A8新媒体集团
A8 NEW MEDIA GROUP

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

# Annual Report 2020

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

黑岩
heiyan.com

映客直播

青松基金
QINGSONG FUND

A8影视
A8 Film & Television

MU77

a8
LIVE

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# Corporate Information

## EXECUTIVE DIRECTORS

Mr. Liu Xiaosong
Mr. Lin Qian

## INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chan Yiu Kwong
Ms. Wu Shihong
Mr. Li Feng

## AUDIT COMMITTEE

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

## NOMINATION COMMITTEE

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

## REMUNERATION COMMITTEE

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

## AUTHORISED REPRESENTATIVES

Mr. Liu Xiaosong
Mr. Lin Qian

## COMPANY SECRETARY

Ms. Ho Wing Yan

## AUDITORS

Ernst & Young
Certified Public Accountants
Registered Public Interest Entity Auditor

## PRINCIPAL BANKERS

China Merchants Bank Co., Ltd.
China Merchants Bank, Hong Kong Branch
Industrial Bank Co., Ltd.
Standard Chartered Bank (Hong Kong) Limited
Xiamen International Bank Co., Ltd.
Credit Suisse AG, Singapore Branch

## REGISTERED OFFICE

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

## HEAD OFFICE

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

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suites 2703, 27/F
Shui on Centre
6-8 Harbour Road
Wanchai
Hong Kong

## BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
46th Floor
Hopewell Centre
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 | | | | |
|---|---|---|---|---|---|
| | **2020** | 2019 | 2018 | 2017 | 2016 |
| | **RMB'000** | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Revenue | **91,347** | 108,438 | 151,814 | 139,118 | 148,468 |
| Profit/(loss) before tax | **56,730** | (65,721) | (65,768) | 42,111 | 31,862 |
| Income tax credit/(expense) | **(8,149)** | 7,138 | (24,780) | (17,101) | (7,722) |
| Profit/(loss) for the year | **48,581** | (58,583) | (90,548) | 25,010 | 24,140 |
| Attributable to: | | | | | |
| Owners of the Company | **50,703** | (51,085) | (85,159) | 25,030 | 24,145 |
| Non-controlling interests | **(2,122)** | (7,498) | (5,389) | (20) | (5) |
| | **48,581** | (58,583) | (90,548) | 25,010 | 24,140 |

## CONSOLIDATED ASSETS, LIABILITIES AND EQUITY

| | As of 31 December | | | | |
|---|---|---|---|---|---|
| | **2020** | 2019 | 2018 | 2017 | 2016 |
| | **RMB'000** | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Total assets | **1,758,773** | 1,806,032 | 1,855,752 | 1,699,558 | 1,368,034 |
| Total liabilities | **(262,056)** | (342,537) | (420,044) | (300,220) | (278,126) |
| Non-controlling interests | **(125)** | (2,247) | (9,125) | 532 | 702 |
| | **1,496,592** | 1,461,248 | 1,426,583 | 1,399,870 | 1,090,610 |

The consolidated results of A8 New Media Group Limited (the "Company") and its subsidiaries (together the "Group") for the year ended 31 December 2020 and the consolidated assets, liabilities and equity of the Group as at 31 December 2020 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 2020.

## BUSINESS REVIEW AND OUTLOOK

During the reporting period, the Group focuses on the pan-entertainment market which 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, achieving development and realization of high-quality IP and IP derivatives. In 2020, the competition in China's domestic pan-entertainment industry is becoming increasingly fierce, and the top tendency is becoming more obvious, as well as segmented areas show development of diversification and differentiation and business models has steadily upgraded, and the pan-entertainment industry is more widely integrated into the rapid development of the new economy. Based on the development of pan-entertainment, the Group has been making research on the products, markets and future development trends of new economic fields so as to make preparation for getting into the new economic fields. The outbreak of the novel coronavirus ("COVID-19") pandemic posed a challenge to the global business environment. Facing changes in the market environment and regulatory policies, and the impact of the COVID-19 pandemic, the Group adjusted the operating strategies of various business segment actively, strengthened control of project initiation and project risk, enhanced control of cost and expense, as well as adjusted internal resources allocation and projects that fall short of expectation, and took relevant measures to avoid the negative impact of the pandemic on the operation of the industry park business.

### Digital Entertainment Services

The Group provides digital entertainment services including online games, film and television, and online literature. Below is the detailed descriptions of each part of digital entertainment services.

#### Game Business

The impact of the approval of game license restrictions has continued in 2020 and the game license will continue to be scarce resources. Facing the increasing competition in the gaming industry, the Group carried out strategic adjustments actively, and made structural adjustments and optimizations to its online game business line. At the same time, the Group controlled costs and reduced the scale of game distribution, and focused on game research and development.

During the reporting period, the Group's revenue from the online game business was mainly derived from an independent game research and development companies, Shanghai Mu77 Network Technology Co., Ltd. (上海木七七網絡科技有限公司, "MU77SH") and Mu77 Network Technology Hongkong Limited (香港木七七網絡科技有限公司, "MU77HK") (collectively "Mu77"), its original game "Colossus Knights" (「巨像騎士團」), which was launched in Taiwan in June and in Mainland China in October. As a steampunk light miniatures type of game, "Colossus Knights" has highly differentiated gameplays. In terms of game content, it provides players versus player's mode, as well as players versus gaming environment mode to meet the needs of different players and convey a "unique" and "fancy" vibe. However, the actual revenue of the game did not meet expectations, for the game's numerical system failed to meet the initial setting, Mu77 will continue to optimize and iterate the numerical system in the game. Other games are operated by Mu77 including "Card Monster" (「卡片怪獸」), a fast paced, light-strategy casual type of card game, and Tencent Aurora is the exclusive agent of "Card Monster" in Mainland China. "Adventure and Mining" (「冒險與挖礦」), a waiting game has been relaunched by Mu77 and earned a board range of users attention and love again. In addition, "Colossus Knights 2" (「巨像騎士團2」) has been project approved and the launch date is undetermined.

# Chairman's Statement

### Film & Television Business

"Matchmakers of Great Zhou Dynasty" (「大周小冰人」), the lightly funny idol costume drama developed and produced by A8 Film & Television, was broadcasted online in March 2019 on iQIYI video platform. However, in the same month, the National Radio and Television Administration issued regulations restricting the broadcast of costume dramas, resulting in lower final ratings than the Group expected, it still has revenue distribution currently. During the reporting period, there were no new film or television filmed because of the pandemic. The Group actively adjusted its business in this period, so as to develop high-quality film and television projects in the future.

As of 31 December 2020, the Group held a total of 29.52% share 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") through capital increase, share acquisition and performance competition. Lanlanlanlan Film & Television is mainly engaged in the business of script writing, script selling and adaptation of scripts and online video content production. In 2020, Lanlanlanlan reduced the number of the production and the filming of film and television because of the pandemic. Three film and television were released during the year. Lanlanlanlan will increase its investment in film and television and spend greater effort to the filming of film and television, and it is expected that in 2021, Lanlanlanlan will shoot and produce a number of film and television.

### Online literatures

北京掌文信息技術有限公司 (Beijing Zhangwen Information Technology Co., Ltd) ("Beijing Zhangwen") is mainly engaged in the business of online literature reading and incubation and operation of IP. Beijing Zhangwen mainly operates four literary platforms: Heiyan.com (黑岩網), Ruochu.com (若初網), Ruoxia.com (若夏網) and Free Fiction of Heiyan (黑岩免費小説網). Beijing Zhangwen is engaged in overall copyright operation, adapting literary works into web dramas, television dramas, movies, cartoons, comics and audio works, or authorizing third parties to develop copyrights in various genres.

Sustainable and stable in literature IP copyright operation. As at 31 December 2020, the revenue generated from copyright operation of Beijing Zhangwen increased by 36% as compared with the corresponding period in 2019. This growth is mainly derived from the development of film and television production and distribution business, audio reading business, comics and third-party reading business.

For audio reading business, the number of hours of audio works recorded in Beijing Zhangwen has increased by more than 30,000 compared with the corresponding period last year. Lots of audio novels of Beijing Zhangwen entered top three ranking lists of platforms like Himalayan FM (「喜馬拉雅 FM」), Irts.me (「懶人聽書」) and Dragonfly FM (「蜻蜓 FM」).

For comics business, Beijing Zhangwen's numerous comics also entered top three ranking of Best Selling List and Soaring List of Tencent Comic, kuaikanmanhua.com and xiaomingtaiji.com.

# Chairman's Statement

For film and television business, the first series of world-view online movie "The Big Illusion (「大幻術師」), which is adopted from "The King of Magic"(「魔術王」), a legendary novel of Heiyan.com and mainly invested by Beijing Zhangwen, and released by Beijing Heiyan Planet, was exclusively broadcast on iQIYI. There were 180,000 pre-subscriptions, a new record for online films played on iQIYI. The cumulative number of movie viewers exceeded 10 million. "The Big Illusion" ranked No.1 of iQIYI's Online Film Popular Playing List and Soaring List since the first day of its broadcast, and the topic of "The Big Illusion" in Tik Tok exceeded 500 million. The accumulated sharing income has exceeded 28 million, becoming the best performing online movie in terms of sharing income on iQIYI for the third quarter and also the 4th highest-grossing online movie, becoming one of the ten most popular online movies among all platforms. The second series of "The Big Illusion" is expected to be broadcast in the fourth quarter of 2021.

Stable development in literature related business and steady growth in third-party distribution business. As of 31 December 2020, the cumulative numbers of registered users of Beijing Zhangwen have maintained approximately compound annual growth rate of 24% for four successive years and have exceeded 70 million. Free Fiction of Heiyan, the free reading platform of Beijing Zhangwen launched in 2018, currently has more than 1.5 million active users, maintaining approximately compound annual growth rate of 37% over the past two years. In addition to carrying out online literary reading business on its own platform, Beijing Zhangwen also provides reading services to third-party reading platforms through agency and authorization. The third-party authorization business grew steadily. Many literary works are in the forefront of the Best Selling Lists on platforms such as China Literature (「閱文集團」), Ali Literature (「阿里文學」), iReader(「掌閱文學」), Chasing Artifacts (「追書神器」), Zongheng Literature (「縱橫文學」), Toutiao.com (「今日頭條」), Baidu Literature (「百度文學」), and Migu Culture (「咪咕文化」). A number of literary works of Beijing Zhangwen rank high among the new media distribution annual Best Selling Lists.

## Industry Park Business

During the reporting period, the Group's 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 2020, the commercial leasing market became saturated, coupled with the impact of the pandemic, the entire leasing market down in the doldrums. Facing the challenges, A8 Music Building has actively adopted a number of measures to respond to the pandemic. While organizing the fight against the pandemic, the Group adheres to the business philosophy of "Focusing on customers and demand innovation", stabilized old customers, developed new customers, increased revenue through multiple channels, and reasonably reduced costs. Also, it continuously improved service quality and achieved significant results so that the income of the property investment business grows steadily and moderately compare to last year.

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. Due to the impact of the pandemic, performances in A8 music performance theater suspended from 23rd January and 26 shows were held after the gradual resumption of performances in August. The recording studio gradually resumed operations in the second quarter and maintained a good upward trend. During the reporting period, 231 recordings work were performed and recording revenue increased by 19% compared to 2019.

# Chairman's Statement

## Business Outlook for 2021

Looking forward to 2021, the main business direction of the Group will still be the pan-entertainment market, which consists of online literature, online games, film and television, short video and music. Meanwhile, the Group will explore the development of new business actively, select high quality IP and develop various forms of IP derivatives deeply, enforce research of new economic field's products, market and future development trend, enhance research and analysis of the status and companies in new economic industry, and high quality investment targets which are promising. At the same time, the Group will strengthen project management and optimal process, strictly control risks while seeking business chance. The Group will remain concern to the development and status of the pandemic, continue to assess its impact on the Group's financial position and operating results, and take necessary actions to reduce the business risks. Relying on high-quality management team and excellent operational capabilities, the Group will seek business breakthroughs and development in the pan-entertainment industry, and inroad into new economic fields. Sizing up the situation in the changing macroeconomic environment and forge ahead, we have full confidence and expectation for the future.

# Management Discussion and Analysis

## 1 FINANCIAL REVIEW

### Revenue

For the year ended 31 December 2020, the revenue of the Group amounted to approximately RMB91.3 million, representing a decrease of approximately 15.8% as compared with 2019 (2019: approximately RMB108.4 million).

#### Digital entertainment services

For the year ended 31 December 2020, the revenue of digital entertainment services amounted to approximately RMB13.1 million, representing a decrease of approximately 58.6% as compared with 2019 (2019: approximately RMB31.6 million). The decrease was mainly due to the fact that the Group adjusted the development strategies, resulting in a decrease of approximately RMB16.5 million in revenue from game publishing business and film and television production.

#### Property investment business

For the year ended 31 December 2020, the revenue of property investment business derived from the rentals and management fee amounted to approximately RMB78.3 million, representing an increase of approximately 1.8% as compared with 2019 (2019: approximately RMB76.9 million).

### Cost of services provided

For the year ended 31 December 2020, cost of services provided by the Group amounted to approximately RMB21.1 million, representing a significant decrease of approximately 58.2% as compared with 2019 (2019: approximately RMB50.5 million).

#### Digital entertainment services

For the year ended 31 December 2020, the cost of services provided of digital entertainment services amounted to approximately RMB4.3 million, representing a significant decrease of approximately 87.0% as compared with 2019 (2019: approximately RMB33.0 million). The decrease was mainly due to the decrease of approximately RMB28.7 million in related cost as compared with 2019 accompanied with the decrease in game and film and production related revenue.

#### Property investment business

For the year ended 31 December 2020, the cost of services provided of property investment business amounted to approximately RMB16.8 million, representing a decrease of approximately 4.0% as compared with 2019 (2019: approximately RMB17.5 million). During the year, the Group has implemented effective cost control to reduce the impact of the COVID-19 pandemic on property investment business.

## Gross profit

For the year ended 31 December 2020, the gross profit of the Group amounted to approximately RMB70.3 million, representing an increase of approximately 21.2% as compared with 2019 (2019: approximately RMB58.0 million). The overall gross margin of the Group (which is calculated based on gross profit divided by revenue) was 76.9% for 2020, as compared with 53.4% for 2019. The increase of gross margin was resulted from the increased gross profit of film and television production business for the year.

## Other income and gains, net

For the year ended 31 December 2020, the other income and gains, net of the Group were approximately RMB32.7 million, representing an increase of approximately 84.1% as compared with 2019 (2019: approximately RMB17.7 million).

