



# A8新媒体集团

## A8 NEW MEDIA GROUP

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 00800

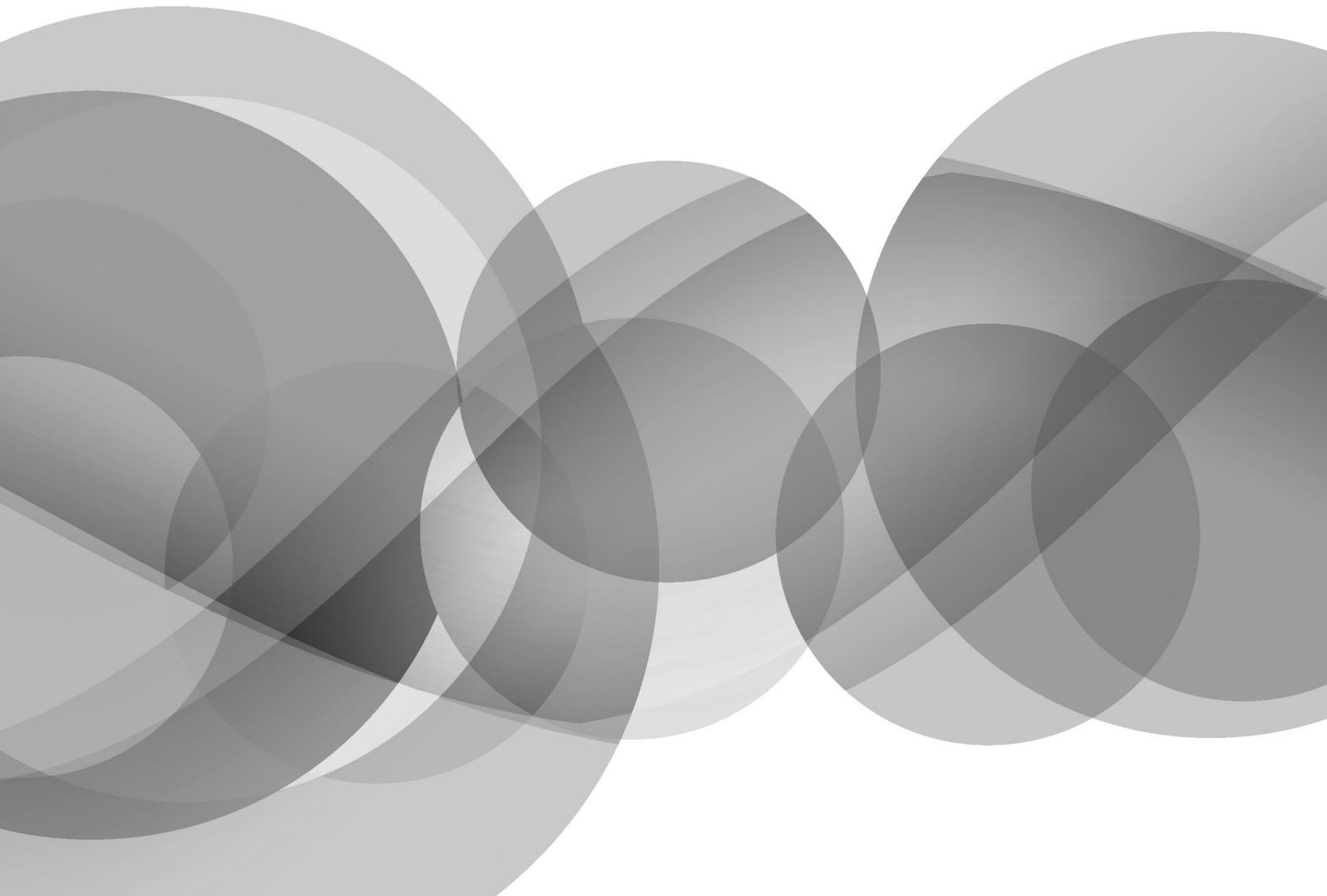


# 2020

## Interim Report

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# Corporate Information

## EXECUTIVE DIRECTORS

Mr. Liu Xiaosong  
Mr. Lin Qian

## INDEPENDENT NON-EXECUTIVE DIRECTORS

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

## AUDIT COMMITTEE

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

## NOMINATION COMMITTEE

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

## REMUNERATION COMMITTEE

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

## AUTHORISED REPRESENTATIVES

Mr. Liu Xiaosong  
Mr. Lin Qian

## COMPANY SECRETARY

Ms. Ho Wing Yan

## AUDITORS

Ernst & Young

## PRINCIPAL BANKERS

China Merchants Bank Co., Ltd.  
China Merchants Bank, Hong Kong Branch  
Industrial Bank Co., Ltd.  
Standard Chartered Bank (Hong Kong) Limited  
China Citic Bank Shenzhen Branch  
Shanghai Pudong Development Bank Co., Ltd.

