insurance which covers the risks relating to the New Structure Contracts and the transactions contemplated thereunder

The insurance of the Group does not cover the risks relating to the New Structure Contracts and the transactions thereunder and the Company has no intention to purchase any new insurance in this regard. If any risk arises from the New Structure Contracts in the future, such as those affecting the enforceability of the New Structure Contracts and the operation of Huadong Feitian, the results of the Group may be adversely affected. However, the Group will monitor the relevant legal and operational environment from time to time to comply with the applicable laws and regulations. In addition, the Group will implement relevant internal control measures to reduce the operational risk. The Group will continue evaluating the feasibility, the cost and the benefit of insuring the transactions under the New Structure Contracts.

Economic risks that Cash River bears as the primary beneficiary of Huadong Feitian, financial support to Huadong Feitian and potential exposure of the Group to losses

As the primary beneficiary of Huadong Feitian, Cash River will share both profit and loss of Huadong Feitian and bears economic risks which may arise from difficulties in the operation of Huadong Feitian's business. Cash River may have to provide financial support in the event of financial difficulty of Huadong Feitian. Under these circumstances, the Group's financial results and financial position may be adversely affected by the worsening financial performance of Huadong Feitian and the need to provide financial support to it.

Material Change

Save as disclosed above, as at the date of this report, there has been no material change in the contractual arrangements/ or adoption of such contracts.

Unwinding of Structure Contracts

Save as disclosed above, 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.

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 (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, all members of which are independent non-executive Directors of the Company 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 2019.

AUDITORS

The financial statements of the Group for the year ended 31 December 2019 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
31 March 2020

Corporate Governance Report

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

The corporate governance principles of the Company emphasize a quality Board, sound internal controls, and transparency and accountability to all shareholders. Throughout the year ended 31 December 2019, the Company has applied the principles and complied with all code provisions, and where applicable, the recommended best practices as set out in the CG Code, except for the deviation from code provision A.2.1. 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 2019, 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. Lin Qian, Ms. Wu Shilhong and Mr. Li Feng standing for re-election at the next forthcoming annual general meeting of the Company. The Company's circular dated 27 April 2020 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 2019; the Board has reviewed and evaluated such training records in the board meeting dated 31 March 2020.

According to the aforementioned records, a summary of the training received in 2019 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 year ended 31 December 2019, five Board meetings were held. The attendance records of each director at the Board meetings 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	5/5
Mr. Li Feng	3/5

General Meetings

During the year ended 31 December 2019, one general meeting was held by the Company. The Chairman of the Board and the executive directors attended the annual general meeting in 24 May 2019, 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	1/1
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 transaction, which involves a material 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. Independent non-executive Director who, and whose associates, have no material interest in the transaction should be present at such 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. 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 Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("**Listing Rules**") 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 2019, the roles of chairman and chief executive officer of the Company are both held by Mr. Liu Xiaosong, which did not complied with the corporate governance requirements as set out in 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 2019.

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 formal and transparent 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 2019, one meeting was 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. 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)	1/1
Mr. Liu Xiaosong	1/1
Mr. Li Feng	1/1

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 2019, two meetings were held by the Audit Committee for considering and reviewing the financial results and reports, internal control 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)*	2/2
Ms. Wu Shihong	2/2
Mr. Li Feng	2/2

The Company's annual results for the year ended 31 December 2019 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, review the Board Diversity Policy, assess the independence of independent non-executive Directors, recommend the Directors stand for re-election at the forthcoming 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 adopted the Board Diversity Policy. 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 for securities transactions by Directors on terms no less exacting than the Model Code as set out in Appendix 10 to the Listing Rules. Upon specific enquiries of all Directors, each of them confirmed that they have complied with the Own Code and the Model Code throughout the year ended 31 December 2019.

The Company has also established written guidelines on no less exacting terms than the Model Code for securities transactions by employees (the "**Employees Written Guidelines**") 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 2019.

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 53 to 57. During the year ended 31 December 2019, the remuneration paid to the Company's external auditors, Ernst & Young, is set out below:

Category of services	Fee paid/payable (RMB'000)
Audit services	1,951
Non-audit services — other services	1,090
Total	3,041

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.

The Company has developed its systems of internal control and risk management and will continue to review and assess the 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 3306-12, 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 adopted the Procedures for Nomination of Directors. 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 3306-12, 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 our mailbox which are published on our website, and 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 Committee 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

Corporate Governance Report

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 2019, 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

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 158, which comprise the consolidated statement of financial position as at 31 December 2019, 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 2019, 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.

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 RMB326.5 million before impairment provision of approximately RMB76.1 million as at 31 December 2019. 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 RMB69.5 million as at 31 December 2019. 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 2019 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 involved significant management's judgements and estimates. The accounting policies, 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 acquisition of subsidiaries. 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 in the consolidated financial statements.

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 2019, the Group's financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income of approximately RMB144 million and RMB233 million, respectively, were categorised as Level 3 within the fair value hierarchy, which represented 9.9% and 15.9%, 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 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, 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 41 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 in the consolidated financial statements.

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.

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.

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

31 March 2020

Consolidated Statement of Profit or Loss

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
REVENUE	6	**108,438**	148,400
Cost of services provided		**(50,479)**	(80,482)
Gross profit		**57,959**	67,918
Other income and gains, net	6	**17,741**	101,791
Selling and marketing expenses		**(6,291)**	(43,598)
Administrative expenses		**(54,131)**	(56,203)
Other expenses, net		**(80,630)**	(114,790)
Finance costs	8	**(6,579)**	(8,163)
Share of profits and losses of associates, net	18	**6,210**	(12,723)
LOSS BEFORE TAX	7	**(65,721)**	(65,768)
Income tax credit/(expense)	10	**7,138**	(24,780)
LOSS FOR THE YEAR		**(58,583)**	(90,548)
Attributable to:			
Owners of the Company		**(51,085)**	(85,159)
Non-controlling interests		**(7,498)**	(5,389)
		(58,583)	(90,548)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	12		
Basic (RMB per share)		**(1.90 cents)**	(3.16 cents)
Diluted (RMB per share)		**(1.90 cents)**	(3.16 cents)

Consolidated Statement of Comprehensive Income

Year ended 31 December 2019

	2019 RMB'000	2018 RMB'000
LOSS FOR THE YEAR	**(58,583)**	(90,548)
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of financial statements	**7,160**	15,836
Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods:		
Financial assets at fair value through other comprehensive income:		
Changes in fair value	**133,032**	37,873
Income tax effect	**(33,258)**	(9,468)
	99,774	28,405
Share of other comprehensive loss of an associate	**(25,904)**	(63,831)
Net other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods	**73,870**	(35,426)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX	**81,030**	(19,590)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	**22,447**	(110,138)
Attributable to:		
Owners of the Company	**29,945**	(104,749)
Non-controlling interests	**(7,498)**	(5,389)
	22,447	(110,138)

Consolidated Statement of Financial Position

31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**135,305**	144,720
Investment properties	14	**431,000**	438,000
Right-of-use assets	15(b)	**13,758**	–
Prepaid land lease payments	15(a)	**–**	12,546
Goodwill	16	**18,871**	53,366
Intangible assets	17	**2,630**	14,510
Network films and dramas	21	**457**	–
Investments in associates	18	**250,360**	270,054
Financial assets at fair value through profit or loss	24	**127,702**	163,964
Financial assets at fair value through other comprehensive income	20	**233,414**	100,382
Deferred tax assets	30	**1,128**	1,843
Total non-current assets		**1,214,625**	1,199,385
CURRENT ASSETS			
Network films and dramas under production	21	**3,663**	19,116
Trade receivables	22	**2,014**	10,082
Prepayments, other receivables and other assets	23	**13,872**	25,365
Financial assets at fair value through profit or loss	24	**16,739**	15,796
Restricted cash balances and pledged deposits	25	**183,009**	274,533
Cash and cash equivalents	26	**372,110**	311,475
Total current assets		**591,407**	656,367
CURRENT LIABILITIES			
Trade payables	27	**8,014**	19,403
Other payables and accruals	28	**51,800**	75,775
Interest-bearing bank borrowings	29	**130,000**	195,058
Tax payable		**10,281**	9,114
Lease liabilities	15(c)	**755**	–
Total current liabilities		**200,850**	299,350
NET CURRENT ASSETS		**390,557**	357,017
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,605,182**	1,556,402

Consolidated Statement of Financial Position

31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
NON-CURRENT LIABILITIES			
Lease liabilities	15(c)	**521**	–
Deferred tax liabilities	30	**139,066**	116,624
Deferred income		**2,100**	4,070
Total non-current liabilities		**141,687**	120,694
Net assets		**1,463,495**	1,435,708
EQUITY			
Equity attributable to owners of the Company			
Issued capital	31	**22,818**	22,818
Reserves	34	**1,438,430**	1,403,765
		1,461,248	1,426,583
Non-controlling interests		**2,247**	9,125
Total equity		**1,463,495**	1,435,708