The increase was mainly due to the increase of dividend income and recognition of gain on fair value change of financial assets at fair value through profit or loss in relation to fund investments amounted to approximately RMB9.2 million and RMB6.2 million, respectively, which was offset by the fair value loss on financial assets at fair value through profit or loss in relation to the investment in Lanlanlanlan Film & Television amounted to approximately RMB3.0 million. For the year ended 31 December 2019, 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 amounted to approximately RMB36.3 million was recognized under other expenses, net.

For the financial assets at fair value through profit of loss in relation to the investment in Lanlanlanlan Film & Television (“Derivative Financial Asset”), affected by the COVID-19 pandemic, the production of network films and dramas of Lanlanlanlan Film & Television decreased and the management of the company made a careful assessment and considered the repayment capability of the founders of Lanlanlanlan Film & Television. At the same time, the Group engaged an independent valuer to measure the fair value of the Derivative Financial Asset using the income approach. Based on the result of the independent valuer, the Group recognized the fair value loss of Derivative Financial Asset of approximately RMB3.0 million.

## Selling and marketing expenses

For the year ended 31 December 2020, the selling and marketing expenses of the Group amounted to approximately RMB4.9 million, representing a decrease of approximately 22.6% as compared with 2019 (2019: approximately RMB6.3 million). The decrease was mainly due to the reduction of game related publishing business.

## Administrative expenses

For the year ended 31 December 2020, the administrative expenses of the Group amounted to approximately RMB33.0 million, representing a decrease of approximately 39.0% as compared with 2019 (2019: approximately RMB54.1 million). The decrease in administrative expenses was mainly due to the decrease in expenses so as to meet the needs of the business and development strategies of the Group.

### Other expenses, net

For the year ended 31 December 2020, the other expenses, net of the Group amounted to approximately RMB27.4 million, representing a decrease of approximately 66.0% as compared with 2019 (2019: approximately RMB80.6 million). The decrease was mainly due to the decrease of fair value loss on Derivative Financial Asset and impairment loss on goodwill arising from acquisition of Mu77 amounted to approximately RMB32.0 million and RMB24.9 million.

For the year ended 31 December 2020, the other expenses, net mainly consisted of (i) an impairment loss on goodwill arising from acquisition of Mu77 amounted to approximately RMB9.6 million; and (ii) fair value loss on investment properties amounted to approximately RMB9.0 million. For the year ended 31 December 2019, the other expenses, net mainly consisted of (i) fair value loss on Derivative Financial assets amounted to approximately RMB34.7 million; (ii) an impairment loss on goodwill arising from acquisition of Mu77 amounted to approximately RMB34.5 million; and (iii) fair value loss on investment properties amounted to approximately RMB7.0 million.

For the fair value loss on Derivative Financial Asset, please refer to the above-mentioned "other income and gains, net".

Given that the increasingly stringent approval of game distribution permits results in a delay or restriction on the launch of games, as well as the unsatisfactory performance of new games launched in second half of the year, Mu77 continued to record losses. Mu77 is regarded as a separate game related entertainment cash-generating unit (the "Mu77 CGU") and the goodwill arising from acquisition of Mu77 was allocated to the Mu77 CGU.

The recoverable amount of Mu77 CGU is determined by the discounted cash flow method under income approach. The determination of the recoverable amount of the cash-generating unit is discounted cash flow method under income approach. Reasons for adopting the method is because the valuation subject is an operating business with historical record of operation and financials. The parameters in the projected cash flow could be referred to historical record and also considered outlook and future performance. The independent valuer has also considered other methods yet they are not as appropriate as discounted cash flow method. On the other hand, in assessing the impairment loss of subject, recoverable amount is considered, thus the future recoverability of the subject should be included in the valuation. Among the valuation methods, discounted cash flow method under income approach is an appropriate method to consider future business and market growth. Hence, discount cash flow method is adopted in the valuation.

The recoverable amount of Mu77 CGU 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 key assumptions included the discount rate, budgeted revenue and growth rates. The discount rate applied to the cash flow projections was 18.57% (2019: 18.16%), reflecting current market assessments of the time value of money and the risks specific to the Mu77 CGU. The budgeted revenue includes estimated revenue from existing games and games in development, considering game popularity, revenue patterns in the game life cycle and the Group's operating strategy and so on. The financial budgets and growth rate within the five-year period have been based on senior management expectations. The senior managements also adjusted the financial budgets based on the post-launch performance of games and experience with the timing of approval of game distribution permits. The growth rate used to extrapolate the cash flows of the relevant games beyond the five-year period is 3% (2019: 2%). Reference to the assessment results of the independent valuer, the recoverable amount of Mu77 CGU was lower than its carrying amount and the Group provided impairment of approximately RMB9.6 million for goodwill during the year (year ended 31 December 2019: approximately RMB34.5 million).

### Share of profits and losses of associates, net

For the year ended 31 December 2020, the Group's share of profits of associates amounted to approximately RMB22.4 million (2019: approximately RMB6.2 million). The increase was mainly due to the increase of share of profit of Beijing Zhangwen amounted to approximately RMB10.6 million.

### Income tax (expense)/credit

For the year ended 31 December 2020, income tax expense of the Group amounted to approximately RMB8.1 million, while the income tax credit for 2019 was approximately RMB7.1 million. This change was mainly due to the increase of corporate income tax of approximately RMB7.1 million and the decrease of deferred tax credit of approximately RMB7.9 million arising from the decrease of fair value loss on Derivative Financial Asset.

### Profit/(loss) attributable to equity holders of the Company

As a result of above-mentioned, for the year ended 31 December 2020, profit attributable to equity holders of the Company amounted to approximately RMB50.7 million, while it was a loss of approximately RMB51.1 million for the year ended 31 December 2019.

### Liquidity and Financial Resources

As at 31 December 2020, 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 RMB527.6 million (2019: approximately RMB571.9 million). Among which, approximately RMB159.0 million, or approximately 30.1% was denominated in RMB and the pledged deposit of approximately RMB39.2 million.

As at 31 December 2020, the Group has interest-bearing bank borrowings of approximately RMB46.0 million (2019: RMB130.0 million) in aggregate, and the gearing ratio which is measured by the net borrowings over the total assets is approximately 2.6% (2019: 7.2%).

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 2020, 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 ("FVPL")

As at 31 December 2020, the Group's financial assets at fair value through profit or loss amounted to approximately RMB175.1 million (2019: approximately RMB144.4 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 2020, the fair value of investments in funds and derivative financial assets are determined by the independent 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. During the year, the Group received dividends of approximately RMB8.1 million from fund investments.

Set out below are details of financial assets at fair value through profit or loss as at 31 December 2020:

| **Investment category** | **Fair value as at 31 December 2020** (RMB'000) | **Fair value as at 31 December 2019** (RMB'000) | **Percentage increase/ (decrease)** |
|---|---|---|---|
| Fund investments[1] | 135,930 | 124,731 | 9.0% |
| Wealth management products | 39,206 | 16,500 | 137.6% |
| Derivative financial asset[2] | – | 2,971 | –100.0% |
| Listed equity investment[3] | – | 239 | –100.0% |
| Total | 175,136 | 144,441 | 21.3% |

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"), 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)), and Shenzhen Qingsong Small and Medium Enterprises Development Investment Partnership Enterprise (Limited Partnership) ("Qingsong Fund IV"). For the investments in Qingsong Fund II, Qingsong Fund III and Qingsong IV, please refer to the announcements of the Group dated 24 January 2014, 15 May 2017 and 21 January 2020, 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 income and gains, net" above.

(3) During the year, the Group disposed of the listed equity investment.

Except for Qingsong Fund II, none of other investee companies above-mentioned has a carrying amount that accounts for more than 5% of the Group's total assets as at 31 December 2020. Details of Qingsong Fund II was set out in the "MATERIAL PURCHASES AND DISPOSAL AND MATERIAL INVESTMENTS".

## Financial assets at fair value through other comprehensive income ("FVOCI")

As at 31 December 2020, the Group's financial assets at fair value through other comprehensive income amounted to approximately RMB234.6 million (2019: approximately RMB233.4 million). 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. During the year, the Group received dividends of approximately RMB2.8 million from Xiamen Mengjia.

Set out below are details of financial equity assets at fair value through other comprehensive income as at 31 December 2020:

| Investment category | Fair value as at 31 December 2020 (RMB'000) | Fair value as at 31 December 2019 (RMB'000) | Percentage increase |
|---|---|---|---|
| Game development companies[1] | 225,103 | 225,189 | –0.04% |
| Information technology services company[2] | 9,538 | 8,225 | 16.0% |
| Total | 234,641 | 233,414 | 0.5% |

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 Lemon Network are 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.

Except for Xiamen Mengjia, none of other investee companies above-mentioned has a carrying amount that accounts for more than 5% of the Group's total assets as at 31 December 2020. Details of Xiamen Mengjia was set out in the "MATERIAL PURCHASES AND DISPOSAL AND MATERIAL INVESTMENTS".

## Contingent Liabilities

As at 31 December 2020, 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 2020, 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.

## 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 2022.

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.

As at 31 December 2020, the details of significant investments of the Group were set out as follows:

| Investment category | Name of the investment | Investment cost RMB'000 | Percentage investment of held as at 31 December 2020 (%) | Fair value/ Carrying amount as at 31 December 2019 RMB'000 | Change in fair value/ share of profit for the year ended 31 December 2020 RMB'000 | Fair value/ Carrying amount as at 31 December 2020 RMB'000 | Size as compared to the Group's total assets as at 31 December 2020 (%) | Total amount of dividends received for the year ended 31 December 2020 RMB'000 | Principal activities |
|---|---|---|---|---|---|---|---|---|---|
| FVOCI | Xiamen Mengjia | 20,024 | 10 | 223,028 | 1,461 | 224,489 | 12.8 | 2,807 | Games development |
| FVPL | Qingsong fund II | 20,000 | 6 | 89,724 | 2,278 | 92,002 | 5.2 | 5,226 | Investment |
| Investment in associate | Beijing Zhangwen | 195,098 | 35 | 218,018 | 23,639 | 241,657 | 13.7 | – | Incubation and operations of IP and provision of online book reading |

Save as disclosed above, for the year ended 31 December 2020, 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 2020, the Group had 76 employees (2019: 107). The average headcounts of 2020 was 80 while it was 124 in 2019. 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 2020, including directors' emoluments, amounted to approximately RMB21.3 million, representing a decrease of approximately 40.0% as compared with 2019 (2019: approximately RMB35.4 million). The decrease is mainly due to the fact that the needs of development strategy of the Group through reducing headcounts for improvement of efficiency and cutting down expenses.

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

## 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 2020, HK Dollars and US Dollars denominated cash and cash equivalents held by the Group were approximately HK$8.2 million and US$55.4 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 UPDATE ON THE FULFILLMENT OF PERFORMANCE OF 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, 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.

## 7 EVENTS AFTER THE REPORTING PERIOD

### Entering into of new contractual arrangements

Due to the replacement of one of the registered shareholders of Shanghai Mu77 Network Technology Company Limited (上海木七七網絡科技有限公司) ("Mu77SH"), being one of the Group's operating entities, from Yunhai Qingtian to Huadong Feitian, the previous contractual arrangements in relation to Shanghai Mu77 entered into in 2018 were terminated and the relevant parties, namely Huadong Feitian, Tianjin Muba Business Management Consulting Center (Limited Partnership) (天津木巴企業管理諮詢中心(有限合夥)) ("Tianjin Muba"), Linzhi Tencent Technology Co., Ltd. (林芝騰訊科技有限公司) ("Linzhi Tencent") and Mu77SH entered into a series of new contractual arrangements in relation to Mu77SH on 26 February 2021. 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 Mu77SH would continue to be accounted for and consolidated into the accounts of the Group.

# 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 | 55 | Executive Director and Chairman of the Board | 2 October 2007 |
| Mr. Lin Qian | 38 | Executive Director and Chief Financial officer | 6 April 2017 |
| Mr. Chan Yiu Kwong | 56 | Independent Non-executive Director | 9 November 2007 |
| Ms. Wu Shihong | 64 | Independent Non-executive Director | 27 March 2012 |
| Mr. Li Feng | 53 | Independent Non-executive Director | 30 May 2016 |

Set out below are the particulars of each Director:

### Executive Directors

**Mr. Liu Xiaosong ("Mr. Liu")**, aged 55, 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"), which is associate 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 disclosable under the Securities and Futures ordinance (Cap. 571 of the Laws of Hong Kong).

**Mr. Lin Qian ("Mr. Lin")**, aged 38, 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 56, 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 64, 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 was appointed as an independent non- executive Director on 27 March 2012.

# Directors and Senior Management

**Mr. Li Feng ("Mr. Li")**, aged 53, 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.

# 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 2020.

## 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 2020 is set out in the section headed "Chairman's Statement" on pages 4 to 7 of this annual report.

## RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2020 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 2020 and the Board does not recommend the payment of final dividend for the year ended 31 December 2020.

## 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 2020 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 2020, the Company's reserves available for distribution amounted to approximately RMB711,015,000.

## MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2020, revenues from the five largest customers of the Group accounted for approximately 28% of the Group's total revenues while revenues from the largest customer for the Group accounted for approximately 10% of the Group's total revenues. In addition, for the year ended 31 December 2020, purchases from the Group's five largest suppliers accounted for less than 9% 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 re-election as Directors at the forthcoming annual general meeting of the Company.

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

## DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and senior management of the Group are set out on pages 18 to 20 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 2020 and up to the date of this annual report, there was or is permitted indemnity provision (within the meaning in section 469 of the Hong Kong Companies ordinance) in the articles of association of the Company being in force.

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

## DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed in note 38 to the financial statements and in the section headed "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 2020.

## 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 2020.

Save as disclosed in note 38 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 38 to the financial statements, no contract of significance for the provision of services to the Group by the controlling shareholders of the Company or any of its subsidiaries was entered into.

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

As at 31 December 2020, 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] | 1,589,047,398[3] | Nil | 58.83% |
| | Beneficial owner | 5,766,000 | 61,557,600 | 2.49% |
| 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 2020 (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 2020, Prime Century directly held 424,796,303 shares and Ever Novel directly held 1,076,371,095 shares in the Company.

3. On 25 September 2020, Mr. Liu's family trust wholly owns Grand Idea Holdings Limited ("Grand Idea") through River Road Investment Limited ("River Road"), and Grand Idea holds 87,880,000 shares of the Company. Mr Liu Xiaosong is deemed under SFO to be interested in all the shares held by Grand Idea 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 |
|---|---|---|---|---|
| Beijing Duomi[1] | Mr. Liu | Beneficial owner | 25,383,000[2] | 28.71% |

Notes:

1. Beijing Duomi is a limited liability company incorporated in the PRC. As at 31 December 2020, 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 28.71% of the shares of Beijing Duomi.