## REGISTERED OFFICE

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

## HEAD OFFICE

25/F, A8 Music Building  
No. 99 Gaoxinnan 9th Road, Hi-tech Park  
Nanshan District  
Shenzhen  
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](http://www.a8nmg.com)

## STOCK CODE

00800

# Condensed Consolidated Statement of Profit or Loss

For the six months ended 30 June 2020

	Notes	For the six months ended 30 June	
		2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
<b>REVENUE</b>	5	<b>42,451</b>	58,696
Cost of services provided		<b>(10,339)</b>	(35,710)
Gross profit		<b>32,112</b>	22,986
Other income and gains, net	5	<b>30,599</b>	10,051
Selling and marketing expenses		<b>(2,662)</b>	(4,131)
Administrative expenses		<b>(16,334)</b>	(29,309)
Other expenses, net		<b>(11,364)</b>	(21,958)
Finance costs	6	<b>(2,322)</b>	(3,743)
Share of profits and losses of associates, net		<b>15,056</b>	6,003
<b>PROFIT/(LOSS) BEFORE TAX</b>	7	<b>45,085</b>	(20,101)
Income tax credit/(expense)	8	<b>(3,181)</b>	4,723
<b>PROFIT/(LOSS) FOR THE PERIOD</b>		<b>41,904</b>	(15,378)
Attributable to:			
Owners of the Company		<b>44,718</b>	(11,778)
Non-controlling interests		<b>(2,814)</b>	(3,600)
		<b>41,904</b>	(15,378)
<b>EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY</b>	10		
Basic (RMB per share)		<b>1.66 cents</b>	(0.44 cent)
Diluted (RMB per share)		<b>1.66 cents</b>	(0.44 cent)

# Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2020

	For the six months ended 30 June	
	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
<b>PROFIT/(LOSS) FOR THE PERIOD</b>	<b>41,904</b>	(15,378)
<b>OTHER COMPREHENSIVE INCOME/(LOSS)</b>		
<b>Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:</b>		
Exchange differences on translation of financial statements	25	(190)
<b>Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods:</b>		
Share of other comprehensive loss of an associate	–	(15,122)
Changes in fair value of equity investments at fair value through other comprehensive income, net of tax	60,048	31,527
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods	60,048	16,405
<b>OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX</b>	<b>60,073</b>	16,215
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b>101,977</b>	837
Attributable to:		
Owners of the Company	104,791	4,437
Non-controlling interests	(2,814)	(3,600)
	<b>101,977</b>	837

# Condensed Consolidated Statement of Financial Position

As at 30 June 2020

	Notes	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	11	131,142	135,305
Investment properties	12	426,000	431,000
Right-of-use assets		13,233	13,758
Goodwill		18,871	18,871
Intangible assets		2,266	2,630
Network films and dramas		–	457
Investments in associates		265,416	250,360
Financial assets at fair value through profit or loss		147,284	127,702
Financial assets at fair value through other comprehensive income		313,478	233,414
Deferred tax assets		888	1,128
Total non-current assets		1,318,578	1,214,625
<b>CURRENT ASSETS</b>			
Network films and dramas under production		–	3,663
Trade receivables	13	1,856	2,014
Prepayments, other receivables and other assets		17,412	13,872
Financial assets at fair value through profit or loss		5,212	16,739
Restricted cash balances and pledged deposits		184,042	183,009
Cash and cash equivalents		323,971	372,110
Total current assets		532,493	591,407
<b>CURRENT LIABILITIES</b>			
Trade payables	14	7,976	8,014
Other payables and accruals		52,115	51,800
Interest-bearing bank borrowings		51,000	130,000
Lease liabilities		771	755
Tax payable		9,919	10,281
Total current liabilities		121,781	200,850
<b>NET CURRENT ASSETS</b>		410,712	390,557
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		1,729,290	1,605,182