Liu Xiaosong
Director

Lin Qian
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2019

	Notes	Attributable to owners of the Company														Non-controlling interests	Total equity
		Issued 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	RMB'000	RMB'000
At 1 January 2018		22,984	973,928	(4,851)	(4,672)	29,135	10,522	32,519	(18,124)	10,016	21,701	4,422	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 financial assets 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
At 1 January 2019		**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**
Loss for the year		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(51,085)**	**(51,085)**	**(7,498)**	**(58,583)**
Other comprehensive income/(loss) for the year:																	
Changes in fair value of financial assets at fair value through other comprehensive income, net of tax		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**99,774**	**–**	**99,774**	**–**	**99,774**
Exchange differences on translation of financial statements		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**7,160**	**–**	**–**	**–**	**–**	**–**	**7,160**	**–**	**7,160**
Share of other comprehensive loss of an associate		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(25,904)**	**–**	**(25,904)**	**–**	**(25,904)**
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**7,160**	**–**	**–**	**–**	**73,870**	**(51,085)**	**29,945**	**(7,498)**	**22,447**
Deregistration of subsidiaries		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(765)**	**–**	**–**	**765**	**–**	**715**	**715**
Acquisition of non-controlling interests		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(65)**	**–**	**–**	**–**	**–**	**(65)**	**(95)**	**(160)**
Equity-settled share-based payment arrangements		**–**	**–**	**–**	**–**	**–**	**–**	**4,785**	**–**	**–**	**–**	**–**	**–**	**–**	**4,785**	**–**	**4,785**
Transfer of reserve upon the forfeiture or expiry of share options		**–**	**–**	**–**	**–**	**–**	**–**	**(60)**	**–**	**–**	**–**	**–**	**–**	**60**	**–**	**–**	**–**
Release of award shares		**–**	**–**	**–**	**29**	**–**	**–**	**(29)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
At 31 December 2019		**22,818**	**966,775***	**–***	**(1,416)***	**29,135***	**10,522***	**34,647***	**4,872***	**10,326***	**20,936***	**4,422***	**176,623***	**181,588***	**1,461,248**	**2,247**	**1,463,495**

* These reserve accounts comprise the consolidated reserves of RMB1,438,430,000 (2018: RMB1,403,765,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		**(65,721)**	(65,768)
Adjustments for:			
Depreciation of property, plant and equipment	7	**8,771**	8,765
Depreciation of right-of-use assets/amortisation of prepaid land lease payments	7	**1,208**	323
Amortisation of intangible assets	7	**5,147**	5,607
Amortisation of network film and dramas	7	**16,827**	–
Impairment of intangible assets	7	**6,733**	10,413
Loss on deregistration of subsidiaries	7	**1,540**	–
Loss on disposal of items of property, plant and equipment	7	**273**	80
Fair value losses/(gains) on financial assets at fair value through profit or loss	7	**36,319**	(61,699)
Changes in fair value of investment properties	7	**7,000**	(18,000)
Bank interest income	6	**(14,943)**	(15,904)
Share of profits and losses of associates, net		**(6,210)**	12,723
Impairment of goodwill	7	**34,495**	35,040
Impairment of prepayments	7	**–**	3,656
Write-off of a trade receivable	7	**–**	3,068
Write-off of items of property, plant and equipment	13	**418**	–
Write-off of a lease		**(12)**	–
Reversal of impairment of trade receivables	7	**(43)**	(26)
Reversal of impairment of financial assets included in prepayments, other receivables and other assets	7	**(96)**	(94)
Write-off of trade payables	7	**(9,310)**	(4,365)
Impairment of investments in associates	7	**–**	76,149
Equity-settled share option expense	7	**4,785**	2,012
Gain on deemed disposal of an investment in an associate	6	**–**	(2,785)
Dividend income		**(1,782)**	–
Finance costs	8	**6,579**	8,163
		31,978	(2,642)
Decrease in trade receivables		**8,111**	5,681
Increase in network films and dramas under production		**(1,372)**	(18,839)
Decrease in prepayments, other receivables and other assets		**11,348**	16,936
Decrease in trade payables		**(2,079)**	(5,800)
Increase in other payables and accruals		**4,528**	1,189
Decrease in deferred income		**(3,154)**	(5,299)
Cash generated from/(used in) operations		**49,360**	(8,774)

Consolidated Statement of Cash Flows

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
Cash generated from/(used in) operations		**49,360**	(8,774)
Interest paid		**(85)**	–
Tax paid		**(1,796)**	(2,075)
Net cash flows from/(used in) operating activities		**47,479**	(10,849)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(271)**	(4,091)
Purchases of intangible assets		**–**	(7,613)
Purchase of shareholdings in an associate		**(1,847)**	(71,932)
Acquisition of a subsidiary	35	**(24,887)**	(72,268)
Purchase of financial assets at fair value through profit or loss		**(16,500)**	(43,345)
Interest received		**13,007**	16,637
Decrease/(increase) in restricted cash balance and pledged deposits		**91,524**	(141,020)
Decrease/(increase) in time deposits with original maturity of more than three months when acquired		**(291,649)**	19,003
Proceeds from disposal of items of financial assets at fair value through profit or loss		**15,500**	16,772
Proceeds from disposal of property, plant and equipment		**109**	–
Dividend received		**1,782**	–
Net cash flows used in investing activities		**(213,232)**	(287,857)
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital contributions by non-controlling shareholders		**–**	2,000
New bank loans		**225,730**	199,614
Repayment of bank loans		**(290,788)**	(123,706)
Shares repurchased	34(i)	**–**	(2,468)
Acquisition of non-controlling interests		**(60)**	–
Principal portion of lease payments	36(c)	**(809)**	–
Interest paid		**(6,494)**	(8,163)
Net cash flows from/(used in) financing activities		**(72,421)**	67,277

Consolidated Statement of Cash Flows

Year ended 31 December 2019

	2019 RMB'000	2018 RMB'000
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(238,174)**	(231,429)
Cash and cash equivalents at beginning of year	**306,475**	522,068
Effect of foreign exchange rate changes, net	**7,160**	15,836
CASH AND CASH EQUIVALENTS AT END OF YEAR	**75,461**	306,475
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**67,845**	110,760
Non-pledged time deposits	**304,265**	200,715
Cash and cash equivalents as stated in the consolidated statement of financial position	**372,110**	311,475
Time deposits with original maturity of more than three months when acquired	**(296,649)**	(5,000)
Cash and cash equivalents as stated in the consolidated statement of cash flows	**75,461**	306,475

Notes to Financial Statements

31 December 2019

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	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/Mainland China	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/Mainland China	RMB28,680,000 Registered capital	–	100	Provision of internet information service, property investment and music performance

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
深圳市雲海情天文化傳播有限公司 Shenzhen Yunhai Qingtian Cultural Broadcasting Co., Ltd. ("Yunhai Qingtian") (note (i))*@	PRC/Mainland China	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/Mainland China	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/Mainland China	RMB5,000,000 Registered capital	–	100	Provision of mobile value-added services
北京爱樂空間文化傳播有限公司 Beijing Aiyue Cultural Broadcasting Co., Ltd. (note (i))*@	PRC/Mainland China	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/Mainland China	RMB20,000,000 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

Notes to Financial Statements

31 December 2019

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		Principal activities
			Direct	Indirect	
茂御有限公司 Phoenix Success Limited ("Phoenix Success")	Hong Kong/ Mainland China	HK$1 Issued capital	100	–	Investment holding
深圳市指游方寸網絡科技有限公司 Shenzhen Finger Fun Network Technology Co., Ltd. ("Finger Fun") *#	PRC/Mainland China	HK$300,000,000 Registered capital	–	100	Investment holding of game business
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/Mainland China	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/Mainland China	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/Mainland China	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	HK$1 Issued capital	–	51	Provision of game publishing services

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries (Continued)

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

Company name	Place of incorporation/ registration and business	Issued ordinary/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
上海木七七網絡科技有限公司 Shanghai Mu77 Network Technology Company Limited ("Mu77SH") (note (i))*@	PRC/Mainland China	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

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 structure contracts have been effectuated

(1) between Cash River and

(a) Huadong Feitian and its registered shareholders, and

(b) Kuaitonglian and its registered shareholders, respectively;

(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.

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries (Continued)

(b) Controlled special purpose entity

The Company has set up a trust, A8 New Media share award trust (the "Trust"), for the purpose of administering the share award scheme established by the Company (note 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

The 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 2019. 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.

2. BASIS OF PREPARATION (Continued)

Basis of consolidation (Continued)

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 9	*Prepayment Features with Negative Compensation*
IFRS 16	*Leases*
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*
IFRIC 23	*Uncertainty over Income Tax Treatments*
Annual Improvements to IFRSs 2015–2017 Cycle	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23

3.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

Except for the amendments to IFRS 9, IAS 19 and IAS 28, and *Annual Improvements to IFRSs 2015–2017 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) 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 account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in IAS 17.