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

Save as disclosed, as at 31 December 2020, 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. The 2018 Share Option Scheme shall be valid for ten years from the effective date (which takes effect from 29 May 2018 to 28 May 2028). For the year ended 31 December 2020, the remaining life of the 2018 Share Option Scheme is around 7 years and 5 months.

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

| Name/category of participants | Date of grant | At 1 January 2020 | During the year: Exercised | During the year: Granted | During the year: Lapsed/ Cancelled | At 31 December 2020 | Exercise price | Closing price of shares immediately before date of grant HK$ per share | End of exercise period |
|---|---|---|---|---|---|---|---|---|---|
| **Directors of the Group** | | | | | | | | | |
| **Liu Xiaosong** | | **41,575,600** | **–** | **19,982,000** | **–** | **61,557,600** | | | |
| 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 |
| | 9 September 2020 | – | – | 19,982,000 | – | 19,982,000 | 0.167 | 0.166 | 9/9/2030 |
| **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 |
| **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** | | **50,360,600** | **–** | **19,982,000** | **–** | **70,342,600** | | | |
| **Other employees in group** | | | | | | | | | |
| | 23 April 2014 | 1,250,000 | – | – | – | 1,250,000 | 0.65 | 0.65 | 23/4/2021 |
| | 23 April 2014 | 1,377,053 | – | – | – | 1,377,053 | 0.65 | 0.65 | 23/4/2021 |
| **Sub-total** | | **2,627,053** | **–** | **–** | **–** | **2,627,053** | | | |
| **Other eligible persons of** | | | | | | | | | |
| | 28 June 2019 | 59,664,000 | – | – | 2,028,576 | 57,635,424 | | | |
| **Sub-total** | | **59,664,000** | **–** | **-** | **2,028,576** | **57,635,424** | 0.219 | 0.219 | 28/6/2029 |
| **total** | | **112,651,653** | **–** | **19,982,000** | **2,028,576** | **130,605,077** | | | |

| 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 2020 |
| 7 May 2018 | One-fourth of the share options granted was vested/will be vested on 7 May 2018, 7 May 2020, 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 |
| 9 September 2020 | The share options granted was fully vested at one time on 9 September 2020 |

During the year ended 31 December 2020, 19,982,000 share options were granted under the Share Option Scheme, no share options granted under the Share Option Scheme was exercised and 2,028,576 share options granted under the Share Option Scheme were lapsed following the resignation of the eligible persons. As at the date of approval of this financial report, there were 125,753,813 outstanding share options granted under the Share Option Scheme, representing approximately 4.65% of the issued share capital of the Company.

Save as disclosed above, no other share options were granted, exercised, lapsed, or cancelled 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 2020, 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, no awarded shares were released to awarders, no awarded shares were lapsed.

The Share Award Scheme is valid and effective within 10 years from the date of adoption. On August 15, 2020, the Share Award Scheme expired, and the remaining 7,350,630 shares have been sold in accordance with the terms of the Share Award Scheme. The company has received HK$1,178,825 for the sale of the remaining shares of the Share Award Scheme (deducting relevant expenses).

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 2020, 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 2020, 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] | 1,589,047,398 | 58.83% |
| River Road | Interest in controlled corporation[2] | 1,589,047,398 | 58.83% |
| Knight Bridge | Interest in controlled corporation[2] | 1,501,167,398 | 55.58% |
| Ever Novel | Interest in controlled corporation[3] | 424,796,303 | 15.73% |
| | Beneficial owner[3] | 1,076,371,095 | 39.85% |
| Prime Century | Beneficial owner[3] | 424,796,303 | 15.73% |

Notes:

1. The percentage of interest in the Company is calculated by reference to the number of Shares in issue as at 31 December 2020 (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, Knight Bridge, Ever Novel, Prime Century and 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 2020, 1,589,047,398 Shares in total).

3. As at 31 December 2020, Prime Century directly held 424,796,303 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 424,796,303 shares in the Company held directly by Prime Century.

Save as disclosed above, as at 31 December 2020, 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.

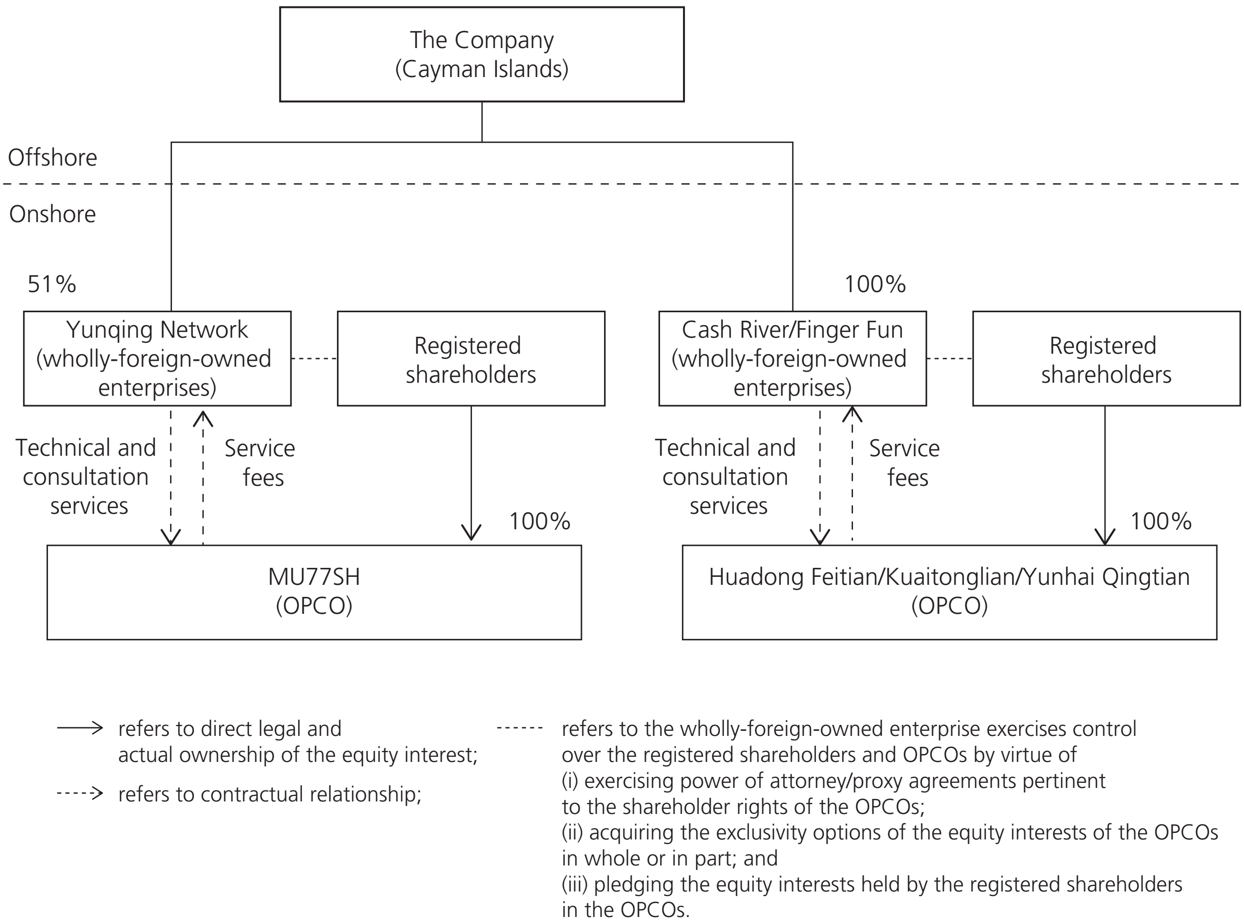
## CONNECTED TRANSACTIONS

### 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 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.

The Company entered into the agreements about Huadong Feitian, Kuaitonglian, Yunhai Qingtian (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. The Group entered into the agreements about Mu77SH in 2018 ("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. Because of the change of registered shareholders of Huadong Feitian, the Group entered into the new agreements about Huadong Feitian in 2020 ("2020 Structure Contracts"). "2015 Contractual Arrangements of Kuaitonglian and Yunhai Qingtian", "2018 Contractual Arrangements of Mu77SH" and "2020 Contractual Arrangements of Huadong Feitian" collectively referred to as "Structure Contracts").

The following figure sets out the Contractual Arrangements entered into on 31 December 2020:




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 Xiaofeng (75%) and Ms. Li Wei (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) (天津木巴企業管理諮詢中心(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. (佳仕域信息科技(深圳)有限公司) ("Cash River"), an indirect wholly-owned subsidiary of the Company;

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

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

## 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

OPCOs entered into the Exclusive Business Cooperation Agreements with wholly-foreign-owned enterprises, pursuant to which wholly-foreign-owned enterprises provide 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. 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 registered shareholders, OPCOs, and wholly-foreign-owned enterprises OPCOs 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 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.

## Entering into of new contractual arrangements (After 31 December 2020)

Due to the replacement of one of the registered shareholders of Shanghai Mu77 Network technology Company Limited (上海木七七網絡科技有限公司) ("Mu77SH"), being one of the Group's operating entities, from Yunhai Qingtian to Huadong Feitian, the previous contractual arrangements in relation to Shanghai Mu77 entered into in 2018 were terminated and the relevant parties, namely Huadong Feitian, Tianjin Muba Business Management Consulting Center (Limited Partnership) (天津木巴企業管理諮詢中心(有限合夥)) ("Tianjin Muba"), Linzhi Tencent technology Co., Ltd. 林芝騰訊科技有限公司) ("Linzhi Tencent") and Mu77SH entered into a series of new contractual arrangements in relation to Mu77SH on 26 February 2021. 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 Mu77SH would continue to be accounted for and consolidated into the accounts of the Group.

## RISKS RELATING TO THE CONTRACTUAL ARRANGEMENTS

### The PRC government may determine that the 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 2020 was approved by the State Council and released by the relevant authorities on 23 June 2020. 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 VIE Structure will be deemed to be in violation of the foreign investment access requirements remains uncertain. If the VIE Structure is classified as a way of foreign investment, the Group may be required to terminate the Structure Contracts and dispose of the business conducted by OPCOs.

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 Structure Contracts and the business of the Company. In case there would be material impacts on the Group's or OPCOs'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 Structure Contracts may not be as effective as direct ownership in providing control over OPCOs

The Structure Contracts may not be as effective as direct ownership in providing the Group with control over OPCOs. If the Group has direct ownership of OPCOs, it will be able to exercise its rights as a shareholder to effect changes in the board of directors of OPCOs. However, under the Structure Contracts, the Group relies on the performance by the Registered Shareholders of their obligations under the Structure Contracts to exercise control over OPCOs.

In addition, if the Registered Shareholders or OPCOs fail to perform their respective obligations under the 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 OPCOs.

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

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

### The 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 Structure Contracts was not entered into on an arm's length basis. If the PRC tax authorities determine that the Structure Contracts were not entered into on an arm's length basis, they may adjust income and expenses of wholly-foreign-owned enterprises and/or OPCOs for PRC tax purposes, which could result in higher tax liabilities on wholly-foreign-owned enterprises and/or OPCOs.

The operating and financial results of the Group may be materially and adversely affected if the tax liabilities of OPCOs or wholly-foreign-owned enterprises increase significantly or if they are required to pay interest on late payments and other penalties.

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

The 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 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 Structure Contracts. In the event that the Group is unable to enforce the 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 OPCOs.

In the event that OPCOs or any of the Registered Shareholders breaches the terms of the Structure Contracts, the Group may not be able to obtain sufficient remedies in a timely manner, and its ability to exert effective control over OPCOs could be materially and adversely affected.

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

The Share Disposal and Exclusive option to Purchase Agreements granted wholly foreign-owned enterprises or their designee an irrevocable and exclusive right to purchase all or part of the equity interest in OPCOs 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 wholly foreign-owned enterprises exercises their option to acquire all or part of the equity interests in OPCOs 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 OPCOs) 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 OPCOs to wholly foreign-owned enterprises or their 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 Structure Contracts and the transactions contemplated thereunder

The insurance of the Group does not cover the risks relating to the Structure Contracts and the transactions thereunder and the Company has no intention to purchase any insurance in this regard. If any risk arises from the Structure Contracts in the future, such as those affecting the enforceability of the Structure Contracts and the operation of OPCOs, 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 Structure Contracts.

### 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 of the Company, three members of which are independent non-executive Directors with the Chairman Mr. Chan Yiu Kwong having appropriate professional qualifications and experience in financial matters, has reviewed the accounting policies, accounting standards and practices adopted by the Group, discussed auditing, internal control and financial reporting matters, and reviewed the consolidated financial statements and results of the Group for the year ended 31 December 2020.

## AUDITORS

The financial statements of the Group for the year ended 31 December 2020 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
30 March 2021

# 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 2020, 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 2020, the Board has at all time met the relevant requirements of the Listing Rules relating to having at least one-third of independent non-executive Directors, comprising at least three independent non-executive Directors and having one independent non-executive Director with the appropriate professional qualifications and accounting and related financial management expertise.

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

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

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

## Appointment, Re-election and Removal of Directors

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

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

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

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

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

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

The Nomination Committee recommended the re-appointment of the Directors Mr. Liu Xiaosong and Mr. Chan Yiu Kwong standing for re-election at the next forthcoming annual general meeting of the Company. The Company's circular dated 27 April 2021 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 2020; the Board has reviewed and evaluated such training records in the board meeting dated 30 March 2021.

According to the aforementioned records, a summary of the training received in 2020 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 2020, four 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 of the Board)* | 4/4 |
| Mr. Lin Qian | 4/4 |
| *Independent Non-executive Directors* | |
| Mr. Chan Yiu Kwong | 4/4 |
| Ms. Wu Shihong | 4/4 |
| Mr. Li Feng | 4/4 |

## General Meetings

During the year ended 31 December 2020, one general meeting was held by the Company. The Chairman of the Board and the executive directors attended the annual general meeting in 29 May 2020, and were available to answer questions. the attendance records of each Director at the general meetings are set out below:

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

## Practices and Conduct of Meetings

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

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

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

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

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

According to current Board practice, any 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 2020, the roles of chairman and chief executive officer of the Company are both held by Mr. Liu Xiaosong, which did not comply 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 2020.

## 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 2020, 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 2020. 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 2020, 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 2020 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 for Securities Transactions by Directors 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 complied with the own code and the model code throughout the year ended 31 December 2020.

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 noncompliance 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 2020.

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 pages 53 to 57. During the year ended 31 December 2020, 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 | 1,120 |
| Non-audit services — other services | 124 |
| Total | 1,244 |

## 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 2703, 27/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 2703, 27/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 2703, 27/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.

# Corporate Governance Report

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

## Company Secretary

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

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

During the financial year ended 31 December 2020, Ms. Ho has complied with Article 3.29 of the Listing Rules and taken over 15 hours of relevant professional training to refresh their skills and knowledge.