# Condensed Consolidated Statement of Financial Position

As at 30 June 2020

	Notes	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
<b>NON-CURRENT LIABILITIES</b>			
Lease liabilities		132	521
Deferred tax liabilities		161,478	139,066
Deferred income		1,350	2,100
Total non-current liabilities		162,960	141,687
Net assets		1,566,330	1,463,495
<b>EQUITY</b>			
<b>Equity attributable to owners of the Company</b>			
Issued capital	15	22,818	22,818
Reserves		1,544,079	1,438,430
<b>Non-controlling interests</b>		<b>1,566,897</b> <b>(567)</b>	1,461,248 2,247
Total equity		1,566,330	1,463,495

# Condensed Consolidated Statement of Changes In Equity

For the six months ended 30 June 2020

Note	Attributable to owners of the Company											Total equity (unaudited) RMB'000			
	Share capital (unaudited) RMB'000	Share premium account (unaudited) RMB'000	Shares held under share award scheme (unaudited) RMB'000	Merger reserve (unaudited) RMB'000	Surplus contributions (unaudited) RMB'000	Fair value reserve (unaudited) RMB'000	Employee share-based compensation reserve (unaudited) RMB'000	Exchange fluctuation reserve (unaudited) RMB'000	Capital reserve (unaudited) RMB'000	Statutory reserve fund (unaudited) RMB'000	Reserve fund (unaudited) RMB'000		Retained profits (unaudited) RMB'000	Total (unaudited) RMB'000	Non-controlling interests (unaudited) RMB'000
At 1 January 2020	22,818	966,775	(1,416)	29,135	10,522	176,623	34,647	4,872	10,326	20,936	4,422	181,388	1,461,248	2,247	1,463,495
Profit for the period	-	-	-	-	-	-	-	-	-	-	-	44,718	-	-	146,306
Other comprehensive income for the period:	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exchange differences on translation of financial statements	-	-	-	-	-	-	-	25	-	-	-	-	-	-	25
Change in fair value of equity investments at fair value through other comprehensive income, net of tax	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total comprehensive income for the period	-	-	-	-	-	-	-	-	-	-	-	44,718	-	-	146,306
Deregistration of a subsidiary	-	-	-	-	-	60,048	-	25	-	(761)	-	761	-	-	101,977
Equity-settled share-based payment arrangements	-	-	-	-	-	-	858	-	-	-	-	-	858	-	858
Transfer of reserves upon the forfeiture or expiry of share options	-	-	-	-	-	-	(139)	-	-	-	-	139	-	-	-
At 30 June 2020	22,818	966,775*	(1,416)*	29,135*	10,522*	236,671*	35,366*	4,897*	10,326*	20,175*	4,422*	227,206*	1,566,897	(567)	1,566,330
At 1 January 2019	22,818	966,775	(1,445)	29,135	10,522	102,753	29,951	(2,288)	10,391	21,701	4,422	231,948	1,426,583	9,125	1,435,708
Loss for the period	-	-	-	-	-	-	-	-	-	-	-	(11,778)	(11,778)	(3,600)	(15,378)
Other comprehensive income/(loss) for the period:	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exchange differences on translation of financial statements	-	-	-	-	-	-	-	(190)	-	-	-	-	(190)	-	(190)
Share of other comprehensive loss of an associate	-	-	-	-	-	(15,122)	-	-	-	-	-	-	(15,122)	-	(15,122)
Change in fair value of equity investments at fair value through other comprehensive income, net of tax	-	-	-	-	-	31,527	-	-	-	-	-	-	31,527	-	31,527
Total comprehensive income for the period	-	-	-	-	-	16,405	-	(190)	-	-	-	(11,778)	4,437	(3,600)	837
Deregistration of a subsidiary	-	-	-	-	-	-	-	-	(65)	-	-	-	-	1,014	1,014
Acquisition of non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	(65)	(95)	(160)
Employee share award scheme — release of award shares	-	-	29	-	-	-	(29)	-	-	-	-	-	-	-	-
Equity-settled share-based payment arrangements	-	-	-	-	-	-	3,856	-	-	-	-	-	3,856	-	3,856
Transfer of reserves upon the forfeiture or expiry of share options	-	-	-	-	-	-	(60)	-	-	-	-	60	-	-	-
At 30 June 2019	22,818	966,775*	(1,416)*	29,135*	10,522*	119,158*	33,718*	(2,478)*	10,326*	21,701*	4,422*	220,130*	1,434,811	6,444	1,441,255

\* These reserve accounts comprise the consolidated reserves of RMB1,544,079,000 (30 June 2019: RMB1,411,993,000) in the condensed consolidated statement of financial position.

# Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2020

	For the six months ended 30 June	
	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash generated from operations	25,731	34,026
Tax paid	(907)	(1,076)
Net cash flows from operating activities	24,824	32,950
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of subsidiaries, net of cash acquired	–	(24,887)
Acquisition of financial assets at fair value through profit or loss	(10,040)	–
Purchases of items of property, plant and equipment	(16)	(19)
Interest received	2,233	9,349
Decrease/(increase) in restricted cash and pledged deposits	(1,033)	23,792
Decrease/(increase) in time deposits with original maturity of more than three months when acquired	172,314	(66,135)
Proceeds from disposals of financial assets at fair value through profit or loss	16,500	4,500
Purchase of shareholdings in an associate	–	(1,847)
Proceeds from disposal of items of property, plant and equipment	116	–
Dividend received	947	–
Net cash flows from/(used in) investing activities	181,021	(55,247)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
New bank loans	41,000	215,730
Repayment of bank loans	(120,000)	(230,788)
Acquisition of non-controlling interests	–	(60)
Principal portion of lease payments	(395)	(414)
Interest paid	(2,300)	(3,697)
Net cash flows used in financing activities	(81,695)	(19,229)
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	124,150	(41,526)
Cash and cash equivalents at beginning of period	75,461	306,475
Effect of foreign exchange rate changes, net	25	(190)
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	199,636	264,759

# Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2020

	For the six months ended 30 June	
	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Cash and bank balances	<b>66,647</b>	115,872
Non-pledged time deposits	<b>257,324</b>	220,022
Cash and cash equivalents as stated in the condensed consolidated statement of financial position	<b>323,971</b>	335,894
Time deposits with original maturity of more than three months when acquired	<b>(124,335)</b>	(71,135)
Cash and cash equivalents as stated in the condensed consolidated statement of cash flows	<b>199,636</b>	264,759

# Notes to Interim Condensed Consolidated Financial Information

## 1. CORPORATE INFORMATION

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

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

- provision of digital entertainment services
- property investment

There were no significant changes in the nature of the Group’s principal activities during the period.

## 2. BASIS OF PREPARATION

The unaudited interim condensed consolidated financial information for the six months ended 30 June 2020 has been prepared in accordance with International Accounting Standards 34 *Interim Financial Reporting* issued by the International Accounting Standards Board. The unaudited interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2019.

## 3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the current period’s unaudited interim condensed consolidated financial information are consistent with those applied in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2019, except for the adoption of the following revised International Financial Reporting Standards (“IFRSs”) for the first time for the current period’s financial information.

Amendments to IFRS 3	<i>Definition of a Business</i>
Amendments to IFRS 9, IAS 39 and IFRS 7	<i>Interest Rate Benchmark Reform</i>
Amendments to IAS 1 and IAS 8	<i>Definition of Material</i>

Except for the amendments to IFRS 3 *Definition of a Business*, which are not relevant to the preparation of the Group’s unaudited interim condensed consolidated financial information, the nature and the impact of the following revised IFRSs are described below:

### **Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform**

Amendments to IFRS 9, IAS 39 and IFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedge relationships.

# Notes to Interim Condensed Consolidated Financial Information

## 3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

### Amendments to IAS 1 and IAS 8: Definition of Material

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. The amendments did not have any impact on the Group's interim condensed consolidated financial information.

## 4. OPERATING SEGMENT INFORMATION

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

- (a) the digital entertainment segment engages in the provision of (1) music-based entertainment; (2) game-related services; and (3) film and television production in the PRC; and
- (b) the property investment segment invests in properties for rental and management fee income in the PRC.