The Group has adopted IFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption recognised as an adjustment to the opening balance of retained profits at 1 January 2019, and the comparative information for 2018 was not restated and continued to be reported under IAS 17 and related interpretations.

New definition of a lease

Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

As a lessee — Leases previously classified as operating leases

Nature of the effect of adoption of IFRS 16

The Group has lease contracts for certain properties. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under IFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease-by-lease basis) and leases with a lease term of 12 months or less ("short-term leases") (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

3.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(a) (Continued)

As a lessee — Leases previously classified as operating leases (Continued)

Impact on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and separately presented in the consolidated statement of financial position. The right-of-use assets were 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 1 January 2019.

All these assets were assessed for any impairment based on IAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

For the buildings (that were held to earn rental income and/or for capital appreciation) previously included in investment properties and measured at fair value, the Group has continued to include them as investment properties at 1 January 2019. They continue to be measured at fair value applying IAS 40.

The Group has used the following elective practical expedients when applying IFRS 16 at 1 January 2019:

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application
- Using hindsight in determining the lease term where the contract contains options to extend/terminate the lease

Financial impact at 1 January 2019

The impact arising from the adoption of IFRS 16 at 1 January 2019 was as follows:

	Increase/ (decrease) RMB'000
Assets	
Increase in right-of-use assets	13,832
Decrease in prepaid land lease payments	(12,869)
Increase in total assets	963

3.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(a) (Continued)

Financial impact at 1 January 2019 (Continued)

	Increase/ (decrease) RMB'000
Liabilities	
Increase in lease liabilities	963
Increase in total liabilities	963

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 are as follows:

	RMB'000
Operating lease commitments as at 31 December 2018	452
Less: Commitments relating to short-term leases and those leases with a remaining lease term ended on or before 31 December 2019	(307)
Add: Payments for optional extension periods not recognised as at 31 December 2018	903
	1,048
Weighted average incremental borrowing rate as at 1 January 2019	4.81%
Discounted operating lease commitments as at 1 January 2019	963
Lease liabilities as at 1 January 2019	963

(b) 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. Upon adoption of the interpretation, the Group considered that the interpretation did not have any significant impact on the financial position or performance of the Group.

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*[1]
Amendments to IFRS 9, IAS 39 and IFRS 7	*Interest Rate Benchmark Reform*[1]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
IFRS 17	*Insurance Contracts*[2]
Amendments to IAS 1 and IAS 8	*Definition of Material*[1]
Amendments to IAS 1	*Classification of Liabilities as Current or Non-current*[3]

[1] Effective for annual periods beginning on or after 1 January 2020
[2] Effective for annual periods beginning on or after 1 January 2021
[3] Effective for annual periods beginning on or after 1 January 2022
[4] No mandatory effective date yet determined but available for adoption

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

Amendments to IFRS 9, IAS 39 and IFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments are effective for annual periods beginning on or after 1 January 2020. Early application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

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

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.

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 1 clarify the criteria for determining a liability as non-current. The amendments states that if an entity's right to defer settlement of a liability is subject to the entity complying with specified conditions, the entity has a right to defer settlement of the liability at the end of the reporting period if it complies with those conditions at that date. The amendments also clarify that the requirement for the right to exist at the end of the reporting period applies regardless of whether the lender tests for compliance at that date or at a later date, and the classification is unaffected by the likelihood that an entity will exercise its deferral right. The Group expects to adopt the amendments prospectively from 1 January 2022. The amendments are 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.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in associates and joint ventures (Continued)

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.

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.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations and goodwill (Continued)

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.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair value measurement (Continued)

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

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

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

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

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

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

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than deferred tax assets, 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.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties

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

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

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

(ii) has significant influence over the Group; or

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

or

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

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

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

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

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

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

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

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

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Research and development costs

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

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

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (applicable from 1 January 2019)

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful life of an asset as follows:

Leasehold land	50 years

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

(c) Short-term leases

The Group applies the short-term lease recognition exemption to its short-term leases of certain office premises (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option).

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (applicable from 1 January 2019) (Continued)

Group as a lessor

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee are accounted for as finance leases.

Leases (applicable before 1 January 2019)

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

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

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as 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.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Initial recognition and measurement (Continued)

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. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

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. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

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

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

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 (Continued)

Financial assets at fair value through profit or loss

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.

Derecognition of financial assets

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

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

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

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial assets (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

The Group recognises an allowance for expected credit losses ("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 (Continued)

Simplified approach

For trade receivables 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 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.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, 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.

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

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

Financial liabilities are classified as held for trading if they are 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.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities (Continued)

Financial liabilities at fair value through profit or loss (Continued)

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 amortised cost (loans and borrowings)

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

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Treasury shares

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

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, and 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.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

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.

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.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Game publishing services (Continued)

During the term of the sub-licence agreements, the Group has to share a percentage of the gross billings generated by the sale of the virtual currency within the games to the mobile-based publishing platforms. The percentage of gross billings the Group shared varies depending on the particular agreement. Payments from publishing platforms to the Group are usually settled on a monthly basis. Prior to the settlement date, the relevant publishing platform will send the record of gross in-game payments to the Group for verification. The Group's operations team maintains databases that connect to the game server maintained by the game developers, to track the virtual currency and premium features sold in the games. As a result, the Group can calculate the estimated gross in-game payments from the operations team's records and verify the gross in-game payments records provided by the publishing 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.

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.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Game publishing services (Continued)

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

Music-related services

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

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

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

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

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.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

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

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

Employee benefits

Employee leave entitlements

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

Pension obligations

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

Equity compensation benefits

The Company operates a share option scheme and a share award scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, 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.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employee benefits (Continued)

Equity compensation benefits (Continued)

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

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

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

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

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

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

Shares held 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.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 judgements, apart from those involving estimations, which have 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.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

(i) Judgements (Continued)

Deferred tax on investment properties

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

(ii) Estimation uncertainty

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

Estimation of the user life of paying players

As mentioned in the "Revenue recognition" section in 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.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

(ii) Estimation uncertainty (Continued)

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 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 2019, the Group had mobile game licences of RMB1,768,000 (2018: RMB13,626,000).

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.

Leases — Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

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 (including the right-of-use 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 a 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, non-lease-related 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	
	2019 RMB'000	2018 RMB'000	**2019 RMB'000**	2018 RMB'000	**2019 RMB'000**	2018 RMB'000
Segment revenue	**31,559**	76,654	**76,879**	71,746	**108,438**	148,400
Cost of services provided	**(32,988)**	(59,553)	**(17,491)**	(20,929)	**(50,479)**	(80,482)
Gross profit	**(1,429)**	17,101	**59,388**	50,817	**57,959**	67,918
Segment results	**(61,133)**	(140,686)	**49,367**	68,817	**(11,766)**	(71,869)
Reconciliation:						
Bank interest income					**14,943**	15,904
Finance costs (other than interest on lease liabilities)					**(6,494)**	(8,163)
Corporate and other unallocated income and expenses, net					**(62,404)**	(1,640)
Loss before tax					**(65,721)**	(65,768)

5. OPERATING SEGMENT INFORMATION (Continued)

For the year ended 31 December (Continued)

	Digital entertainment		Property investment		Total	
	2019	2018	**2019**	2018	**2019**	2018
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Other segment information						
Depreciation and amortisation						
— operating segments	**10,407**	9,247	**–**	–	**10,407**	9,247
— corporate					**4,719**	5,448
					15,126	14,695
Capital expenditure*	**156**	11,912	**–**	–	**156**	11,912
Fair value losses/(gains) on investment properties	**–**	–	**7,000**	(18,000)	**7,000**	(18,000)
Equity-settled share option expense						
— operating segments	**2,583**	–	**–**	–	**2,583**	–
— corporate					**2,202**	2,012
					4,785	2,012
Share of profits and losses of associates, net	**(6,210)**	12,723	**–**	–	**(6,210)**	12,723
Impairment losses recognised in the statement of profit or loss, net	**41,228**	125,258	**–**	–	**41,228**	125,258
Investments in associates	**250,360**	270,054	**–**	–	**250,360**	270,054

* 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.

5. OPERATING SEGMENT INFORMATION (Continued)

Information about major customers

During the year ended 31 December 2019, the Group had no single external customer which contributed over 10% of the Group's total revenue for the current year.

During the year ended 31 December 2018, revenue of approximately RMB21,038,000 and RMB18,912,000, respectively, was derived from sales to two major customers from digital entertainment segment of the Group which each contributed 10% or more of the Group's total revenue for that year.