## Constitutional Documents

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

# Independent Auditor's Report

EY 安永

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

## OPINION

We have audited the consolidated financial statements of A8 New Media Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 58 to 158, which comprise the consolidated statement of financial position as at 31 December 2020, 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 2020, 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 ("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 RMB348.9 million before impairment provision of approximately RMB76.1 million as at 31 December 2020. 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 professionally qualified valuer (the "external valuer") to determine the recoverable amount of the investment in a significant associate which has indication of impairment.<br><br>The gross carrying amount of the Group's goodwill arising from acquisition of subsidiaries was approximately RMB88.4 million before impairment provision of approximately RMB79.1 million as at 31 December 2020. The Group engaged the external valuer to determine the recoverable amount of the cash-generating unit to which the goodwill is allocated.<br><br>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 2020 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.<br><br>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. 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 assessing the reasonableness of the methodology, discount rates and terminal growth rate adopted in the cash flow projections.<br><br>We evaluated the objectivity, capabilities and competence of the external valuer engaged by the Group.<br><br>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 2020, the Group's financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income of approximately RMB175 million and RMB235 million, respectively, were categorised as Level 3 within the fair value hierarchy, which represented 11.7% and 15.7%, respectively, of the Group's net assets. The Group engaged an external valuer to apply valuation techniques to determine the fair values of the financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income that are not quoted in active markets. These valuation techniques, in particular those 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.<br><br>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 40 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.<br><br>We evaluated the objectivity, capabilities and competence of the external valuer engaged by the Group.<br><br>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, actions taken to eliminate threats or safeguards applied.

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

30 March 2021

# Consolidated Statement of Profit or Loss

Year ended 31 December 2020

| | Notes | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|---|
| **REVENUE** | 6 | **91,347** | 108,438 |
| Cost of services provided | | **(21,093)** | (50,479) |
| Gross profit | | **70,254** | 57,959 |
| Other income and gains, net | 6 | **32,664** | 17,741 |
| Selling and marketing expenses | | **(4,871)** | (6,291) |
| Administrative expenses | | **(33,039)** | (54,131) |
| Other expenses, net | | **(27,447)** | (80,630) |
| Finance costs | 8 | **(3,232)** | (6,579) |
| Share of profits and losses of associates, net | | **22,401** | 6,210 |
| **PROFIT/(LOSS) BEFORE TAX** | 7 | **56,730** | (65,721) |
| Income tax credit/(expense) | 10 | **(8,149)** | 7,138 |
| **PROFIT/(LOSS) FOR THE YEAR** | | **48,581** | (58,583) |
| Attributable to: | | | |
| Owners of the Company | | **50,703** | (51,085) |
| Non-controlling interests | | **(2,122)** | (7,498) |
| | | **48,581** | (58,583) |
| **EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY** | 12 | | |
| Basic (RMB per share) | | **1.88 cents** | (1.90 cents) |
| Diluted (RMB per share) | | **1.88 cents** | (1.90 cents) |

# Consolidated Statement of Comprehensive Income

Year ended 31 December 2020

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| **PROFIT/(LOSS) FOR THE YEAR** | **48,581** | (58,583) |
| **OTHER COMPREHENSIVE INCOME/(LOSS)** | | |
| **Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:** | | |
| Exchange differences on translation of financial statements | **(20,210)** | 7,160 |
| **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 | **1,227** | 133,032 |
| Income tax effect | **(307)** | (33,258) |
| | **920** | 99,774 |
| Share of other comprehensive loss of an associate | **–** | (25,904) |
| Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods | **920** | 73,870 |
| **OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX** | **(19,290)** | 81,030 |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | **29,291** | 22,447 |
| Attributable to: | | |
| Owners of the Company | **31,413** | 29,945 |
| Non-controlling interests | **(2,122)** | (7,498) |
| | **29,291** | 22,447 |

# Consolidated Statement of Financial Position

31 December 2020

| | Notes | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 13 | **127,137** | 135,305 |
| Investment properties | 14 | **422,000** | 431,000 |
| Right-of-use assets | 15(a) | **12,708** | 13,758 |
| Goodwill | 16 | **9,278** | 18,871 |
| Intangible assets | 17 | **1,901** | 2,630 |
| Network films and dramas | 21(b) | **–** | 457 |
| Investments in associates | 18 | **272,761** | 250,360 |
| Financial assets at fair value through profit or loss | 24 | **135,930** | 127,702 |
| Financial assets at fair value through other comprehensive income | 20 | **234,641** | 233,414 |
| Deferred tax assets | 30 | **609** | 1,128 |
| Total non-current assets | | **1,216,965** | 1,214,625 |
| **CURRENT ASSETS** | | | |
| Network films and dramas under production | 21(a) | **–** | 3,663 |
| Trade receivables | 22 | **4,174** | 2,014 |
| Prepayments, other receivables and other assets | 23 | **10,074** | 13,872 |
| Financial assets at fair value through profit or loss | 24 | **39,206** | 16,739 |
| Restricted cash balances and pledged deposits | 25 | **39,920** | 183,009 |
| Cash and cash equivalents | 26 | **448,434** | 372,110 |
| Total current assets | | **541,808** | 591,407 |
| **CURRENT LIABILITIES** | | | |
| Trade payables | 27 | **8,589** | 8,014 |
| Other payables and accruals | 28 | **50,555** | 51,800 |
| Interest-bearing bank borrowings | 29 | **46,000** | 130,000 |
| Tax payable | | **17,861** | 10,281 |
| Lease liabilities | 15(b) | **521** | 755 |
| Total current liabilities | | **123,526** | 200,850 |
| **NET CURRENT ASSETS** | | **418,282** | 390,557 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **1,635,247** | 1,605,182 |

# Consolidated Statement of Financial Position

31 December 2020

| | Notes | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|---|
| **NON-CURRENT LIABILITIES** | | | |
| Lease liabilities | 15(b) | **–** | 521 |
| Deferred tax liabilities | 30 | **137,930** | 139,066 |
| Deferred income | | **600** | 2,100 |
| Total non-current liabilities | | **138,530** | 141,687 |
| Net assets | | **1,496,717** | 1,463,495 |
| **EQUITY** | | | |
| **Equity attributable to owners of the Company** | | | |
| Issued capital | 31 | **22,818** | 22,818 |
| Reserves | 34 | **1,473,774** | 1,438,430 |
| | | **1,496,592** | 1,461,248 |
| **Non-controlling interests** | | **125** | 2,247 |
| Total equity | | **1,496,717** | 1,463,495 |

**Liu Xiaosong**
*Director*

**Lin Qian**
*Director*

# Consolidated Statement of Changes in Equity

Year ended 31 December 2020

| | Attributable to owners of the Company | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Issued capital RMB'000 (note 31) | Share premium account RMB'000 (note 31) | Shares held under share award scheme RMB'000 (note 33) | Merger reserve RMB'000 (note 34(i)) | Surplus contributions RMB'000 (note 34(ii)) | Employee share-based compensation reserve RMB'000 | Exchange fluctuation reserve RMB'000 | Capital reserve RMB'000 | Statutory reserve fund RMB'000 (note 34(iii)) | Reserve fund RMB'000 (note 34(iii)) | Fair value reserve RMB'000 | Retained profits RMB'000 | Total RMB'000 | Non-controlling interests RMB'000 | Total equity RMB'000 |
| 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 |
| At 1 January 2020 | 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 |
| Profit for the year | – | – | – | – | – | – | – | – | – | – | – | 50,703 | 50,703 | (2,122) | 48,581 |
| Other comprehensive income/(loss) for the year: | | | | | | | | | | | | | | | |
| Changes in fair value of financial assets at fair value through other comprehensive income, net of tax | – | – | – | – | – | – | – | – | – | – | 920 | – | 920 | – | 920 |
| Exchange differences on translation of financial statements | – | – | – | – | – | – | (20,210) | – | – | – | – | – | (20,210) | – | (20,210) |
| Total comprehensive income for the year | – | – | – | – | – | – | (20,210) | – | – | – | 920 | 50,703 | 31,413 | (2,122) | 29,291 |
| Deregistration of subsidiaries | – | – | – | – | – | – | – | – | (2,418) | – | – | 2,418 | – | – | – |
| Equity-settled share-based payment arrangements | – | – | – | – | – | 2,515 | – | – | – | – | – | – | 2,515 | – | 2,515 |
| Transfer of reserve upon the forfeiture or expiry of share options | – | – | – | – | – | (114) | – | – | – | – | – | 114 | – | – | – |
| Disposal of award shares | – | – | 1,416 | – | – | – | – | – | – | – | – | – | 1,416 | – | 1,416 |
| At 31 December 2020 | 22,818 | 966,775* | –* | 29,135* | 10,522* | 37,048* | (15,338)* | 10,326* | 18,518* | 4,422* | 177,543* | 234,823* | 1,496,592 | 125 | 1,496,717 |

* These reserve accounts comprise the consolidated reserves of RMB1,473,774,000 (2019: RMB1,438,430,000) in the consolidated statement of financial position.

# Consolidated Statement of Cash Flows

Year ended 31 December 2020

| | Notes | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Profit/(loss) before tax | | **56,730** | (65,721) |
| Adjustments for: | | | |
| Depreciation of property, plant and equipment | 7 | **8,099** | 8,771 |
| Depreciation of right-of-use assets | 7 | **1,050** | 1,208 |
| Amortisation of intangible assets | 7 | **729** | 5,147 |
| Amortisation of network films and dramas | 7 | **457** | 16,827 |
| Impairment of intangible assets | 7 | **–** | 6,733 |
| Loss on deregistration of subsidiaries | 7 | **–** | 1,540 |
| Loss/(gain) on disposal of items of property, plant and equipment | 7 | **(248)** | 273 |
| Fair value losses/(gains) on financial assets at fair value through profit or loss | 7 | **(3,155)** | 36,319 |
| Fair value losses on investment properties | 7 | **9,000** | 7,000 |
| Bank interest income | 6 | **(14,224)** | (14,943) |
| Share of profits and losses of associates, net | | **(22,401)** | (6,210) |
| Impairment of goodwill | 7 | **9,593** | 34,495 |
| Impairment of network films and dramas under production | 7 | **3,663** | – |
| Write-off of trade receivables | 7 | **2,929** | – |
| Write-off of items of property, plant and equipment | 13 | **–** | 418 |
| Write-off of a lease | | **–** | (12) |
| Impairment/(reversal of impairment) of trade receivables | 7 | **17** | (43) |
| Reversal of impairment of financial assets included in prepayments, other receivables and other assets | 7 | **(57)** | (96) |
| Write-off of trade payables | 7 | **(465)** | (9,310) |
| Write-off of other payables | 7 | **(1,345)** | – |
| Equity-settled share option expense | 7 | **2,515** | 4,785 |
| Loss on disposal of award shares | | **353** | – |
| Dividend income | 6 | **(10,935)** | (1,782) |
| Finance costs | 8 | **3,232** | 6,579 |
| Covid-19-related rent concession from a lessor | | **(65)** | – |
| | | **45,472** | 31,978 |
| Decrease/(increase) in trade receivables | | **(5,106)** | 8,111 |
| Increase in network films and dramas under production | | **–** | (1,372) |
| Decrease in prepayments, other receivables and other assets | | **472** | 11,348 |
| Increase/(decrease) in trade payables | | **1,040** | (2,079) |
| Increase in other payables and accruals | | **828** | 4,528 |
| Decrease in deferred income | | **(1,970)** | (3,154) |
| Cash generated from operations | | **40,736** | 49,360 |

# Consolidated Statement of Cash Flows

Year ended 31 December 2020

| | Notes | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|---|
| Cash generated from operations | | **40,736** | 49,360 |
| Interest paid | | **(36)** | (85) |
| Tax paid | | **(1,493)** | (1,796) |
| Net cash flows from operating activities | | **39,207** | 47,479 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Purchases of items of property, plant and equipment | | **(50)** | (271) |
| Purchase of shareholdings in an associate | | **–** | (1,847) |
| Acquisition of a subsidiary | | **–** | (24,887) |
| Purchase of financial assets at fair value through profit or loss | | **(44,206)** | (16,500) |
| Interest received | | **17,115** | 13,007 |
| Decrease in restricted cash balances and pledged deposits | | **143,089** | 91,524 |
| Decrease/(increase) in time deposits with original maturity of more than three months when acquired | | **286,053** | (291,649) |
| Proceeds from disposal of financial assets at fair value through profit or loss | | **16,673** | 15,500 |
| Proceeds from disposal of property, plant and equipment | | **347** | 109 |
| Dividend received | | **10,935** | 1,782 |
| Net cash flows from/(used in) investing activities | | **429,956** | (213,232) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from disposal of award shares | | **1,063** | – |
| New bank loans | | **46,000** | 225,730 |
| Repayment of bank loans | | **(130,000)** | (290,788) |
| Acquisition of non-controlling interests | | **–** | (60) |
| Principal portion of lease payments | 35(b) | **(690)** | (809) |
| Interest paid | | **(3,196)** | (6,494) |
| Net cash flows used in financing activities | | **(86,823)** | (72,421) |

# Consolidated Statement of Cash Flows

Year ended 31 December 2020

| | Notes | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|---|
| **NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS** | | **382,340** | (238,174) |
| Cash and cash equivalents at beginning of year | | **75,461** | 306,475 |
| Effect of foreign exchange rate changes, net | | **(19,963)** | 7,160 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | | **437,838** | 75,461 |
| **ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS** | | | |
| Cash and bank balances | | **408,778** | 67,845 |
| Non-pledged time deposits | | **39,656** | 304,265 |
| Cash and cash equivalents as stated in the consolidated statement of financial position | 26 | **448,434** | 372,110 |
| Time deposits with original maturity of more than three months when acquired | | **(10,596)** | (296,649) |
| Cash and cash equivalents as stated in the consolidated statement of cash flows | | **437,838** | 75,461 |