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

# Notes to Interim Condensed Consolidated Financial Information

## 4. OPERATING SEGMENT INFORMATION (Continued)

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

### For the six months ended 30 June

	Digital entertainment		Property investment		Total	
	2020	2019	2020	2019	2020	2019
	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000
Segment revenue	3,863	22,894	38,588	35,802	42,451	58,696
Cost of services provided	(2,761)	(27,067)	(7,578)	(8,643)	(10,339)	(35,710)
Gross profit	1,102	(4,173)	31,010	27,159	32,112	22,986
<b>Segment results</b>	<b>2,507</b>	<b>(16,105)</b>	<b>23,332</b>	<b>22,159</b>	<b>25,839</b>	<b>6,054</b>
Reconciliation:						
Bank interest income					8,041	7,578
Finance costs (other than interest on lease liabilities)					(2,300)	(3,697)
Corporate and other unallocated income and expenses, net					13,505	(30,036)
<b>Profit/(loss) before tax</b>					<b>45,085</b>	<b>(20,101)</b>
Income tax credit/(expense)					(3,181)	4,723
<b>Profit/(loss) for the period</b>					<b>41,904</b>	<b>(15,378)</b>

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

# Notes to Interim Condensed Consolidated Financial Information

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

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

	For the six months ended 30 June	
	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
<b>Revenue from contracts with customers</b>		
Digital entertainment revenue	3,863	22,894
Property management services	7,671	8,012
	<b>11,534</b>	30,906
<b>Revenue from other sources</b>		
Gross rental income from investment property operating leases:		
Variable lease payments that do not depend on an index or a rate	747	787
Other lease payments, including fixed payments	30,170	27,003
	<b>30,917</b>	27,790
	<b>42,451</b>	58,696

# Notes to Interim Condensed Consolidated Financial Information

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

### Revenue from contracts with customers

#### (i) Disaggregated revenue information

For the six months ended 30 June 2020

Segments	Digital entertainment RMB'000	Property investment RMB'000	Total RMB'000
<b>Type of services</b>			
Game-related revenue	2,047	–	2,047
Music-based entertainment	1,071	–	1,071
Film and television production	745	–	745
Management services	–	7,671	7,671
Total revenue from contracts with customers	<b>3,863</b>	<b>7,671</b>	<b>11,534</b>
<b>Timing of revenue recognition</b>			
Over time	3,863	7,671	11,534
Total revenue from contracts with customers	<b>3,863</b>	<b>7,671</b>	<b>11,534</b>

For the six months ended 30 June 2019

Segments	Digital entertainment RMB'000	Property investment RMB'000	Total RMB'000
<b>Type of services</b>			
Game-related revenue	12,504	–	12,504
Music-based entertainment	2,077	–	2,077
Film and television production	8,313	–	8,313
Management services	–	8,012	8,012
Total revenue from contracts with customers	<b>22,894</b>	<b>8,012</b>	<b>30,906</b>
<b>Timing of revenue recognition</b>			
Over time	22,894	8,012	30,906
Total revenue from contracts with customers	<b>22,894</b>	<b>8,012</b>	<b>30,906</b>

# Notes to Interim Condensed Consolidated Financial Information

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

### Revenue from contracts with customers (Continued)

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

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

#### For the six months ended 30 June 2020

Segments	Digital entertainment RMB'000	Property investment RMB'000	Total RMB'000
<b>Revenue from contracts with customers</b>			
External customers	3,863	7,671	11,534
Total revenue from contracts with customers	3,863	7,671	11,534

#### For the six months ended 30 June 2019

Segments	Digital entertainment RMB'000	Property investment RMB'000	Total RMB'000
<b>Revenue from contracts with customers</b>			
External customers	22,894	8,012	30,906
Total revenue from contracts with customers	22,894	8,012	30,906

	For the six months ended 30 June	
	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
<b>Other income and gains, net</b>		
Bank interest income	8,041	7,578
Fair value gains on financial assets at fair value through profit or loss, net	14,515	–
Foreign exchange differences, net	4,963	955
Dividend income from a financial asset at fair value through other comprehensive income	808	–
Others	2,272	1,518
	30,599	10,051

# Notes to Interim Condensed Consolidated Financial Information

## 6. FINANCE COSTS

An analysis of finance costs is as follows:

	For the six months ended 30 June	
	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
Interest on bank loans	2,300	3,697
Interest on lease liabilities	22	46
	<b>2,322</b>	<b>3,743</b>