6. REVENUE, OTHER INCOME AND GAINS, NET

As analysis of revenue is as follows:

	2019 RMB'000	2018 RMB'000
Revenue from contracts with customers	**48,554**	93,424
Revenue from other sources		
Gross rental income from investment property operating leases:		
Variable lease payments that do not depend on an index or a rate	**1,537**	N/A
Other lease payments, including fixed payments	**58,347**	N/A
	59,884	54,976
	108,438	148,400

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

Revenue from contracts with customers

(i) Disaggregated revenue information

For the year ended 31 December 2019

Segments	Digital entertainment RMB'000	Property investment RMB'000	Total RMB'000
Type of services			
Game-related revenue	**17,975**	**–**	**17,975**
Music-based entertainment	**4,399**	**–**	**4,399**
Film and television production	**9,185**	**–**	**9,185**
Management services	**–**	**16,995**	**16,995**
Total revenue from contracts with customers	**31,559**	**16,995**	**48,554**
Timing of revenue recognition			
Over time	**31,559**	**16,995**	**48,554**
Total revenue from contracts with customers	**31,559**	**16,995**	**48,554**

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	70,989	–	70,989
Music-based entertainment	5,130	–	5,130
Management services	–	17,305	17,305
Total revenue from contracts with customers	76,119	17,305	93,424
Timing of revenue recognition			
Over time	76,119	17,305	93,424
Total revenue from contracts with customers	76,119	17,305	93,424

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 to the amounts disclosed in the operating segment information:

For the year ended 31 December 2019

Segments	Digital entertainment RMB'000	Property investment RMB'000	Total RMB'000
Revenue from contracts with customers			
External customers	31,559	16,995	48,554
Total revenue from contracts with customers	31,559	16,995	48,554

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	76,119	17,305	93,424
Total revenue from contracts with customers	76,119	17,305	93,424

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:

	2019 RMB'000	2018 RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Game-related revenue	525	1,655
Music-based entertainment	30	82
Film and television production	283	–
	838	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.

Film and television production

The performance obligation is satisfied by rendering of film production and distribution services.

	2019 RMB'000	2018 RMB'000
Other income and gains, net		
Fair value gains on investment properties	–	18,000
Bank interest income	14,943	15,904
Fair value gains on financial assets at fair value through profit or loss	–	61,699
Gain on deemed disposal of an investment in an associate	–	2,785
Dividend income from a financial asset at fair value through other comprehensive income	693	–
Foreign exchange gains, net	–	1,404
Others	2,105	1,999
	17,741	101,791

7. LOSS BEFORE TAX

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

	Notes	2019 RMB'000	2018 RMB'000
Depreciation of property, plant and equipment	13	**8,771**	8,765
Depreciation of right-of-use assets# (2018: amortisation of prepaid land lease payments#)	15	**1,208**	323
Amortisation of intangible assets	17	**5,147**	5,607
Amortisation of network films and dramas*	21	**16,827**	–
Impairment of goodwill**	16	**34,495**	35,040
Minimum lease payments under operating leases		**–**	2,672
Lease payments not included in the measurement of lease liabilities	15	**501**	–
Auditor's remuneration		**3,041**	2,809
Employee benefit expense (including directors' remuneration) (note 9):			
Wages, salaries and bonuses		**27,378**	34,308
Staff education fee		**18**	29
Welfare, medical and other expenses		**2,640**	3,504
Contributions to social security plans		**5,144**	5,424
Equity-settled share option expense@	32(a)	**4,785**	2,012
		39,965	45,277

7. LOSS BEFORE TAX (Continued)

	Notes	2019 RMB'000	2018 RMB'000
Foreign exchange differences, net**/***		**1,129**	(1,404)
Impairment of investments in associates**	18	**–**	76,149
Write-off of trade receivables**	22	**–**	3,068
Reversal of impairment of trade receivables**	22	**(43)**	(26)
Reversal of impairment of financial assets included in prepayments, other receivables and other assets**	23	**(96)**	(94)
Impairment of prepayments*	23	**–**	3,656
Impairment of intangible assets*	17	**6,733**	10,413
Mobile and Telecom Charges*		**1,488**	3,142
Game publishing service charges*		**2,715**	21,288
Direct operating expenses (including repairs and maintenance) arising from rental-earning investment properties*		**17,491**	20,929
Dividend income from a financial asset at fair value through other comprehensive income***		**(693)**	–
Loss on disposal of items of property, plant and equipment**		**273**	80
Loss on deregistration of subsidiaries**		**1,540**	–
Write-off of trade payables*		**(9,310)**	(4,365)
Changes in fair value of investment properties		**7,000**	(18,000)
Fair value (gains)/losses on financial assets at fair value through profit or loss**/***		**36,319**	(61,699)
Government grants##		**(3,169)**	(4,567)
Gain on deemed disposal of an investment in an associate***		**–**	(2,785)

\# 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

@ Included equity-settled share option expense of share options granted to employees of an associate

8. FINANCE COSTS

An analysis of finance costs is as follows:

	2019 RMB'000	2018 RMB'000
Interest on bank loans	**6,494**	8,163
Interest on lease liabilities	**85**	–
	6,579	8,163

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

	2019 RMB'000	2018 RMB'000
Fees	**347**	755
Other emoluments:		
Salaries, allowances and benefits in kind	**505**	396
Performance related bonuses	**140**	210
Equity-settled share option expense	**2,202**	1,795
Pension scheme contributions	**184**	182
	3,031	2,583
	3,378	3,338

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.

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

(a) Directors' remuneration (Continued)

(i) Independent non-executive directors

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

	Fees RMB'000	Equity-settled share option expense RMB'000	Total remuneration RMB'000
2019			
Independent non-executive directors:			
Mr. Chan Yiu Kwong	**157**	**65**	**222**
Ms. Wu Shihong	**95**	**52**	**147**
Mr. Li Feng	**95**	**52**	**147**
	347	**169**	**516**
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

There were no other emoluments payable to the independent non-executive directors during the year (2018: 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	Salaries, allowances and benefits in kind	Performance related bonuses	Equity-settled share option expense	Pension scheme contributions	Total remuneration
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2019						
Executive directors:						
Mr. Liu Xiaosong						
("Mr. Liu") *	**–**	**120**	**–**	**1,850**	**59**	**2,029**
Mr. Lin Qian	**–**	**385**	**140**	**183**	**125**	**833**
	–	**505**	**140**	**2,033**	**184**	**2,862**
2018						
Executive directors:						
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

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

(b) Five highest paid individuals

The five highest paid individuals included two (2018: two) directors, details of whose remuneration are set out above. Details of the remuneration of the remaining three (2018: three) non-director, highest paid individuals for the year are as follows:

	2019	2018
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	**1,483**	1,880
Performance related bonuses	**190**	605
Equity-settled share option expense	**–**	152
Pension scheme contributions	**292**	307
	1,965	2,944

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	
	2019	2018
Nil to HK$1,000,000	**3**	2
HK$1,000,001 to HK$1,500,000	**–**	1
HK$1,500,001 to HK$2,000,000	**–**	–
	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 (CREDIT)/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, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime effective from the year of assessment 2018/2019. The first HK$2,000,000 (2018: HK$2,000,000) of assessable profits of this subsidiary arising in Hong Kong is taxed at 8.25% (2018: 8.25%) and the remaining assessable profits are taxed at 16.5% (2018: 16.5%).

The income tax for the subsidiaries operating in Mainland China is calculated at the prevailing rates in the jurisdictions in which the subsidiaries operate, except for a subsidiary which was entitled to a preferential rate.

An analysis of the income tax charge/(credit) for the year is as follows:

	2019 RMB'000	2018 RMB'000
Current — Hong Kong		
Charge for the year	**139**	72
Current — PRC		
Charge for the year	**2,369**	1,262
Underprovision/(overprovision) in prior years	**455**	(396)
Deferred (note 30)	**(10,101)**	23,842
Total tax charge/(credit) for the year	**(7,138)**	24,780

10. INCOME TAX (CREDIT)/EXPENSE (Continued)

A reconciliation of the tax credit applicable to loss before tax at the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense/(credit) 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:

	2019		2018	
	RMB'000	**%**	RMB'000	%
Loss before tax	**(65,721)**		(65,768)	
Tax credit at the statutory tax rate	**(17,113)**	**26.0**	(16,030)	24.4
Preferential tax rate	**1,950**	**(3.0)**	1,231	(1.9)
Super-deduction of eligible research and development expenditure	**(2,023)**	**3.1**	(1,218)	1.9
Adjustments in respect of current tax of previous periods	**455**	**(0.7)**	(396)	0.6
Income not subject to tax	**(9,237)**	**14.1**	(6,173)	9.4
Expenses not deductible for tax	**14,751**	**(22.4)**	33,991	(51.8)
Losses/(profits) attributable to associates	**(1,553)**	**2.4**	3,165	(4.8)
Tax losses utilised from previous periods	**(1,641)**	**2.5**	(1)	0.1
Tax losses not recognised	**7,273**	**(11.1)**	10,211	(15.6)
Tax charge/(credit) at the Group's effective rate	**(7,138)**	**10.9**	24,780	(37.7)

The share of tax attributable to associates amounting to RMB1,975,000 (2018: RMB1,136,000) is included in "Share of profits and losses of associates, net" 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 2019 (2018: Nil).

12. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic loss per share amount for the year ended 31 December 2019 is based on the loss for the year attributable to ordinary equity holders of the Company of RMB51,085,000 (2018: RMB85,159,000), 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 2,693,535,000 (2018: 2,691,118,000).

No adjustment has been made to the basic loss per share amounts presented for the years ended 31 December 2019 and 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 amounts presented.

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 2019						
At 31 December 2018 and at 1 January 2019:						
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
At 1 January 2019, net of accumulated depreciation	118,784	5,177	8,270	135	12,354	144,720
Additions	–	99	57	–	–	156
Disposals	–	(324)	(58)	–	–	(382)
Write-off	–	–	–	–	(418)	(418)
Depreciation provided during the year	(3,014)	(1,951)	(1,229)	(93)	(2,484)	(8,771)
At 31 December 2019, net of accumulated depreciation	115,770	3,001	7,040	42	9,452	135,305
At 31 December 2019:						
Cost	131,848	12,856	13,726	1,655	21,366	181,451
Accumulated depreciation	(16,078)	(9,855)	(6,686)	(1,613)	(11,914)	(46,146)
Net carrying amount	115,770	3,001	7,040	42	9,452	135,305

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 2018						
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 subsidiaries (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

14. INVESTMENT PROPERTIES

	2019 RMB'000	2018 RMB'000
Carrying amount at 1 January	**438,000**	420,000
Fair value gains/(losses) on investment properties	**(7,000)**	18,000
Carrying amount at 31 December	**431,000**	438,000

The Group's investment properties were revalued on 31 December 2019 and 2018 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 15 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 valuations 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 RMB431,000,000 and RMB438,000,000 as at 31 December 2019 and 2018, 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 2019 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	–	–	431,000	431,000

14. INVESTMENT PROPERTIES (Continued)

Fair value hierarchy (Continued)

	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

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 (2018: 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**	**Weighted average**	
			2019	2018
Commercial buildings	Income approach	Estimated rental value (per sq.m. and per month)	**RMB163**	RMB162
		Rental growth rate (per annum)	**3.0%**	5.0%
		Discount rate	**8.2%**	10.4%

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. LEASES

The Group as a lessee

The Group has lease contracts for certain properties. Lump sum payments were made upfront to acquire the leased land from the owners with a lease period of 50 years, and no ongoing payments will be made under the terms of this land lease. Leases of office premises generally have lease terms between 2 and 3 years. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group. No lease contracts include extension and termination options and variable lease payments.

(a) Prepaid land lease payments (before 1 January 2019)

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

(b) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Prepaid land lease payments RMB'000	Office premises RMB'000	Total RMB'000
As at 1 January 2019	12,869	963	13,832
Additions	–	1,455	1,455
Write-off	–	(321)	(321)
Depreciation charge	(323)	(885)	(1,208)
As at 31 December 2019	12,546	1,212	13,758

15. LEASES (Continued)

The Group as a lessee (Continued)

(c) Lease liabilities

The carrying amount of lease liabilities and the movements during the year are as follows:

	2019 RMB'000
Carrying amount at 1 January	963
New leases	1,455
Write-off	(333)
Accretion of interest recognised during the year	85
Payments	(894)
Carrying amount at 31 December	1,276
Analysed into:	
Current portion	755
Non-current portion	521

The maturity analysis of lease liabilities is disclosed in note 42 to the financial statements.

(d) The amounts recognised in profit or loss in relation to leases are as follows:

	2019 RMB'000
Interest expense on lease liabilities	85
Depreciation charge of right-of-use assets	1,208
Write-off of a lease	(12)
Expense relating to short-term leases with remaining lease terms ended on or before 31 December 2019 (included in administrative expenses)	501
Total amount recognised in profit or loss	1,782

15. LEASES (Continued)

The Group as a lessor

The Group leases its investment properties (note 14) in Mainland China under operating lease arrangements. The terms of the leases generally require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions. Rental income recognised by the Group during the year was RMB59,884,000 (2018: RMB54,976,000), details of which are included in note 6 to the financial statements.

At 31 December 2019, the undiscounted minimum lease payments receivable by the Group in future periods under non-cancellable operating leases with its tenants are as follows:

	2019	2018
	RMB'000	RMB'000
Within one year	**60,841**	43,849

16. GOODWILL

	RMB'000
At 1 January 2018:	
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
Cost at 1 January 2019, net of accumulated impairment	53,366
Impairment during the year	(34,495)
Net carrying amount at 31 December 2019	18,871

16. GOODWILL (Continued)

	RMB'000
At 31 December 2019:	
Cost	88,406
Accumulated impairment	(69,535)
Net carrying amount	18,871

During the year ended 31 December 2019, a subsidiary was deregistered and the cost of goodwill and accumulated impairment of RMB1,515,000 and RMB1,515,000, respectively, were derecognised.

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 18.16% (2018: 17.18%) and cash flows beyond the five-year period were extrapolated using a growth rate of 2% (2018: 3%).

During the year ended 31 December 2018, the tightening strategy over game licence approval implemented by the National Radio and Television Administration had adverse impact on the operating performance of Mu77 Network Technology Co., Ltd. and Mu77 Network Technology Hongkong Limited (collectively "Mu77"). During the current year, the approval of game licence restarted with an increasingly stringent process, which resulted in delay or restriction on the launch of games of Mu77. This further impacted the operating performance of Mu77 for the year ended 31 December 2019. Management re-assessed the outlook and future performance of Mu77 and determined the recoverable amount of this cash-generating unit is approximately RMB18.9 million (2018: RMB58 million) which is lower than its carrying amount. Accordingly, an impairment of RMB34.5 million (2018: 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 2019. 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 rates — The discount rate used is before tax and reflects specific risks relating to the unit.

The values assigned to the key assumptions on market development of the game-related industry and discount rate 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 2019				
Cost at 1 January 2019, net of accumulated amortisation and impairment	**884**	**–**	**13,626**	**14,510**
Amortisation provided during the year	**(22)**	**–**	**(5,125)**	**(5,147)**
Impairment during the year (Note)	**–**	**–**	**(6,733)**	**(6,733)**
At 31 December 2019	**862**	**–**	**1,768**	**2,630**
At 31 December 2019:				
Cost	**39,282**	**7,030**	**65,543**	**111,855**
Accumulated amortisation and impairment	**(38,420)**	**(7,030)**	**(63,775)**	**(109,225)**
Net carrying amount	**862**	**–**	**1,768**	**2,630**

	Trademarks, licences and software RMB'000	Music copyrights RMB'000	Mobile game licences RMB'000	Total RMB'000
31 December 2018				
At 1 January 2018:				
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
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 and at 1 January 2019:				
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

17. INTANGIBLE ASSETS (Continued)

Note:

An impairment was recognised and charged to profit or loss for certain mobile game licences with a total carrying amount of RMB6,733,000 (2018: RMB10,412,000) 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

	2019 **RMB'000**	2018 RMB'000
Share of net assets	**45,979**	65,673
Goodwill on acquisition	**280,530**	280,530
	326,509	346,203
Provision for impairment	**(76,149)**	(76,149)
	250,360	270,054

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 during the year ended 31 December 2018 based on the value in use of the associate using a 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 a 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/ Mainland China	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:

	2019 RMB'000	2018 RMB'000
Current assets	231,909	97,107
Non-current assets	23,580	11,075
Current liabilities	(149,429)	(49,483)
Non-current liabilities	(7,085)	(1,793)
Net assets	98,975	56,906
Proportion of the Group's ownership	35%	35%
Group's share of net assets of the associate, excluding goodwill	32,913	19,917
Goodwill on acquisition (less cumulative impairment)	185,105	185,105
Carrying amount of the investment	218,018	205,022
Revenue	589,504	169,342
Profit for the year attributable to equity holders of the associate	37,132	24,946
Other comprehensive income for the year attributable to equity holders of the associate	–	–
Total comprehensive income for the year attributable to equity holders of the associate	37,132	24,946

18. INVESTMENTS IN ASSOCIATES (Continued)

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

	2019 RMB'000	2018 RMB'000
Share of the associates' losses for the year	**(6,786)**	(21,454)
Share of the associates' other comprehensive loss	**(25,904)**	(63,831)
Share of the associates' total comprehensive loss	**(32,690)**	(85,285)
Aggregate carrying amount of the Group's investments in the associates	**32,342**	65,032

19. INVESTMENTS IN JOINT VENTURES

	2019 RMB'000	2018 RMB'000
Share of net assets	**1,667**	1,667
Goodwill on acquisition	**19,217**	19,217
	20,884	20,884
Impairment	**(20,884)**	(20,884)
	–	–

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.