## 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:

- 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/registered capital | Percentage of equity attributable to the Company Direct | Indirect | Principal activities |
|---|---|---|---|---|---|
| A8 Music Group Limited ("A8 Music") | British Virgin Islands | Ordinary shares US$64,500 Preferred shares US$9,300 | 100 | – | Investment holding |
| 佳仕域信息科技(深圳)有限公司 Cash River Information Technology (Shenzhen) Co., Ltd. ("Cash River") *# | The People's Republic of China (the "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/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<br>Shenzhen Yunhai Qingtian Cultural Broadcasting Co., Ltd. ("Yunhai Qingtian") (note (i))*@ | PRC/Mainland China | RMB10,000,000<br>Registered capital | – | 100 | Provision of game publishing services |
| 深圳市快通聯科技有限公司<br>Shenzhen Kuaitonglian Technology Co., Ltd. ("Kuaitonglian") (note (i))*@ | PRC/Mainland China | RMB10,000,000<br>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<br>Beijing Chuangmeng Yinyue Culture Development Co., Ltd. (note (i))*@ | PRC/Mainland China | RMB5,000,000<br>Registered capital | – | 100 | Provision of mobile value-added services |
| 北京愛樂空間文化傳播有限公司<br>Beijing Aiyue Cultural Broadcasting Co., Ltd. (note (i))*@ | PRC/Mainland China | RMB10,000,000<br>Registered capital | – | 100 | Provision of mobile value-added services |
| 普好有限公司<br>Total Plus Limited | Hong Kong/ Mainland China | HK$97,045<br>Issued capital | – | 100 | Investment holding |
| 茂御有限公司<br>Phoenix Success Limited ("Phoenix Success") | Hong Kong/ Mainland China | HK$1<br>Issued capital | 100 | – | Investment holding |
| 深圳市指游方寸網絡科技有限公司<br>Shenzhen Finger Fun Network Technology Co., Ltd. ("Finger Fun") *# | PRC/Mainland China | HK$190,000,000<br>Registered capital | – | 100 | Investment holding of game business |

## 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/registered capital | Percentage of equity attributable to the Company Direct | Indirect | Principal activities |
|---|---|---|---|---|---|
| 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 | RMB14,000,000 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 |
| 佳睿域信息科技(深圳)有限公司 Jiaruiyu (Shenzhen) Information Technology Co., Ltd (note (i))*@ | PRC/Mainland China | RMB1,000,000 Registered capital | – | 100 | Property investment |
| 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 | Game development and 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)

* 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 structured contracts have been effectuated

(1) between Cash River and

(a) Huadong Feitian and its registered shareholders, and

(b) Kuaitonglian and its registered shareholders, respectively;

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

## 2. BASIS OF PREPARATION

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

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

### Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2020. 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 *Conceptual Framework for Financial Reporting 2018* and the following revised IFRSs for the first time for the current year's financial statements.

| | |
|---|---|
| Amendments to IFRS 3 | *Definition of a Business* |
| Amendments to IFRS 9, IAS 39 and IFRS 7 | *Interest Rate Benchmark Reform* |
| Amendment to IFRS 16 | *Covid-19-Related Rent Concessions* (early adopted) |
| Amendments to IAS 1 and IAS 8 | *Definition of Material* |

The nature and the impact of the *Conceptual Framework for Financial Reporting 2018* and the revised IFRSs are described below:

(a) *Conceptual Framework for Financial Reporting 2018* (the "Conceptual Framework") sets out a comprehensive set of concepts for financial reporting and standard setting, and provides guidance for preparers of financial statements in developing consistent accounting policies and assistance to all parties to understand and interpret the standards. The Conceptual Framework includes new chapters on measurement and reporting financial performance, new guidance on the derecognition of assets and liabilities, and updated definitions and recognition criteria for assets and liabilities. It also clarifies the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The Conceptual Framework did not have any significant impact on the financial position and performance of the Group.

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

## 3.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(c) Amendments to IFRS 9, IAS 39 and IFRS 7 address issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative risk-free rate ("RFR"). The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the introduction of the alternative RFR. 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 did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedging relationships.

(d) Amendment to IFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective for annual periods beginning on or after 1 June 2020 with earlier application permitted and shall be applied retrospectively. During the year ended 31 December 2020, certain monthly lease payments for the lease of the Group have been reduced by the lessor as a result of COVID-19 pandemic and there are no other changes to the terms of the lease. The Group has early adopted the amendment on 1 January 2020 and elected not to apply lease modification accounting for all rent concession granted by the lessor as a result of the pandemic during the year ended 31 December 2020. Accordingly, a reduction in the lease payments arising from the rent concession of RMB65,000 has been accounted for as a variable lease payment by derecognising part of the lease liabilities and crediting to profit or loss for the year ended 31 December 2020.

(e) 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, or both. The amendments did not have any significant impact on the financial position and 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 | *Reference to the Conceptual Framework*[2] |
| Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 | *Interest Rate Benchmark Reform — Phase 2* [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*[3] |
| Amendments to IFRS 17 | *Insurance Contracts*[3, 5] |
| Amendments to IAS 1 | *Classification of Liabilities as Current or Non-current*[3] |
| Amendments to IAS 16 | *Property, Plant and Equipment: Proceeds before Intended Use*[2] |
| Amendments to IAS 37 | *Onerous Contracts — Cost of Fulfilling a Contract*[2] |
| *Annual Improvements to IFRS Standards 2018–2020* | Amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41[2] |
| Amendments to IAS 1 | *Disclosure of Accounting Policies*[3] |
| Amendments to IAS 8 | *Definition of Accounting Estimates*[3] |

1 Effective for annual periods beginning on or after 1 January 2021

2 Effective for annual periods beginning on or after 1 January 2022

3 Effective for annual periods beginning on or after 1 January 2023

4 No mandatory effective date yet determined but available for adoption

5 As a consequence of the amendments to IFRS 17 issued in June 2020, IFRS 4 was amended to extend the temporary exemption that permits insurers to apply IAS 39 rather than IFRS 9 for annual periods beginning before 1 January 2023

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

Amendments to IFRS 3 are intended to replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* issued in March 2018 without significantly changing its requirements. The amendments also add to IFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of IAS 37 or International Financial Reporting Interpretations Committee ("IFRIC") Interpretation 21 if they were incurred separately rather than assumed in a business combination, an entity applying IFRS 3 should refer to IAS 37 or IFRIC Interpretation 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group expects to adopt the amendments prospectively from 1 January 2022. Since the amendments apply prospectively to business combinations for which the acquisition date is on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

## 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 clarify the requirements for classifying liabilities as current or non-current. The amendments specify 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. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability. The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective for annual periods beginning on or after 1 January 2023 and shall be applied retrospectively. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied retrospectively only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. Earlier 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 IAS 37 clarify that for the purpose of assessing whether a contract is onerous under IAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied to contracts for which an entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments. Earlier application is permitted. Any cumulative effect of initially applying the amendments shall be recognised as an adjustment to the opening equity at the date of initial application without restating the comparative information. The amendments are not expected to have any significant impact on the Group's financial statements.

*Annual Improvements to IFRS Standards 2018–2020* sets out amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41. Details of the amendments that are expected to be applicable to the Group are as follows:

- IFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual periods beginning on or after 1 January 2022. Earlier application is permitted. The amendment is not expected to have a significant impact on the Group's financial statements.

- IFRS 16 *Leases*: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying IFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying IFRS 16.

## 3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Investments in associates and joint ventures

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

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

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

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

## 3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 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.

The Group determines that it has acquired a business when the acquired set of activities and assets includes an input and a substantive process that together significantly contribute to the ability to create outputs.

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

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

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

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

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

## 3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Business combinations and goodwill (Continued)

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

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

### Fair value measurement

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

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

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

## 3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Fair value measurement (Continued)

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

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

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

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

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

### Impairment of non-financial assets

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

## 3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Investment properties

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

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

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

### Intangible assets (other than goodwill)

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

### Trademarks, licences and software

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

### Music copyrights

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

### Mobile game licences

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

## 3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 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.

### Leases

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.

## 3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Leases (Continued)

#### Group as a lessee (Continued)

**(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 lease. 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).

#### 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.

## 3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Investments and other financial assets

#### Initial recognition and measurement

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

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

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

## 3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Investments and other financial assets (Continued)

#### 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.

#### 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.

## 3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Derecognition of financial assets

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

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

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

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

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

### 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.

## 3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Impairment of financial assets (Continued)

#### General approach (Continued)

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

#### 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.

## 3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial liabilities

#### Initial recognition and measurement

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

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.

## 3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Derecognition of financial liabilities

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

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

### Offsetting of financial instruments

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

### 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.

## 3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Provisions

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

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

### Income tax

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

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

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

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

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

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

Deferred tax assets are recognised for all deductible temporary differences, 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, and 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

## 3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Income tax (Continued)

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

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

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

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

### 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, for 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.

## 3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Revenue recognition (Continued)

**Game publishing services**

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

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

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

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.

## 3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Revenue recognition (Continued)

#### Game publishing services (Continued)

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

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

#### Music-related services

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

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

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

## 3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Revenue recognition (Continued)

#### Music-related services (Continued)

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

#### Management fee income

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

#### Rental income

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

#### Interest income

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

### Contract liabilities

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.

## 3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Employee benefits (Continued)

#### 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.

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.

## 3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Employee benefits (Continued)

#### Equity compensation benefits (Continued)

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.

### Foreign currencies

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

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

## 3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Foreign currencies (Continued)

The functional currencies of the Company and certain subsidiaries are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of the Company and the subsidiaries are translated into the presentation currency of the Company at the exchange rates prevailing at the end of the reporting period and their profit or loss 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.

## 4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

### (i) Judgements (Continued)

**Classification between investment properties and owner-occupied properties**

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

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

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

**Deferred tax on investment properties**

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

### (ii) Estimation uncertainty

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

**Estimation of the user life of paying players**

As mentioned in the "Revenue recognition" section 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.

## 4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

### (ii) Estimation uncertainty (Continued)

**Estimation of the user life of paying players (Continued)**

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.

**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 determines 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 the game recharging amount and retention rate of active game players. As at 31 December 2020, the Group had mobile game licences of RMB1,061,000 (2019: RMB1,768,000).

**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 to the financial statements.

**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. The carrying amounts of property, plant and equipment, right-of-use assets, intangible assets and investments in associates are given in notes 13, 15, 17 and 18 to the financial statements.

**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. Further details are included in note 40 to the financial statements.

## 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 | |
|---|---|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 | **2020** | 2019 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Segment revenue | **13,050** | 31,559 | **78,297** | 76,879 | **91,347** | 108,438 |
| Cost of services provided | **(4,293)** | (32,988) | **(16,800)** | (17,491) | **(21,093)** | (50,479) |
| Gross profit | **8,757** | (1,429) | **61,497** | 59,388 | **70,254** | 57,959 |
| **Segment results** | **12,052** | (61,133) | **52,027** | 49,367 | **64,079** | (11,766) |
| Reconciliation: | | | | | | |
| Bank interest income | | | | | **14,224** | 14,943 |
| Finance costs (other than interest on lease liabilities) | | | | | **(3,196)** | (6,494) |
| Corporate and other unallocated income and expenses, net | | | | | **(18,377)** | (62,404) |
| **Profit/(loss) before tax** | | | | | **56,730** | (65,721) |

## 5. OPERATING SEGMENT INFORMATION (Continued)

### For the year ended 31 December (Continued)

| | Digital entertainment | | Property investment | | Total | |
|---|---|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 | **2020** | 2019 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| **Other segment information** | | | | | | |
| Depreciation and amortisation | | | | | | |
| — operating segments | **5,393** | 10,407 | **–** | – | **5,393** | 10,407 |
| — corporate | | | | | **4,485** | 4,719 |
| | | | | | **9,878** | 15,126 |
| Capital expenditure* | **30** | 156 | **–** | – | **30** | 156 |
| Fair value losses on investment properties | **–** | – | **9,000** | 7,000 | **9,000** | 7,000 |
| Equity-settled share option expense | | | | | | |
| — operating segments | **975** | 2,583 | **–** | – | **975** | 2,583 |
| — corporate | | | | | **1,540** | 2,202 |
| | | | | | **2,515** | 4,785 |
| Share of profits and losses of associates, net | **(22,401)** | (6,210) | **–** | – | **(22,401)** | (6,210) |
| Impairment losses recognised in the statement of profit or loss, net | **13,256** | 41,228 | **–** | – | **13,256** | 41,228 |
| Investments in associates | **272,761** | 250,360 | **–** | – | **272,761** | 250,360 |

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

## 5. OPERATING SEGMENT INFORMATION (Continued)

### Geographical information

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

### Information about major customers

During the year ended 31 December 2020, revenue of approximately RMB9,400,000 was derived from sales by property investment segment to a major customer of the Group which contributed 10% or more of the Group's total revenue for the year.

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 that year.

## 6. REVENUE, OTHER INCOME AND GAINS, NET

As analysis of revenue is as follows:

| | **2020**<br>**RMB'000** | 2019<br>RMB'000 |
|---|---|---|
| **Revenue from contracts with customers** | **29,788** | 48,554 |
| | | |
| **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 | **1,428** | 1,537 |
| Other lease payments, including fixed payments | **60,131** | 58,347 |
| | **61,559** | 59,884 |
| | **91,347** | 108,438 |

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

### Revenue from contracts with customers

#### (i) Disaggregated revenue information

**For the year ended 31 December 2020**

| **Segments** | **Digital entertainment RMB'000** | **Property investment RMB'000** | **Total RMB'000** |
|---|---|---|---|
| **Types of services** | | | |
| Game-related revenue | **9,859** | **–** | **9,859** |
| Music-based entertainment | **2,401** | **–** | **2,401** |
| Film and television production | **790** | **–** | **790** |
| Management services | **–** | **16,738** | **16,738** |
| Total revenue from contracts with customers | **13,050** | **16,738** | **29,788** |
| **Timing of revenue recognition** | | | |
| Over time | **13,050** | **16,738** | **29,788** |
| Total revenue from contracts with customers | **13,050** | **16,738** | **29,788** |

For the year ended 31 December 2019

| Segments | Digital entertainment RMB'000 | Property investment RMB'000 | Total RMB'000 |
|---|---|---|---|
| **Types 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 |

## 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 2020**

| **Segments** | **Digital entertainment RMB'000** | **Property investment RMB'000** | **Total RMB'000** |
|---|---|---|---|
| **Revenue from contracts with customers** | | | |
| External customers | **13,050** | **16,738** | **29,788** |
| Total revenue from contracts with customers | **13,050** | **16,738** | **29,788** |

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 |

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

### Revenue from contracts with customers (Continued)

#### (i) Disaggregated revenue information (Continued)

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:

| | **2020** **RMB'000** | 2019 RMB'000 |
|---|---|---|
| Revenue recognised that was included in contract liabilities at the beginning of the reporting period: | | |
| Game-related revenue | **1,676** | 525 |
| Music-based entertainment | **59** | 30 |
| Film and television production | **–** | 283 |
| | **1,735** | 838 |

#### (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.

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

### Revenue from contracts with customers (Continued)

#### (ii) Performance obligations (Continued)

The amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December are as follows:

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| Amounts expected to be recognised as revenue: | | |
| Within one year | **3,217** | 1,354 |
| After one year | **13,475** | 16,033 |
| | **16,692** | 17,387 |

The amounts of transaction prices allocated to the remaining performance obligations which are expected to be recognised as revenue after one year relate to game-related services, of which the performance obligations are to be satisfied within five years. All the other amounts of transaction prices allocated to the remaining performance obligations are expected to be recognised as revenue within one year. The amounts disclosed above do not include variable consideration which is constrained.