## 7. PROFIT/(LOSS) BEFORE TAX

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

	For the six months ended 30 June	
	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
Depreciation of property, plant and equipment	4,081	4,568
Depreciation of right-of-use assets	525	547
Amortisation of intangible assets	364	4,234
Amortisation of network films and dramas***	457	16,617
Impairment of intangible assets***	–	6,733
Write-off of trade payables***	–	(7,000)
Write-off of trade receivables*	2,678	–
Write-off of other payables***	(81)	–
Impairment of trade receivables*	24	188
Impairment of financial assets included in prepayments, other receivables and other assets*	–	176
Impairment of network films and dramas under production*	3,663	–
Fair value (gain)/loss on financial assets at fair value through profit or loss**/*	(14,515)	15,267
Changes in fair value of investment properties*	5,000	5,000
Foreign exchange differences, net**	(4,963)	(955)

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

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

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

# Notes to Interim Condensed Consolidated Financial Information

## 8. INCOME TAX (CREDIT)/EXPENSE

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 period, 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 is taxed at 8.25% and the remaining assessable profits are taxed at 16.5%.

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

An analysis of the income tax charges/(credits) for the six months ended 30 June 2020 and 2019 is as follows:

	For the six months ended 30 June	
	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
Current — Hong Kong		
Charge for the period	116	115
Current — PRC		
Charge for the period	1,043	581
Overprovision in the prior years	(614)	(593)
Deferred	2,636	(4,826)
Total tax charge/(credit) for the period	3,181	(4,723)

For the six months ended 30 June 2020 and 2019, a subsidiary of the Group was entitled to a preferential tax rate.

## 9. INTERIM DIVIDEND

The board of directors (the "Board") does not recommend payment of an interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: Nil).

# Notes to Interim Condensed Consolidated Financial Information

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

The calculation of the basic earnings per share amounts for the six months ended 30 June 2020 is based on the profit for the period attributable to equity holders of the Company of RMB44,718,000 (loss for the six months ended 30 June 2019: RMB11,778,000), and the weighted average number of ordinary shares in issue less shares held under share award scheme during the six months ended 30 June 2020 of 2,693,536,000 (six months ended 30 June 2019: 2,693,535,000).

No adjustment has been made to the basic earnings per share amount presented for the period ended 30 June 2020 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during the period ended 30 June 2020.

For the period ended 30 June 2019, no adjustment had been made to the basic loss per share amount presented in respect of a dilution as the impact of the share options outstanding had an anti-dilutive effect on the basic loss per share amount presented.

## 11. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment of RMB16,000 (six months ended 30 June 2019: RMB19,000). There were disposals and/or write-off of property, plant and equipment of RMB97,000 (six months ended 30 June 2019: RMB327,000) during the six months ended 30 June 2020.

## 12. INVESTMENT PROPERTIES

	(Unaudited) RMB'000
At 1 January 2019	438,000
Fair value losses on investment properties	<u>(7,000)</u>
At 31 December 2019 and 1 January 2020	431,000
Fair value losses on investment properties	<u>(5,000)</u>
At 30 June 2020	<u>426,000</u>

The Group's investment properties were revalued on 30 June 2020 based on valuations performed by Asset Appraisal Limited, independent professionally qualified valuers.

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

# Notes to Interim Condensed Consolidated Financial Information

## 12. INVESTMENT PROPERTIES (Continued)

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

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

In the opinion of the directors, the current use of the investment properties is their highest and best use. The investment properties measured at fair value in the aggregate carrying amount of RMB426,000,000 and RMB431,000,000 as at 30 June 2020 and 31 December 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 using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
As at 30 June 2020 (Unaudited): Recurring fair value measurement for:				
Commercial buildings	–	–	426,000	426,000
As at 31 December 2019 (Audited): Recurring fair value measurement for:				
Commercial buildings	–	–	431,000	431,000

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

# Notes to Interim Condensed Consolidated Financial Information

## 12. INVESTMENT PROPERTIES (Continued)

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

	Valuation technique	Significant unobservable inputs	Range (weighted average)	
			30 June 2020	31 December 2019
Commercial buildings	Income approach	Estimated rental value (per sq.m. and per month)	RMB165	RMB163
		Rental growth rate (per annum)	3.0%	3.0%
		Discount rate	8.25%	8.2%