	2019 RMB'000	2018 RMB'000
Share of the joint ventures' losses for the year	**–**	–
Share of the joint ventures' total comprehensive losses	**–**	–
Aggregate carrying amount of the Group's investments in the joint ventures	**–**	–

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	Notes	2019 RMB'000	2018 RMB'000
Financial assets at fair value through other comprehensive income			
Listed equity investments, at fair value	(a)	**8,225**	91,647
Unlisted equity investments, at fair value	(b)	**225,189**	8,735
	(c)	**233,414**	100,382

Notes:

(a) The balance at 31 December 2019 included Shenzhen Lemon Network Technology Co., Ltd ("Lemon Network"), a company listed on National Equities Exchange and Quotations (the "NEEQ") (stock code: 835924). The balance at 31 December 2018 included Lemon Network and Xiamen Mengjia Network Technology Co., Ltd. ("Xiamen Mengjia", which was delisted from NEEQ on 2 January 2019). Given that the shares of the NEEQ listed companies are transferred by agreement and the trading of the shares is not active, the Group engaged an independent professional valuer to determine the fair value of these investments using market comparable approach as at 31 December 2019 and 2018.

(b) The balance at 31 December 2019 included three game development companies, namely Xiamen Mengjia, Shanghai Hanqu Network Technology Co., Ltd. (上海瀚趣網絡科技有限公司) ("Shanghai Hanqu") and Shanghai Modie Network Technology Co., Ltd. (上海魔蝶網絡科技有限公司) ("Shanghai Modie") (2018: 2 companies, namely Shanghai Hanqu and Shanghai Modie). The Group engaged an independent professional valuer to determine its fair value using market comparable approach for the years ended 31 December 2019 and 2018.

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

21. NETWORK FILMS AND DRAMAS/NETWORK FILMS AND DRAMAS UNDER PRODUCTION

(a) Network films and dramas under production

	2019 RMB'000	2018 RMB'000
At 1 January	**19,116**	3,277
Additions	**1,831**	15,839
Transfer to network films and dramas	**(17,284)**	–
At 31 December	**3,663**	19,116

21. NETWORK FILMS AND DRAMAS/NETWORK FILMS AND DRAMAS UNDER PRODUCTION (Continued)

(b) Network films and dramas

	RMB'000
Cost:	
At 31 December 2018 and 1 January 2019	–
Additions during the year	17,284
At 31 December 2019	17,284
Accumulated amortisation:	
At 31 December 2018 and 1 January 2019	–
Amortisation provided during the year	16,827
At 31 December 2019	16,827
Net carrying amount:	
At 31 December 2018 and 1 January 2019	–
Additions during the year	17,284
Amortisation provided during the year	(16,827)
At 31 December 2019	457
At 31 December 2018	–

22. TRADE RECEIVABLES

	2019 **RMB'000**	2018 RMB'000
Trade receivables	**2,282**	10,393
Impairment	**(268)**	(311)
	2,014	10,082

The Group has no formal credit periods 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.

22. TRADE RECEIVABLES (Continued)

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:

	2019 RMB'000	2018 RMB'000
Billed		
Within 1 month	**209**	22
1 to 2 months	**47**	2,703
2 to 3 months	**46**	231
Over 3 months	**275**	1,453
	577	4,409
Unbilled	**1,437**	5,673
	2,014	10,082

The movements in the loss allowance for impairment of trade receivables are as follows:

	2019 RMB'000	2018 RMB'000
At beginning of year	**311**	337
Impairment losses, net (note 7)	**(43)**	3,042
Amount written off as uncollectible	**–**	(3,068)
At end of year	**268**	311

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.

22. TRADE RECEIVABLES (Continued)

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 2019

		Past due				
	Current	Less than 1 month	1 to 3 months	Over 3 months	Default customers	Total
Expected credit loss rate	**0.68%**	**2.34%**	**5.02%**	**9.69%**	**100%**	**11.76%**
Gross carrying amount (RMB'000)	**932**	**276**	**335**	**554**	**185**	**2,282**
Expected credit losses (RMB'000)	**6**	**6**	**17**	**54**	**185**	**268**

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%	9.9%	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

23. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2019 RMB'000	2018 RMB'000
Prepayments	**19,323**	23,669
Prepaid land lease payments (note 15)	**–**	323
Deposits and other receivables	**11,652**	18,572
	30,975	42,564
Impairment allowance	**(17,103)**	(17,199)
	13,872	25,365

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 other receivables is an amount due from the Group's associate of RMB533,000 (2018: RMB836,000), which is unsecured, interest-free and repayable on demand.

23. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS (Continued)

The movements in the provision for impairment of prepayments, other receivables and other assets are as follows:

	2019 RMB'000	2018 RMB'000
At 1 January	**17,199**	13,637
Reversal of impairment (note 7)	**(96)**	(94)
Impairment losses recognised (note 7)	**–**	3,656
At 31 December	**17,103**	17,199

Included in the above provision for impairment of prepayments, other receivables and other assets is a provision for individually impaired receivables of RMB16,743,000 (2018: RMB16,743,000) with a gross carrying amount of RMB16,743,000 (2018: RMB16,743,000).

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 2019 ranged from 0.1% to 20% (2018: ranged from 0.5% to 20.5%).

24. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Notes	2019 RMB'000	2018 RMB'000
Listed equity investments, at fair value	(a)	**239**	296
Derivative financial instrument, at fair value	(b)	**2,971**	37,686
Structured financial products, at fair value	(c)	**16,500**	15,500
Other unlisted investments, at fair value	(d)	**124,731**	126,278
		144,441	179,760
Current portion		**(16,739)**	(15,796)
Non-current portion		**127,702**	163,964

24. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

Notes:

(a) The 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 of Lanlanlanlan Film & Television to purchase back all or part of the equity interests in Lanlanlanlan Film & Television acquired by the Group if the audited net profit of Lanlanlanlan Film & Television for any of the financial years ended 31 December 2017, 2018 and 2019 was 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 an 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.

On 25 March 2019, the Group issued an exercise note to exercise the Put Option to request the founders of Lanlanlanlan Film & Television to purchase back the equity interests in Lanlanlanlan Film & Television (the "Forward Contract") as the audited net profit of Lanlanlanlan Film & Television was less than RMB30 million for the year ended 31 December 2018. On the same date, in response to the exercise note, the founders had executed an undertaking letter (the "Undertaking Letter") in favour of the Group pursuant to which the founders have undertaken to the Group to perform their obligations to compensate the Group by way of purchasing the equity interests of Lanlanlanlan Film & Television transferred to the Group. However, in view of the serious shortage of fund, the founders will perform their obligations to the Group as mentioned above within three years from the date of the Undertaking Letter, and will pay the default interest in accordance with the terms and conditions set out in relevant capital injection agreement and sales and purchase agreements. The founders have also undertaken that all cash dividends received from Lanlanlanlan Film & Television will be used for purchasing the equity interests in Lanlanlanlan Film & Television as mentioned above. The Group is of the view that it is of great uncertainty to fully recover the consideration for the purchase of equity interests from the founders as it mainly depends on the ability of Lanlanlanlan Film & Television to declare dividends and the financial position of the founders.

As at 31 December 2019, management with the assistance of an external valuer assessed that the fair value of the Forward Contract was RMB2,971,000. The fair value of the Forward Contract has been categorised as Level 3 of the fair value hierarchy. A significant increase/(decrease) in the discount rate adopted would result in a significant (decrease)/increase in the fair value of the Forward Contract.

(c) As at 31 December 2019, the investments were unlisted financial products purchased from banks in the PRC which were principal unprotected with expected interest rates ranging from 3.20% to 3.75% (2018: 4.50% to 5.20%) 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 the expected rate of return of 3.20% to 3.75% (2018: 4.50% to 5.20%) had been used.

The sensitivity of fair value of the input was a 1% increase/(decrease) in the expected rate of return would result in increase/(decrease) in fair value by RMB165,000/(RMB165,000).

(d) The unlisted investments as at 31 December 2019 were investments in seed capital funds, including investments in Shenzhen Qianhai Qingsong Venture Investment Fund Management Enterprise (Limited Partnership), Shenzhen Qingsong Phase III Equity Investment Fund Partnership Enterprise (Limited Partnership), and Shenzhen Qianhai Tianhe Cultural Industry Investment Center (Limited Partnership). 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 BANK BALANCES AND PLEDGED DEPOSITS

	Notes	2019 RMB'000	2018 RMB'000
Restricted cash balances	(a)	**47**	48
Pledged deposits	(b)	**182,962**	274,485
Restricted bank balances and pledged deposits		**183,009**	274,533

Notes:

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

(b) Balances of RMB182,962,000 (2018: RMB274,485,000) were pledged to secure bank loans (note 29) granted to the Group.