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| **Other income and gains, net** | | |
| Bank interest income | **14,224** | 14,943 |
| Fair value gains on financial assets at fair value through profit or loss | **3,155** | – |
| Dividend income from financial assets at fair value through profit or loss | **8,128** | 1,089 |
| Dividend income from a financial asset at fair value through other comprehensive income | **2,807** | 693 |
| Government grant* | **1,400** | – |
| Others | **2,950** | 1,016 |
| | **32,664** | 17,741 |

* There are no unfulfilled conditions or contingencies relating to the grant.

## 7. PROFIT/(LOSS) BEFORE TAX

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

| | Notes | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|---|
| Depreciation of property, plant and equipment | 13 | **8,099** | 8,771 |
| Depreciation of right-of-use assets# | 15 | **1,050** | 1,208 |
| Amortisation of intangible assets | 17 | **729** | 5,147 |
| Amortisation of network films and dramas* | 21 | **457** | 16,827 |
| Impairment of goodwill** | 16 | **9,593** | 34,495 |
| Lease payments not included in the measurement of lease liabilities | 15 | **36** | 501 |
| Auditor's remuneration | | **1,120** | 3,041 |
| Employee benefit expense (including directors' remuneration (note 9)): | | | |
| Wages, salaries and bonuses | | **17,878** | 27,378 |
| Staff education fee | | **3** | 18 |
| Welfare, medical and other expenses | | **1,562** | 2,640 |
| Contributions to social security plans | | **1,218** | 5,144 |
| Equity-settled share option expense@ | 32(a) | **2,515** | 4,785 |
| | | **23,176** | 39,965 |

## 7. PROFIT/(LOSS) BEFORE TAX (Continued)

| | Notes | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|---|
| Foreign exchange differences, net** | | **1,968** | 1,129 |
| Write-off of trade receivables** | | **2,929** | – |
| Impairment/(reversal of impairment) of trade receivables** | 22 | **17** | (43) |
| Reversal of impairment of financial assets included in prepayments, other receivables and other assets** | 23 | **(57)** | (96) |
| Impairment of intangible assets* | 17 | **–** | 6,733 |
| Impairment of network films and dramas under production** | 21 | **3,663** | – |
| Mobile and Telecom Charges* | | **403** | 1,488 |
| Game publishing service charges* | | **585** | 2,715 |
| Direct operating expenses (including repairs and maintenance) arising from rental-earning investment properties* | | **16,800** | 17,491 |
| Dividend income from a financial asset at fair value through other comprehensive income*** | 6 | **(2,807)** | (693) |
| Dividend income from financial assets at fair value through profit or loss*** | 6 | **(8,128)** | (1,089) |
| Loss/(gain) on disposal of items of property, plant and equipment**/*** | | **(248)** | 273 |
| Loss on deregistration of subsidiaries** | | **–** | 1,540 |
| Write-off of trade payables* | | **(465)** | (9,310) |
| Write-off of other payables*** | | **(1,345)** | – |
| Fair value losses on investment properties** | 14 | **9,000** | 7,000 |
| Fair value losses/(gains) on financial assets at fair value through profit or loss**/*** | 6 | **(3,155)** | 36,319 |
| Government grants[##] | | **(3,870)** | (3,169) |

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

## Included (i) balance of approximately RMB200,000 (2019: approximately RMB3,169,000) included in "Selling and marketing expenses"; (ii) balance of approximately RMB1,400,000 (2019: Nil) included in "Other income and gains, net"; and (iii) balance of approximately RMB2,270,000 (2019: Nil) included in "Cost of services provided", on 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. 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:

| | **2020** **RMB'000** | 2019 RMB'000 |
|---|---|---|
| Interest on bank loans | **3,196** | 6,494 |
| Interest on lease liabilities | **36** | 85 |
| | **3,232** | 6,579 |

## 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

| | **2020** **RMB'000** | 2019 RMB'000 |
|---|---|---|
| Fees | **392** | 347 |
| Other emoluments: | | |
| Salaries, allowances and benefits in kind | **480** | 505 |
| Performance related bonuses | **100** | 140 |
| Equity-settled share option expense | **1,488** | 2,202 |
| Pension scheme contributions | **111** | 184 |
| | **2,179** | 3,031 |
| | **2,571** | 3,378 |

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<br>RMB'000 | Equity-settled share option expense<br>RMB'000 | Total remuneration<br>RMB'000 |
|---|---|---|---|
| **2020** | | | |
| **Independent non-executive directors:** | | | |
| Mr. Chan Yiu Kwong | **178** | **30** | **208** |
| Ms. Wu Shihong | **107** | **24** | **131** |
| Mr. Li Feng | **107** | **24** | **131** |
| | **392** | **78** | **470** |
| 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 |

There were no other emoluments payable to the independent non-executive directors during the year (2019: 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

| | Salaries, allowances and benefits in kind RMB'000 | Performance related bonuses RMB'000 | Equity-settled share option expense RMB'000 | Pension scheme contributions RMB'000 | Total remuneration RMB'000 |
|---|---|---|---|---|---|
| **2020** | | | | | |
| **Executive directors:** | | | | | |
| Mr. Liu Xiaosong ("Mr. Liu")* | **120** | **–** | **1,329** | **34** | **1,483** |
| Mr. Lin Qian | **360** | **100** | **81** | **77** | **618** |
| | **480** | **100** | **1,410** | **111** | **2,101** |
| 2019 | | | | | |
| **Executive directors:** | | | | | |
| Mr. Liu* | 120 | – | 1,850 | 59 | 2,029 |
| Mr. Lin Qian | 385 | 140 | 183 | 125 | 833 |
| | 505 | 140 | 2,033 | 184 | 2,862 |

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

### (b) Five highest paid individuals

The five highest paid individuals included two (2019: two) directors, details of whose remuneration are set out above. Details of the remuneration of the remaining three (2019: three) non-director, highest paid individuals for the year are as follows:

| | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|
| Salaries, allowances and benefits in kind | **1,377** | 1,483 |
| Performance related bonuses | **206** | 190 |
| Pension scheme contributions | **161** | 292 |
| | **1,744** | 1,965 |

## 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 | |
|---|---|---|
| | **2020** | 2019 |
| Nil to HK$1,000,000 | **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 EXPENSE/(CREDIT)

Hong Kong profits tax has been provided at the rate of 16.5% (2019: 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. The first HK$2,000,000 (2019: HK$2,000,000) of assessable profits of this subsidiary arising in Hong Kong are taxed at 8.25% (2019: 8.25%) and the remaining assessable profits are taxed at 16.5% (2019: 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:

| | **2020** | 2019 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Current — Hong Kong | | |
| Charge for the year | **113** | 139 |
| Current — PRC | | |
| Charge for the year | **9,510** | 2,369 |
| Underprovision/(overprovision) in prior years | **(550)** | 455 |
| Deferred | **(924)** | (10,101) |
| Total tax charge/(credit) for the year | **8,149** | (7,138) |

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

A reconciliation of the tax charge/(credit) applicable to profit/(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:

| | **2020** | | 2019 | |
|---|---|---|---|---|
| | **RMB'000** | **%** | RMB'000 | % |
| Profit/(loss) before tax | **56,730** | | (65,721) | |
| Tax charge/(credit) at the statutory tax rate | **13,539** | **23.9** | (17,113) | 26.0 |
| Preferential tax rate | **471** | **0.8** | 1,950 | (3.0) |
| Super-deduction of eligible research and development expenditure | **(1,273)** | **(2.2)** | (2,023) | 3.1 |
| Adjustments in respect of current tax of previous periods | **(550)** | **(0.9)** | 455 | (0.7) |
| Income not subject to tax | **(4,308)** | **(7.6)** | (9,237) | 14.1 |
| Expenses not deductible for tax | **3,734** | **6.6** | 14,751 | (22.4) |
| Profits attributable to associates | **(5,600)** | **(9.9)** | (1,553) | 2.4 |
| Tax losses utilised from previous periods | **(940)** | **(1.7)** | (1,641) | 2.5 |
| Tax losses not recognised | **3,076** | **5.4** | 7,273 | (11.1) |
| Tax charge/(credit) at the Group's effective rate | **8,149** | **14.4** | (7,138) | 10.9 |

The share of tax attributable to associates amounting to RMB2,778,000 (2019: RMB1,975,000) 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 2020 (2019: Nil).

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

The calculation of the basic earnings per share amounts for the year ended 31 December 2020 is based on the profit for the year attributable to ordinary equity holders of the Company of RMB50,703,000 (2019: loss for the year of RMB51,085,000), 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 2,694,769,000 (2019: 2,693,535,000).

No adjustment has been made to the basic earnings per share amount presented for the year ended 31 December 2020 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during the year ended 31 December 2020.

No adjustment had been made to the basic loss per share amounts presented for the year ended 31 December 2019 in respect of a dilution as the impact of the share options outstanding and the awarded shares had an anti-dilutive effect on the basic loss per share amount presented.

## 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 2020** | | | | | | |
| At 1 January 2020: | | | | | | |
| 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 |
| At 1 January 2020, net of accumulated depreciation | 115,770 | 3,001 | 7,040 | 42 | 9,452 | 135,305 |
| Additions | – | 30 | – | – | – | 30 |
| Disposals | – | (64) | – | (35) | – | (99) |
| Depreciation provided during the year | (3,015) | (1,842) | (798) | (7) | (2,437) | (8,099) |
| At 31 December 2020, net of accumulated depreciation | 112,755 | 1,125 | 6,242 | – | 7,015 | 127,137 |
| At 31 December 2020: | | | | | | |
| Cost | 131,848 | 11,886 | 12,437 | 994 | 21,366 | 178,531 |
| Accumulated depreciation | (19,093) | (10,761) | (6,195) | (994) | (14,351) | (51,394) |
| Net carrying amount | 112,755 | 1,125 | 6,242 | – | 7,015 | 127,137 |

## 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 2019** | | | | | | |
| 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 |

## 14. INVESTMENT PROPERTIES

| | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|
| Carrying amount at 1 January | **431,000** | 438,000 |
| Fair value losses on investment properties | **(9,000)** | (7,000) |
| Carrying amount at 31 December | **422,000** | 431,000 |

The Group's investment properties were revalued on 31 December 2020 and 2019 based on valuations performed by Asset Appraisal Limited, an independent professionally qualified valuer.

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 RMB422,000,000 and RMB431,000,000 as at 31 December 2020 and 2019, 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 2020 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 | **–** | **–** | **422,000** | **422,000** |

## 14. INVESTMENT PROPERTIES (Continued)

### Fair value hierarchy (Continued)

| | 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 |

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 (2019: 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** | |
|---|---|---|---|---|
| | | | **2020** | 2019 |
| Commercial buildings | Income approach | Estimated rental value (per sq.m. and per month) | **RMB166** | RMB163 |
| | | Rental growth rate (per annum) | **3.0%** | 3.0% |
| | | Discount rate | **8.2%** | 8.2% |

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.

## 15. LEASES (Continued)

### The Group as a lessee (Continued)

#### (a) Right-of-use assets

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

| | **Leasehold land 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 and at 1 January 2020 | 12,546 | 1,212 | 13,758 |
| Depreciation charge | (323) | (727) | (1,050) |
| As at 31 December 2020 | 12,223 | 485 | 12,708 |

#### (b) Lease liabilities

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

| | **2020 RMB'000** | 2019 RMB'000 |
|---|---|---|
| Carrying amount at 1 January | **1,276** | 963 |
| New leases | **–** | 1,455 |
| Write-off | **–** | (333) |
| Covid-19-related rent concession from a lessor | **(65)** | – |
| Accretion of interest recognised during the year | **36** | 85 |
| Payments | **(726)** | (894) |
| Carrying amount at 31 December | **521** | 1,276 |
| Analysed into: | | |
| Current portion | **521** | 755 |
| Non-current portion | **–** | 521 |

The maturity analysis of lease liabilities is disclosed in note 41(b) to the financial statements.

## 15. LEASES (Continued)

### The Group as a lessee (Continued)

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

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| Interest expense on lease liabilities | **36** | 85 |
| Write-off of a lease | **–** | (12) |
| Depreciation charge of right-of-use assets | **1,050** | 1,208 |
| Covid-19-related rent concession from a lessor | **(65)** | – |
| Expense relating to short-term leases with remaining lease terms ended on or before 31 December (included in administrative expenses) | **36** | 501 |
| Total amount recognised in profit or loss | **1,057** | 1,782 |

**(d)** The total cash outflow for leases and future cash outflows relating to leases that have not yet commenced are disclosed in notes 35(b) and 41(b), respectively, to the financial statements.

### 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 RMB61,559,000 (2019: RMB59,884,000), details of which are included in note 6 to the financial statements.

At 31 December 2020, the undiscounted minimum lease payments receivable by the Group in future periods under non-cancellable operating leases with its tenants are as follows:

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| Within one year | **11,073** | 60,841 |

## 16. GOODWILL

| | RMB'000 |
|---|---|
| At 1 January 2019: | |
| 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 as at 31 December 2019 | 18,871 |
| At 1 January 2020 | |
| Cost | 88,406 |
| Accumulated impairment | (69,535) |
| Net carrying amount | 18,871 |
| Cost at 1 January 2020, net of accumulated impairment | 18,871 |
| Impairment during the year | (9,593) |
| Net carrying amount at 31 December 2020 | 9,278 |
| At 31 December 2020: | |
| Cost | 88,406 |
| Accumulated impairment | (79,128) |
| Net carrying amount | 9,278 |

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.

## 16. GOODWILL (Continued)

### Impairment testing of goodwill

Goodwill acquired through business combinations is allocated to the game-related entertainment cash-generating unit ("Game-related Entertainment CGU") for impairment testing.

### Game-related entertainment cash-generating unit

The recoverable amount of the Game-related Entertainment CGU 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 is 18.57% (2019: 18.16%) and cash flows beyond the five-year period are extrapolated using a growth rate of 3% (2019: 2%).

The tightening strategy over game licence approval implemented by relevant government authority had adverse impact on the operating performance of the Game-related Entertainment CGU. During the year ended 31 December 2019, the approval of game licence restarted with an increasingly stringent process, which resulted in delay or restriction on the launch of games and impairment losses of RMB69.5 million were made as at 31 December 2019. During the current year, due to the fierce competitions in the games industry, management re-assessed the outlook and future performance of the Game-related Entertainment CGU and determined the recoverable amount of the Game-related Entertainment CGU is approximately RMB9.9 million (2019: RMB18.9 million) which is lower than its carrying amount. Accordingly, an impairment loss of RMB9.6 million (2019: RMB34.5 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 CGU at 31 December 2020 and 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 rate* — 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 games 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 2020** | | | | |
| Cost at 1 January 2020, net of accumulated amortisation and impairment | **862** | **–** | **1,768** | **2,630** |
| Amortisation provided during the year | **(22)** | **–** | **(707)** | **(729)** |
| At 31 December 2020 | **840** | **–** | **1,061** | **1,901** |
| At 31 December 2020: | | | | |
| Accumulated amortisation and impairment | **(38,442)** | **(7,030)** | **(64,482)** | **(109,954)** |
| Net carrying amount | **840** | **–** | **1,061** | **1,901** |
| **31 December 2019** | | | | |
| At 1 January 2019: | | | | |
| Cost | 39,282 | 7,030 | 65,543 | 111,855 |
| Accumulated amortisation | (38,398) | (7,030) | (51,917) | (97,345) |
| Net carrying amount | 884 | – | 13,626 | 14,510 |
| 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 |

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 during the year ended 31 December 2019, 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

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| Share of net assets | **68,380** | 45,979 |
| Goodwill on acquisition | **280,530** | 280,530 |
| | **348,910** | 326,509 |
| Provision for impairment | **(76,149)** | (76,149) |
| | **272,761** | 250,360 |

Particulars of a material associate are as follows:

| Name | Particulars of issued shares held | Place of registration and business | Percentage of ownership interest attributable to the Group | Principal activities |
|---|---|---|---|---|
| 北京掌文信息技術有限公司<br>Beijing Zhangwen Information Technology Co., Ltd.#<br>("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.

# English name for identification purposes only

## 18. INVESTMENTS IN ASSOCIATES (Continued)

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:

| | **2020**<br>**RMB'000** | 2019<br>RMB'000 |
|---|---|---|
| Current assets | **341,278** | 231,909 |
| Non-current assets | **21,786** | 23,580 |
| Current liabilities | **(195,392)** | (149,429) |
| Non-current liabilities | **(3,336)** | (7,085) |
| Net assets | **164,336** | 98,975 |
| Proportion of the Group's ownership | **35%** | 35% |
| Group's share of net assets of the associate, excluding goodwill | **56,552** | 32,913 |
| Goodwill on acquisition (less cumulative impairment) | **185,105** | 185,105 |
| Carrying amount of the investment | **241,657** | 218,018 |
| Revenue | **800,476** | 589,504 |
| Profit for the year attributable to equity holders of the associate | **67,541** | 37,132 |
| 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 | **67,541** | 37,132 |

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

| | **2020**<br>**RMB'000** | 2019<br>RMB'000 |
|---|---|---|
| Share of the associates' losses for the year | **(1,238)** | (6,786) |
| Share of the associates' other comprehensive loss | **–** | (25,904) |
| Share of the associates' total comprehensive loss | **(1,238)** | (32,690) |
| Aggregate carrying amount of the Group's investments in the associates | **31,104** | 32,342 |

## 19. INVESTMENTS IN JOINT VENTURES

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| Share of net assets | **119** | 1,667 |
| Goodwill on acquisition | **–** | 19,217 |
| | **119** | 20,884 |
| Impairment | **(119)** | (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.

| | 2020<br>RMB'000 | 2019<br>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 | **–** | – |

Bigbang Interactive Ltd., Smart Breeze Co., Ltd. and Shanghai Shileniao Information Technology Ltd. (collectively as "Bigbang Group"), entities incorporated in Republic of Seychelles, Korea, and the PRC, respectively, were joint ventures of the Group engaged in provision of game-related services. During the year, Bigbang Group was deregistered.

## 20. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

| | Notes | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|---|
| Financial assets at fair value through other comprehensive income | | | |
| Listed equity investment, at fair value | (a) | **9,538** | 8,225 |
| Unlisted equity investments, at fair value | (b) | **225,103** | 225,189 |
| | (c) | **234,641** | 233,414 |

Notes:

(a) The balance included Shenzhen Lemon Network Technology Co., Ltd ("Lemon Network"), a company listed on National Equities Exchange and Quotations (the "NEEQ") (stock code: 835924). Given that the shares of Lemon Network 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 the investment using market comparable approach as at 31 December 2020 and 2019.

(b) The balance included three game development 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) ("Shanghai Hanqu") and Shanghai Modie Network Technology Co., Ltd. (上海魔蝶網絡科技有限公司) ("Shanghai Modie"). The Group engaged an independent professional valuer to determine their fair values using market comparable approach as at 31 December 2020 and 2019.

(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

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| At 1 January | **3,663** | 19,116 |
| Additions | **–** | 1,831 |
| Impairment# | **(3,663)** | – |
| Transfer to network films and dramas | **–** | (17,284) |
| At 31 December | **–** | 3,663 |

# The impairment of network films and dramas under production was made based on the management's estimation of recoverable amount against the carrying amount.

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

### (b) Network films and dramas

| | RMB'000 |
|---|---|
| **Cost:** | |
| At 1 January 2019 | – |
| Additions during the year | 17,284 |
| At 31 December 2019, 1 January 2020 and 31 December 2020 | 17,284 |
| **Accumulated amortisation:** | |
| At 1 January 2019 | – |
| Additions during the year | 16,827 |
| At 31 December 2019 and 1 January 2020 | 16,827 |
| Amortisation provided during the year | 457 |
| At 31 December 2020 | 17,284 |
| **Net carrying amount:** | |
| At 31 December 2020 | – |
| At 31 December 2019 | 457 |

## 22. TRADE RECEIVABLES

| | **2020** | 2019 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Trade receivables | **4,459** | 2,282 |
| Impairment | **(285)** | (268) |
| | **4,174** | 2,014 |

## 22. TRADE RECEIVABLES (Continued)

The Group has no formal credit period communicated to its customers but the customers usually settle the amounts due to it within a period of 30 to 120 days. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivables. Trade receivables are non-interest-bearing.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

| | **2020** | 2019 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Billed | | |
| Within 1 month | **273** | 209 |
| 1 to 2 months | **17** | 47 |
| 2 to 3 months | **17** | 46 |
| Over 3 months | **236** | 275 |
| | **543** | 577 |
| Unbilled | **3,631** | 1,437 |
| | **4,174** | 2,014 |

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

| | **2020** | 2019 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| At beginning of year | **268** | 311 |
| Impairment/(reversal of impairment losses), net (note 7) | **17** | (43) |
| At end of year | **285** | 268 |

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. 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 2020**

| | | Past due | | | | |
|---|---|---|---|---|---|---|
| | Current | Less than 1 month | 1 to 3 months | Over 3 months | Default customers | Total |
| Expected credit loss rate | **0.18%** | **0.21%** | **0.39%** | **7.89%** | **100%** | **6.39%** |
| Gross carrying amount (RMB'000) | **1,130** | **974** | **1,801** | **304** | **250** | **4,459** |
| Expected credit losses (RMB'000) | **2** | **2** | **7** | **24** | **250** | **285** |

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 |

## 23. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

| | **2020** | 2019 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Prepayments | **19,784** | 19,323 |
| Deposits and other receivables | **7,336** | 11,652 |
| | **27,120** | 30,975 |
| Impairment allowance | **(17,046)** | (17,103) |
| | **10,074** | 13,872 |

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 are amounts due from the Group's associates of RMB533,000 (2019: RMB533,000), which are unsecured, interest-free and repayable on demand.

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

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

| | **2020** | 2019 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| At 1 January | **17,103** | 17,199 |
| Reversal of impairment (note 7) | **(57)** | (96) |
| At 31 December | **17,046** | 17,103 |

Included in the above provision for impairment of other receivables and other assets is a provision for individually impaired receivables of RMB16,743,000 (2019: RMB16,743,000) with a gross carrying amount of RMB16,743,000 (2019: 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 2020 ranged from 0.04% to 20% (2019: ranged from 0.1% to 20%).

## 24. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | | **2020** | 2019 |
|---|---|---|---|
| | Notes | **RMB'000** | RMB'000 |
| Listed equity investments, at fair value | (a) | **–** | 239 |
| Derivative financial instrument, at fair value | (b) | **–** | 2,971 |
| Structured financial products, at fair value | (c) | **39,206** | 16,500 |
| Other unlisted investments, at fair value | (d) | **135,930** | 124,731 |
| | | **175,136** | 144,441 |
| Current portion | | **(39,206)** | (16,739) |
| Non-current portion | | **135,930** | 127,702 |

## 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, Media (Tianjin) Co., Ltd. ("Lanlanlanlan File & 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 2020, Lanlanlanlan Film & Television has only paid RMB5 million to the Group as the first payment for the purchase of equity interests of Lanlanlanlan Film & Television held by the Group. 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 purchase of equity interests of Lanlanlanlan Film & Television held by the Group by 24 March 2022.

As at 31 December 2020, management with the assistance of an external valuer assessed that the fair value of the Forward Contract was nil (2019: 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 2020, the investments were unlisted financial products purchased from banks in the PRC which were principal unprotected with expected interest rates ranging from 3.16% to 3.45% (2019: 3.20% to 3.75%) per annum.

In order to determine the fair value of the unlisted financial products, which have been categorised as Level 3 of the fair value hierarchy, significant unobservable inputs including the expected rate of return of 3.16% to 3.45% (2019: 3.20% to 3.75%) have 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 RMB392,060/(RMB165,000).

(d) The unlisted investments as at 31 December 2020 were investments in funds, 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"), Shenzhen Qianhai Tianhe Cultural Industry Investment Center (Limited Partnership), and Shenzhen Qingsong Small and Medium Enterprises Development Investment Partnership Enterprise (Limited Partnership) ("Qingsong Fund IV"). 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. The controlling shareholder of the Company is also a key management personnel of Qingsong Fund II, Qingsong Fund III and Qingsong Fund IV.

## 25. RESTRICTED BANK BALANCES AND PLEDGED DEPOSITS

| | Notes | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|---|
| Restricted cash balances | (a) | **720** | 47 |
| Pledged deposits | (b) | **39,200** | 182,962 |
| Restricted bank balances and pledged deposits | | **39,920** | 183,009 |

Notes:

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

(b) Balances of RMB39,200,000 (2019: RMB182,962,000) were pledged to secure bank loans (note 29) granted to the Group.

## 26. CASH AND CASH EQUIVALENTS

| | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|
| Cash and bank balances | **409,498** | 75,461 |
| Time deposits | **78,856** | 479,658 |
| | **488,354** | 555,119 |
| Less: Restricted cash balances and pledged deposits (note 25) | **(39,920)** | (183,009) |
| Cash and cash equivalents | **448,434** | 372,110 |
| Denominated in: | | |
| RMB | **79,853** | 98,636 |
| USD | **361,610** | 268,192 |
| Other currencies | **6,971** | 5,282 |
| Cash and cash equivalents | **448,434** | 372,110 |

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:

| | **2020** **RMB'000** | 2019 RMB'000 |
|---|---|---|
| Within 1 month | **804** | 289 |
| 1 to 3 months | **171** | 14 |
| 4 to 6 months | **57** | 38 |
| Over 6 months | **7,557** | 7,673 |
| | **8,589** | 8,014 |

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

As at 31 December 2020, included in the trade payables was an amount due to a joint venture of RMB46,000 (2019: RMB46,000), which was unsecured, interest-free and repayable on demand.

## 28. OTHER PAYABLES AND ACCRUALS

| | Note | **2020** **RMB'000** | 2019 RMB'000 |
|---|---|---|---|
| Other payables | | **26,860** | 30,398 |
| Accruals | | **8,358** | 7,225 |
| Contract liabilities | (a) | **13,814** | 11,777 |
| Deferred income | | **1,500** | 1,970 |
| Receipts in advance | | **23** | 430 |
| Current portion | | **50,555** | 51,800 |

As at 31 December 2020, included in other payables was an amount due to an associate of RMB85,000 (2019: 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 2020 RMB'000** | 31 December 2019 RMB'000 | 1 January 2019 RMB'000 |
|---|---|---|---|
| *Short-term advances received from customers* | | | |
| Game-related services | **13,696** | 11,698 | 4,581 |
| Music-based entertainment | **118** | 79 | 30 |
| Film and television production | **–** | – | 283 |
| Total contract liabilities | **13,814** | 11,777 | 4,894 |

Contract liabilities include short-term advances received to render game-related, music-based entertainment and film and television production services. The increase in contract liabilities in 2020 and 2019 was mainly due to the increase in short-term advances received from customers in relation to the provision of game-related services at the end of the year.

## 29. INTEREST-BEARING BANK BORROWINGS

| | **31 December 2020** | | | 31 December 2019 | | |
|---|---|---|---|---|---|---|
| | **Effective interest rate (%)** | **Maturity** | **RMB'000** | Effective interest rate (%) | Maturity | RMB'000 |
| **Current** | | | | | | |
| Bank loans — secured | **3.85–4.05** | **2021** | **46,000** | 4.00–4.35 | 2020 | 130,000 |

| | **2020 RMB'000** | 2019 RMB'000 |
|---|---|---|
| **Analysed into:** | | |
| Bank loans repayable: | | |
| Within one year or on demand | **46,000** | 130,000 |

## 29. INTEREST-BEARING BANK BORROWINGS (Continued)

Notes:

(a) The Group's bank loans are secured by the pledge of certain of the Group's time deposits amounting to RMB39 million (2019: RMB183 million) (note 25).

(b) The Group's bank loans are denominated in RMB (2019: RMB).

## 30. DEFERRED TAX

The movements in deferred tax assets and liabilities during the year are as follows:

### Deferred tax assets

| | Government grants | Allowance for impairment of receivables | Total |
|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 |
| At 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 and 1 January 2020 | 1,017 | 111 | 1,128 |
| Deferred tax charged to the statement of profit or loss during the year (note 10) | (492) | (27) | (519) |
| At 31 December 2020 | 525 | 84 | 609 |

## 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 2019 | (813) | (76,370) | (23,345) | (16,096) | (116,624) |
| Deferred tax credited 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 and 1 January 2020 | (813) | (74,620) | (14,279) | (49,354) | (139,066) |
| Deferred tax credited/(charged) to the statement of profit or loss during the year (note 10) | – | 2,250 | (807) | – | 1,443 |
| Deferred tax charged to the statement of comprehensive income during the year | – | – | – | (307) | (307) |
| At 31 December 2020 | (813) | (72,370) | (15,086) | (49,661) | (137,930) |

The Group has tax losses arising in Mainland China of RMB97,301,000 (2019: RMB79,237,000) that will expire in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

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

## 30. DEFERRED TAX (Continued)

### Deferred tax liabilities (Continued)

At 31 December 2020, 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 RMB264,779,000 at 31 December 2020 (2019: RMB244,550,000).