26. CASH AND CASH EQUIVALENTS

	2019 RMB'000	2018 RMB'000
Cash and bank balances	**75,461**	306,475
Time deposits	**479,658**	279,533
	555,119	586,008
Less: Restricted cash balances and pledged deposits (note 25)	**(183,009)**	(274,533)
Cash and cash equivalents	**372,110**	311,475
Denominated in:		
RMB	**98,636**	85,362
USD	**268,192**	196,302
Other currencies	**5,282**	29,811
Cash and cash equivalents	**372,110**	311,475

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 have 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:

	2019 RMB'000	2018 RMB'000
Within 1 month	**289**	8,195
1 to 3 months	**14**	836
4 to 6 months	**38**	654
Over 6 months	**7,673**	9,718
	8,014	19,403

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

As at 31 December 2019, included in the trade payables is an amount due to a joint venture of RMB46,000 (2018: amounts due to an associate of RMB344,000 and due to a joint venture of RMB46,000), which is unsecured, interest-free and repayable on demand.

28. OTHER PAYABLES AND ACCRUALS

	Notes	31 December 2019 RMB'000	31 December 2018 RMB'000
Other payables		**30,398**	50,832
Accruals		**7,225**	15,515
Contract liabilities	(a)	**11,777**	4,894
Deferred income	(b)	**1,970**	2,630
Receipts in advance		**430**	1,904
Current portion		**51,800**	75,775

As at 31 December 2019, included in other payables was an amount due to an associate of RMB85,000 (2018: RMB85,000), which was unsecured, interest-free and repayable on demand.

28. OTHER PAYABLES AND ACCRUALS (Continued)

Notes:

(a) Details of contract liabilities are as follows:

	31 December 2019 RMB'000	31 December 2018 RMB'000	1 January 2018 RMB'000
Short-term advances received from customers			
Game-related services	**11,698**	4,581	1,655
Music-based entertainment	**79**	30	82
Film and television production	**–**	283	–
Total contract liabilities	**11,777**	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

	31 December 2019			31 December 2018		
	Effective interest rate (%)	**Maturity**	**RMB'000**	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans — secured	**4.00–4.35**	**2020**	**130,000**	4.53–6.01	2019	195,058
			130,000			195,058

	2019 RMB'000	2018 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**130,000**	195,058

29. INTEREST-BEARING BANK BORROWINGS (Continued)

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 RMB183 million (2018: RMB274 million) (note 25);

(ii) a corporate guarantee provided by a group company as at 31 December 2018; and

(iii) personal guarantees provided by senior management of subsidiaries as at 31 December 2018.

(b) The Group's bank loans are denominated in RMB (2018: 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 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 and 1 January 2019	1,675	168	1,843
Deferred tax charged to the statement of profit or loss during the year (note 10)	(658)	(57)	(715)
At 31 December 2019	1,017	111	1,128

30. DEFERRED TAX (Continued)

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 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 comprehensive income during the year	–	–	–	(9,467)	(9,467)
At 31 December 2018	(813)	(76,370)	(23,345)	(16,096)	(116,624)
At 1 January 2019	**(813)**	**(76,370)**	**(23,345)**	**(16,096)**	**(116,624)**
Deferred tax credit to the statement of profit or loss during the year (note 10)	**–**	**1,750**	**9,066**	**–**	**10,816**
Deferred tax charged to the statement of comprehensive income during the year	**–**	**–**	**–**	**(33,258)**	**(33,258)**
At 31 December 2019	**(813)**	**(74,620)**	**(14,279)**	**(49,354)**	**(139,066)**

The Group has tax losses arising in Mainland China of RMB79,237,000 (2018: RMB43,791,000) 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.

30. DEFERRED TAX (Continued)

Deferred tax liabilities (Continued)

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

At 31 December 2019, 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 RMB244,550,000 at 31 December 2019 (2018: RMB267,763,000).

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

31. ISSUED CAPITAL

Shares

	2019 **RMB'000**	2018 RMB'000
Authorised:		
3,000,000,000 (2018: 3,000,000,000) ordinary shares of HK$0.01 each	**26,513**	26,513
Issued and fully paid:		
2,700,886,628 (2018: 2,700,886,628) ordinary shares of HK$0.01 each	**22,818**	22,818

31. ISSUED CAPITAL (Continued)

Shares (Continued)

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

	Note	Number of issued and fully paid ordinary shares	Nominal value of ordinary shares HK$'000	Share premium HK$'000	Equivalent nominal value of ordinary shares RMB'000	Equivalent share premium RMB'000	Total RMB'000
As at 1 January 2018		2,720,592,628	27,206	1,156,621	22,984	973,928	996,912
Cancellation of shares repurchased	34(i)	(19,706,000)	(197)	(8,471)	(166)	(7,153)	(7,319)
As at 31 December 2018, 1 January 2019 and 31 December 2019		2,700,886,628	27,009	1,148,150	22,818	966,775	989,593

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 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.

32. SHARE OPTION SCHEMES (Continued)

(a) Share option scheme (Continued)

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

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

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

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

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

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

	2019		2018	
	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	**0.64**	**34,644**	0.71	51,532
Granted during the year	**0.22**	**78,207**	0.49	4,615
Lapsed during the year	**0.69**	**(200)**	1.27	(3,808)
Cancelled during the year	**–**	**–**	0.66	(17,695)
At 31 December	**0.35**	**112,651**	0.64	34,644

There were no share options exercised in the current and prior years.

32. SHARE OPTION SCHEMES (Continued)

(a) Share option scheme (Continued)

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

2019

Number of options '000	Exercise price* HK$ per share	Exercise period
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**
18,543	**0.221**	**20-6-2019 to 20-6-2029**
59,664	**0.219**	**28-6-2019 to 28-6-2029**
112,651		

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		

* 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 RMB7,426,000 (RMB0.10 per share option) (2018: RMB914,000 (RMB0.20 per share option)). The Group recognised a share option expense of RMB4,785,000 (2018: RMB2,012,000) during the year ended 31 December 2019 in respect of the share options granted in the current and prior years.

32. SHARE OPTION SCHEMES (Continued)

(a) Share option scheme (Continued)

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:

	2019	2018
Dividend yield (%)	–	–
Expected volatility (%)	**63.44% to 63.45%**	64.50% to 64.82%
Risk-free interest rate (%)	**1.90% to 1.91%**	2.31% to 2.82%
Expected life of options (years)	**0.00–2.00**	0.00–3.00
Weighted average share price (HK$ per share)	**0.22**	0.44-0.57

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

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

(b) Join Reach share option scheme

The Join Reach share option scheme adopted by Join Reach Limited ("Join Reach") was set up by the shareholders of Prime Century Technology Limited ("Prime Century"), which is one of the substantial shareholders of the Company, to recognise and reward the contributions 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 2019 and 2018. No share option has been granted, exercised or cancelled, or lapsed during the current and prior years.

32. SHARE OPTION SCHEMES (Continued)

At the end of the reporting period, the Company had approximately 112,651,000 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 112,651,000 additional ordinary shares of the Company and additional share capital of approximately HK$1,127,000 and share premium of approximately HK$38,301,000 (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 112,651,000 share options outstanding under the share option scheme, which represented approximately 4.17% 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 108,500 share awards vested during the year ended 31 December 2019 (2018: 12,277,000 shares).

33. SHARE AWARD SCHEME (Continued)

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

	2019 Number of shares held '000	2018 Number of shares held '000
At 1 January	**7,459**	19,736
Released during the year	**(109)**	(12,277)
At 31 December	**7,350**	7,459

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 page 62 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 on the Stock Exchange at an aggregate consideration of HK$2,913,000, equivalent to RMB2,468,000, and 19,706,000 ordinary shares were then cancelled by the Company. Upon the cancellation of 19,706,000 shares repurchased, the issued share capital of the Company was reduced by the par value of HK$197,000, equivalent to RMB166,000 and the premium paid on the repurchase of these cancelled shares of HK$8,471,000, equivalent to RMB7,153,000, including transaction costs, was deducted from share premium account 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

Statutory reserve fund

In accordance with the Company 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.

Reserve fund

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 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

35. BUSINESS COMBINATION (Continued)

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

	Notes	Fair value recognised on acquisition RMB'000
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
		102,000
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)

From the date of acquisition to 31 December 2018, Mu77 contributed RMB9,529,000 of revenue and a loss of RMB9,053,000 to the consolidated loss of the Group. If the acquisition had taken place at the beginning of the year ended 31 December 2018, 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 had been expensed and were included in administrative expenses in the statement of profit or loss and were part of operating cash flows in the consolidated statement of cash flows for the year ended 31 December 2018.

36. NOTES 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 a profit guarantee.

(iii) During the year ended 31 December 2019, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB1,455,000 and RMB1,455,000, respectively, in respect of lease arrangements for office premises (2018: Nil).