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

## 31. ISSUED CAPITAL

### Shares

| | **2020**<br>**RMB'000** | 2019<br>RMB'000 |
|---|---|---|
| Authorised: | | |
| 3,000,000,000 (2019: 3,000,000,000) | | |
| ordinary shares of HK$0.01 each | **26,513** | 26,513 |
| Issued and fully paid: | | |
| 2,700,886,628 (2019: 2,700,886,628) | | |
| ordinary shares of HK$0.01 each | **22,818** | 22,818 |

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

| | **Number of issued and fully paid ordinary shares** | **Nominal value of ordinary shares**<br>HK$'000 | **Share premium**<br>HK$'000 | **Equivalent nominal value of ordinary shares**<br>RMB'000 | **Equivalent share premium**<br>RMB'000 | **Total**<br>RMB'000 |
|---|---|---|---|---|---|---|
| As at 1 January 2019, 31 December 2019, 1 January 2020 and 31 December 2020 | 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.

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

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

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

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

## 32. SHARE OPTION SCHEMES (Continued)

### (a) Share option scheme (Continued)

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings. The following share options were outstanding under the share option scheme during the year:

| | 2020 Weighted average exercise price HK$ per share | 2020 Number of options '000 | 2019 weighted average exercise price HK$ per share | 2019 Number of options '000 |
|---|---|---|---|---|
| At 1 January | **0.35** | **112,652** | 0.64 | 34,645 |
| Granted during the year | **0.17** | **19,982** | 0.22 | 78,207 |
| Lapsed during the year | **0.22** | **(2,029)** | 0.69 | (200) |
| At 31 December | **0.32** | **130,605** | 0.35 | 112,652 |

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

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

**2020**

| Number of options '000 | Exercise price* HK$ per share | Exercise period |
|---|---|---|
| **10,962** | **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** |
| **57,635** | **0.219** | **28–6–2019 to 28–6–2029** |
| **19,982** | **0.167** | **9–9–2020 to 9–9–2030** |
| **130,605** | | |

## 32. SHARE OPTION SCHEMES (Continued)

### (a) Share option scheme (Continued)

2019

| Number of options '000 | Exercise price* HK$ per share | Exercise period |
|---|---|---|
| 10,962 | 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 |
| 112,652 | | |

* 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 HK$1,496,000 (HK$0.07 per share option) (2019: HK$8,421,000 (HK$0.11 per share option)). The Group recognised a share option expense of RMB2,515,000 (2019: RMB4,785,000) during the year ended 31 December 2020 in respect of the share options granted in the current and prior years.

The fair value of equity-settled share options granted during the year was estimated as at the date of grant using the binomial option pricing model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

| | **2020** | 2019 |
|---|---|---|
| Dividend yield (%) | **–** | – |
| Expected volatility (%) | **61.49%** | 63.44% to 63.45% |
| Risk-free interest rate (%) | **0.92%** | 1.90% to 1.91% |
| Expected life of options (years) | **0.00** | 0.00–2.00 |
| Weighted average share price (HK$ per share) | **0.17** | 0.22 |

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

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

## 32. SHARE OPTION SCHEMES (Continued)

### (b) Join Reach share option scheme

The Join Reach share option scheme adopted by Join Reach Limited ("Join Reach") was set up by the shareholders of Prime Century Technology Limited ("Prime Century"), which is one of the substantial shareholders of the Company, to recognise and reward the 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 2020 and 2019. No share option under the Join Reach share option scheme has been granted, exercised or cancelled, or lapsed during the current and prior years.

At the end of the reporting period, the Company had approximately 130,605,000 share options outstanding under the Company's 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 130,605,000 additional ordinary shares of the Company and additional share capital of approximately HK$1,306,000 and share premium of approximately HK$40,487,000 (before issue expenses).

Subsequent to the end of the reporting period, no additional share options under the Company's share option scheme were granted.

Total of 3,580,000 share options were exercised resulted in the issue of 3,580,000 additional ordinary shares of the Company and additional share capital of approximately HK$36,000 and share premium of approximately HK$748,000 (before issue expenses) and total of 1,271,000 share options were lapsed subsequent to the end of the reporting period.

At the date of approval of these financial statements, the Company had approximately 125,754,000 share options outstanding under the Company's share option scheme, which represented approximately 4.65% 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 restrictions (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 scheme.

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 was no share award vested during the year ended 31 December 2020 (2019: 108,500 shares).

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

| | **2020 Number of shares held ’000** | 2019 Number of shares held ’000 |
|---|---|---|
| At 1 January | **7,350** | 7,459 |
| Vested during the year | **–** | (109) |
| Disposal during the year | **(7,350)** | – |
| At 31 December | **–** | 7,350 |

## 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) Merger reserve

The merger reserve of the Group represents (i) the excess of the nominal value of the paid-up capital of Huadong Feitian over the nominal value of A8 Music's shares which were issued as consideration for obtaining the control of Huadong Feitian at the time of the group reorganisation in 2004; and (ii) the excess of the nominal value of the shares of the Company issued over the nominal value of A8 Music's shares acquired pursuant to the group reorganisation in 2008.

### (ii) Surplus contributions

According to an agreement dated 27 December 2004 on the capital contribution into A8 Music signed by A8 Music, the then three shareholders of A8 Music and the registered owners, the three shareholders of A8 Music agreed to make cash contributions of HK$1,000,000 (equivalent to RMB1,063,000) and RMB10,000,000 into A8 Music without any equity interests issued and issuable to them in return. In addition, A8 Music has no obligations to repay these contributions. As a result, the contributions were reported as surplus contributions of A8 Music.

### (iii) PRC statutory reserves

#### 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. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

### (a) Major non-cash transactions

(i) 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.

### (b) Changes in liabilities arising from financing activities

| | Lease liabilities RMB'000 | Interest-bearing bank borrowings RMB'000 |
|---|---|---|
| **2020** | | |
| At 1 January 2020 | **1,276** | **130,000** |
| Changes from financing cash flows | **(690)** | **(84,000)** |
| COVID-19-related rent concession from a lessor | **(65)** | **–** |
| Interest expense | **36** | **–** |
| Interest paid classified as operating cash flows | **(36)** | **–** |
| At 31 December 2020 | **521** | **46,000** |

| | Lease liabilities RMB'000 | Interest-bearing bank borrowings RMB'000 |
|---|---|---|
| 2019 | | |
| At 1 January 2019 | 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 |

## 35. 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:

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| Within operating activities | 72 | 586 |
| Within investing activities | – | – |
| Within financing activities | 690 | 809 |
| | 762 | 1,395 |

## 36. 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.

## 37. COMMITMENTS

As at 31 December 2020, the Group had a capital commitment of RMB5,000,000 (2019: Nil), which is contracted but not provided for purchase of a financial asset at fair value through profit or loss.

## 38. RELATED PARTY DISCLOSURES

### (a) Outstanding balances with related parties:

Details of the Group's balances with its joint venture and associates as at the end of the reporting period are disclosed in notes 23, 27 and 28 to the financial statements.

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

| | Notes | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|---|
| Associate: | | | |
| Service fee income | (i) | – | 16 |
| A related company* | | | |
| Rental income | (ii) | 1,194 | – |
| Management fee income | (iii) | 123 | – |

Notes:

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

(ii) The rental was paid by a related company for a lease of office premises at a rate mutually agreed between the parties.

(iii) The management fee was paid by a related company for property management services provided by the Group at a rate mutually agreed between the parties.

* Mr. Liu Xiaosong, a director and the controlling shareholder of the Company, is a key management personnel of this related company.

## 38. RELATED PARTY DISCLOSURES (Continued)

### (c) Compensation of key management personnel of the Group

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| Short term employee benefits | **480** | 950 |
| Performance related bonuses | **100** | 223 |
| Pension scheme contributions | **111** | 309 |
| Equity-settled share option expense | **1,410** | 2,033 |
| Total compensation paid to key management personnel | **2,101** | 3,515 |

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

## 39. 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, which were classified as financial assets at fair value through profit or loss designated as such upon initial recognition and investments on equity instruments designated as such upon initial recognitions, respectively, all financial assets and liabilities of the Group as at 31 December 2020 and 2019, were stated at amortised cost.

## 40. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

As at 31 December 2020 and 2019, 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, lease liabilities and interest-bearing bank borrowings approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's finance department is responsible for determining the policies and procedures for the fair value measurement of financial instruments. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the senior management. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair value of the non-current portion of lease liabilities have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The changes in fair value as a result of the Group's own non-performance risk for interest-bearing bank borrowings and lease liabilities as at 31 December 2020 were assessed to be insignificant.

The fair values of listed equity investments are based on quoted market prices.

## 40. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a sensitivity analysis as at 31 December 2020 and 2019:

| | 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") | 2020: 5.39 to 6.67 (2019: 5.97 to 6.97) | Increase/decrease in EV/Revenue would result in increase/decrease in fair value |
| | Market approach | Price-to-earnings multiple ("P/E") | 2020: 26.53 (2019: 30.76) | Increase/decrease in P/E would result in increase/decrease in fair value |
| | | Discounts for lack of marketability ("DLOM") | 2020: 18.4% to 19.5% (2019:17.9% to 18.7%) | 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 | 2020: 0.96 to 7.33 (2019: 0.42 to 9.10) | Increase/decrease in EV/Revenue would result in increase/decrease in fair value |
| | | DLOM | 2020: 19.5% to 35.1% (2019: 12.4% to 28.5%) | Increase/decrease in DLOM would result in decrease/increase in fair value |
| | Income approach | Discount rate | 2020: 2.6% (2019: 2.18%) | Increase/decrease in discount rate would result in decrease/increase in fair value |

## 40. 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) RMB'000 | Significant observable inputs (Level 2) RMB'000 | Significant unobservable inputs (Level 3) RMB'000 | Total RMB'000 |
| **As at 31 December 2020** | | | | |
| Financial assets at fair value through profit or loss | **–** | **–** | **175,136** | **175,136** |
| Financial assets at fair value through other comprehensive income | **–** | **–** | **234,641** | **234,641** |
| | **–** | **–** | **409,777** | **409,777** |
| 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 |

## 40. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

### Fair value hierarchy (Continued)

**Assets measured at fair value (Continued)**

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

| | 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 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 and 1 January 2020 | **144,202** | **233,414** |
| Total gains recognised in the consolidated statement of profit or loss included in other income and gains, net | **3,228** | **–** |
| Total gains recognised in the consolidated statement of comprehensive income | **–** | **1,227** |
| Purchases | **44,206** | **–** |
| Disposals | **(16,500)** | **–** |
| As at 31 December 2020 | **175,136** | **234,641** |

There were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 during the current and prior years.

## 41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank borrowings, lease liabilities and 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.

## 41. 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.

| | **2020** | |
|---|---|---|
| | **Within one year or on demand RMB'000** | **Total RMB'000** |
| Lease liabilities | **528** | **528** |
| Interest-bearing bank borrowings | **46,519** | **46,519** |
| Trade payables | **8,589** | **8,589** |
| Financial liabilities included in other payables and accruals | **35,241** | **35,241** |
| | **90,877** | **90,877** |

| | 2019 | | |
|---|---|---|---|
| | Within one year or on demand RMB'000 | One to two 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 |

### (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.

## 41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### (c) Capital management (Continued)

The Group monitors capital on the basis of the net cash over the debt position, which is cash and cash equivalents less lease liabilities, interest-bearing bank borrowings, trade payables, other payables and accruals. The amounts of the net cash over debt position at the end of the reporting periods were as follows:

| | **31 December 2020 RMB'000** | 31 December 2019 RMB'000 |
|---|---|---|
| Cash and cash equivalents | **448,434** | 372,110 |
| Lease liabilities | **(521)** | (1,276) |
| Interest-bearing bank borrowings | **(46,000)** | (130,000) |
| Trade payables | **(8,589)** | (8,014) |
| Financial liabilities included in other payables and accruals | **(35,241)** | (38,053) |
| Net cash over debt position | **358,083** | 194,767 |

## 42. EVENT AFTER THE REPORTING PERIOD

### Entering into of new contractual arrangements

Due to the replacement of one of the registered shareholders of Shanghai Mu77 Network Technology Company Limited (上海木七七網絡科技有限公司) ("Mu77SH"), being one of the Group's operating entities, from Yunhai Qingtian to Huadong Feitian, the previous contractual arrangements in relation to Shanghai Mu77 entered into in 2018 were terminated and the relevant parties, namely Huadong Feitian, Tianjin Muba Business Management Consulting Center (Limited Partnership) (天津木巴企業管理諮詢中心(有限合夥)) ("Tianjin Muba"), Linzhi Tencent Technology Co., Ltd. (林芝騰訊科技有限公司) ("Linzhi Tencent") and Mu77SH entered into a series of new contractual arrangements in relation to Mu77SH on 26 February 2021. 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 Mu77SH would continue to be accounted for and consolidated into the accounts of the Group.

## 43. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

| | **2020**<br>**RMB'000** | 2019<br>RMB'000 |
|---|---|---|
| **NON-CURRENT ASSETS** | | |
| Investments in subsidiaries | **46,915** | 45,050 |
| Total non-current assets | **46,915** | 45,050 |
| **CURRENT ASSETS** | | |
| Other receivables | **269** | 549 |
| Amounts due from subsidiaries | **712,512** | 745,219 |
| Cash and cash equivalents | **7,383** | 4,537 |
| Total current assets | **720,164** | 750,305 |
| **CURRENT LIABILITIES** | | |
| Other payables and accruals | **1,719** | 2,492 |
| Total current liabilities | **1,719** | 2,492 |
| **NET CURRENT ASSETS** | **718,445** | 747,813 |
| Net assets | **765,360** | 792,863 |
| **EQUITY** | | |
| Issued capital | **22,818** | 22,818 |
| Reserves (note) | **742,542** | 770,045 |
| Total equity | **765,360** | 792,863 |

## 43. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Note:

A summary of the Company's reserves is as follows:

| | Share premium account | Shares held under share award scheme | Capital reserve | Exchange fluctuation reserve | Employee share-based compensation reserve | Accumulated losses | Total |
|---|---|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| At 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 and 1 January 2020 | 975,704 | (1,416) | 8,969 | 291 | 29,497 | (243,000) | 770,045 |
| Total comprehensive loss for the year | **–** | **–** | **–** | **(662)** | **–** | **(30,772)** | **(31,434)** |
| Equity-settled share-based payment arrangements | **–** | **–** | **–** | **–** | **2,515** | **–** | **2,515** |
| Transfer of reserve upon the forfeiture or expiry of share options | **–** | **–** | **–** | **–** | **(114)** | **114** | **–** |
| Disposal of award shares | **–** | **1,416** | **–** | **–** | **–** | **–** | **1,416** |
| At 31 December 2020 | **975,704** | **–** | **8,969** | **(371)** | **31,898** | **(273,658)** | **742,542** |

The employee share-based compensation reserve comprises the fair value of share options 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.

## 44. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 30 March 2021.