(b) Changes in liabilities arising from financing activities

	Lease liabilities RMB'000	Interest-bearing bank borrowings RMB'000
2019		
At 31 December 2018	–	195,058
Effect of adoption of IFRS 16	963	–
At 1 January 2019 (restated)	963	195,058
Changes from financing cash flows	(809)	(65,058)
New leases	1,455	–
Write-off	(333)	–
Interest expense	85	–
Interest paid classified as operating cash flows	(85)	–
At 31 December 2019	1,276	130,000

	Interest-bearing bank borrowings RMB'000
2018	
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

36. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

(c) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

	2019 RMB'000
Within operating activities	**586**
Within investing activities	**–**
Within financing activities	**809**
	1,395

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. COMMITMENTS

(a) At the end of the reporting period, the Group did not have any significant capital commitments (2018: Nil).

(b) Operating lease commitments as at 31 December 2018

The Group leased certain of its office premises under operating lease arrangements with lease terms ranging from two to three years.

At 31 December 2018, the Group had total future minimum lease payments under non- cancellable operating leases in respect of office premises falling due as follows:

	2018 RMB'000
Within one year	452

39. 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.

39. RELATED PARTY DISCLOSURES (Continued)

(b) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transaction with a related party during the year:

	Note	2019 RMB'000	2018 RMB'000
Associate — Service fee income	(i)	**16**	–

Note:

(i) The service fee income was paid by an associate for the receivable collection services. The income was based on 1% of the amount collected on behalf during the year.

(c) Compensation of key management personnel of the Group

	2019 RMB'000	2018 RMB'000
Short term employee benefits	**950**	1,726
Performance related bonuses	**223**	486
Pension scheme contributions	**309**	304
Equity-settled share option expense	**2,033**	1,586
Total compensation paid to key management personnel	**3,515**	4,102

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

40. 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 2019 and 2018, were stated at amortised cost.

41. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

As at 31 December 2019 and 2018, 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.

41. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

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.

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 input to fair value
Financial assets at fair value through other comprehensive income	Market approach	Enterprise-value-to-revenue multiple ("EV/Revenue")	2019: 5.97 to 6.97 (2018: 4.33 to 5.92)	Increase/decrease in EV/Revenue would result in increase/decrease in fair value
	Market approach	Price-to-earnings multiple ("P/E")	2019: 30.76 (2018: Nil)	Increase/decrease in P/E would result in increase/decrease in fair value
		Discounts for lack of marketability ("DLOM")	2019: 17.9% to 18.7% (2018: 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	2019: 0.42 to 9.10 (2018: 0.88 to 14.25)	Increase/decrease in EV/Revenue would result in increase/decrease in fair value
		DLOM	2019: 12.4% to 28.5% (2018: 12.3% to 31%)	Increase/decrease in DLOM would result in decrease/ increase in fair value
	Income approach	Discount rate	2019: 2.18% (2018: 1.73%)	Increase/decrease in discount rate would result in decrease/increase in fair value
		DLOM	2019: nil (2018: 33%)	Increase/decrease in DLOM would result in decrease/ increase in fair value

41. 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

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2019				
Financial assets at fair value through profit or loss	**239**	**–**	**144,202**	**144,441**
Financial assets at fair value through other comprehensive income	**–**	**–**	**233,414**	**233,414**
	239	**–**	**377,616**	**377,855**
As at 31 December 2018				
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

41. 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:

	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 2018	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 i)	–	(13,950)
Purchases	43,345	–
Disposals	(22,235)	–
As at 31 December 2018 and 1 January 2019	**179,464**	**100,382**
Total losses recognised in the consolidated statement of profit or loss included in other expenses, net	**(36,262)**	**–**
Total gains recognised in the consolidated statement of comprehensive income	**–**	**133,032**
Purchases	**16,500**	**–**
Disposals	**(15,500)**	**–**
As at 31 December 2019	**144,202**	**233,414**

Note:

(i) The balance represented an 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 for both financial assets and financial liabilities during the current and prior years.

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank borrowings 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 at amortised cost.

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.

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(b) Liquidity risk

The Group managed liquidity risk by maintaining a balance between continuity of funding and flexibility through maintaining a sufficient amount of bank deposits and the use of interest-bearing bank borrowings.

The table below summarises the maturity profile of the Group's financial liabilities as at the end of the reporting period, based on contractual undiscounted payments.

	2019		
	Within one year or on demand RMB'000	**1 to 2 years RMB'000**	**Total RMB'000**
Lease liabilities	**792**	**528**	**1,320**
Interest-bearing bank borrowings	**131,964**	**–**	**131,964**
Trade payables	**8,014**	**–**	**8,014**
Financial liabilities included in other payables and accruals	**38,053**	**–**	**38,053**
	178,823	**528**	**179,351**

	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

42. 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, lease liabilities, 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:

	31 December 2019 RMB'000	1 January 2019 RMB'000 (Note)	31 December 2018 RMB'000
Cash and cash equivalents	**372,110**	311,475	311,475
Lease liabilities	**(1,276)**	(963)	–
Interest-bearing bank borrowings	**(130,000)**	(195,058)	(195,058)
Trade payables	**(8,014)**	(19,403)	(19,403)
Financial liabilities included in other payables and accruals	**(38,053)**	(68,251)	(68,251)
Net cash over debt position	**194,767**	27,800	28,763

Note: The Group has adopted IFRS 16 using the modified retrospective approach and the effect of the initial adoption is adjusted against the opening balances as at 1 January 2019 with no adjustments to the comparative amounts as at 31 December 2018. This resulted in an increase in the Group's net debt.

43. EVENTS AFTER THE REPORTING PERIOD

(a) The novel coronavirus disease (COVID-19) outbreak in early 2020, which has spread across China with worldwide infection, has caused material impact on a wide range of economic activities. The operation of the Group is unavoidably affected, and the seriousness of the negative impact will depend on the development of the epidemic. It is anticipated that the above epidemic situation would have certain negative impact on the financial performance of the Group in early 2020. Meanwhile, management will continue to assess the impact on the Group's operation and financial performance and closely monitor the Group's exposure to the risks and uncertainties in connection with the epidemic.

(b) On 21 January 2020, the Group, through one of its wholly-owned subsidiaries, Shenzhen Kuaitonglian Technology Co., Ltd. (深圳市快通聯科技有限公司) ("Kuaitonglian"), entered into a limited partnership with Shenzhen Qianhai Qingsong Venture Investment Fund Management Enterprise (Limited Partnership) and other independent investors, pursuant to which, Kuaitonglian acting in the capacity of limited partner invested RMB10,000,000 to subscribe for approximately 11.11% interest in Shenzhen Qingsong Small and Medium Enterprises Development Investment Partnership Enterprise (Limited Partnership) ("Qingsong Fund IV"). Qingsong Fund IV will engage in equity investments focusing on new industries such as new technology and application and new consumption models.

43. EVENTS AFTER THE REPORTING PERIOD (Continued)

(c) Due to the replacement of one of the registered shareholders of Huadong Feitian, being one of the Group's operating entities, from Mr. Liu, an executive director and the controlling shareholder of the Company, to Mr. Liu Xiaofeng, the brother of Mr. Liu, the previous contractual arrangements in relation to Huadong Feitian entered into on 31 August 2015 were terminated and the relevant parties, namely Mr. Liu Xiaofeng, Ms. Cui Jingtao, Huadong Feitian and Cash River Information technology (Shenzhen) Co. Ltd. entered into a series of new contractual arrangements in relation to Huadong Feitian on 13 March 2020. For details of the new contractual arrangements, please refer to the announcement of the Company dated 13 March 2020.

44. 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:

	2019 **RMB'000**	2018 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**45,050**	44,273
Total non-current assets	**45,050**	44,273
CURRENT ASSETS		
Other receivables	**549**	283
Amounts due from subsidiaries	**745,219**	774,022
Cash and cash equivalents	**4,537**	8,919
Total current assets	**750,305**	783,224
CURRENT LIABILITIES		
Other payables and accruals	**2,492**	3,850
Total current liabilities	**2,492**	3,850
NET CURRENT ASSETS	**747,813**	779,374
Net assets	**792,863**	823,647
EQUITY		
Issued capital	**22,818**	22,818
Reserves (note)	**770,045**	800,829
Total equity	**792,863**	823,647

44. 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 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 and 1 January 2019	975,704	–	(1,445)	8,969	233	24,801	(207,433)	800,829
Total comprehensive loss for the year	–	–	–	–	58	–	(35,627)	(35,569)
Equity-settled share-based payment arrangements	–	–	–	–	–	4,785	–	4,785
Transfer of reserve upon the forfeiture or expiry of share options	–	–	–	–	–	(60)	60	–
Release of award shares	–	–	29	–	–	(29)	–	–
At 31 December 2019	975,704	–	(1,416)	8,969	291	29,497	(243,000)	770,045

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 accumulated losses should the related options expire or be forfeited.

45. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 31 March 2020.