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

## 13. TRADE RECEIVABLES

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

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
Billed		
Within 1 month	4	209
1 to 2 months	78	47
2 to 3 months	68	46
Over 3 months	878	275
	<b>1,028</b>	577
Unbilled	828	1,437
	<b>1,856</b>	2,014

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

# Notes to Interim Condensed Consolidated Financial Information

## 14. 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:

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
Within 1 month	1	289
1 to 3 months	3	14
4 to 6 months	6	38
Over 6 months	7,966	7,673
	<b>7,976</b>	<b>8,014</b>

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

## 15. ISSUED CAPITAL

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
<b>Authorised:</b>		
3,000,000,000 (31 December 2019: 3,000,000,000) ordinary shares of HK\$0.01 each	<b>26,513</b>	26,513
<b>Issued and fully paid:</b>		
2,700,886,628 (31 December 2019: 2,700,886,628) ordinary shares of HK\$0.01 each	<b>22,818</b>	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 HK\$'000	Share premium HK\$'000	Equivalent nominal value of ordinary shares RMB'000	Equivalent share premium RMB'000	Total RMB'000
As at 1 January 2020 and 30 June 2020	2,700,886,628	27,009	1,148,150	22,818	966,775	989,593

# Notes to Interim Condensed Consolidated Financial Information

## 16. COMMITMENT

As at 30 June 2020, the Group had a capital commitment of RMB5,000,000 (31 December 2019: Nil), which is contracted, but not provided for purchase of a financial asset.

## 17. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in this interim condensed consolidated financial information, the Group had the following transactions with related parties during the period:

	Notes	For the six months ended 30 June	
		2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
Associate:			
Service fee income	(i)	–	16
Entity under common control to the Group:			
Rental income	(ii)	837	–
Management fee income	(iii)	64	–

Notes:

- (i) The service fee income was paid by an associate for the receivables collection services. The income was based on 1% of the amount collected on behalf during the period.
- (ii) The rental income was paid by an entity under common control to the Group for a lease of office premises at a rate mutually agreed between the parties.
- (iii) The management fee income was paid by an entity under common control to the Group for property management services provided by the Group at a rate mutually agreed between the parties.

(b) Compensation of key management personnel of the Group:

	For the six months ended 30 June	
	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
Short-term employee benefits	240	486
Performance related bonuses	–	111
Pension scheme contributions	57	154
Equity-settled share option expense	42	1,946
Total compensation paid to key management personnel	339	2,697

# Notes to Interim Condensed Consolidated Financial Information

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

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

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 30 June 2020 and 31 December 2019:

	Valuation	Unobservable input	Range	Relationship of unobservable inputs to fair value
Financial assets at fair value through other comprehensive income	Market approach	Enterprise-value-to-revenue multiple ("EV/Revenue")	30 June 2020: 5.97 to 6.97 (31 December 2019: 5.97 to 6.97)	Increase/decrease in EV/Revenue would result in increase/decrease in fair value
		Price-to-earnings multiple ("P/E")	30 June 2020: 30.76 (31 December 2019: 30.76)	Increase/decrease in P/E would result in increase/decrease in fair value
		Discounts for lack of marketability ("DLOM")	30 June 2020: 17.9% to 18.7% (31 December 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	30 June 2020: 0.42 to 9.10 (31 December 2019: 0.42 to 9.10)	Increase/decrease in EV/Revenue would result in increase/decrease in fair value
		DLOM	30 June 2020: 12.4% to 28.5% (31 December 2019: 12.4% to 28.5%)	Increase/decrease in DLOM would result in decrease/increase in fair value
		Income approach Discount rate	30 June 2020: 2.18% (31 December 2019: 2.18%)	Increase/decrease in discount rate would result in decrease/increase in fair value

# Notes to Interim Condensed Consolidated Financial Information

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

### Fair value hierarchy

The following table provides the fair value measurement hierarchy of the Group's financial instruments:

#### Assets measured at fair value

As at 30 June 2020 (Unaudited):

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Financial assets at fair value through profit or loss	172	–	152,324	152,496
Financial assets at fair value through other comprehensive income	–	–	313,478	313,478
	172	–	465,802	465,974

As at 31 December 2019 (Audited):

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
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

# Notes to Interim Condensed Consolidated Financial Information

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

### Fair value hierarchy (Continued)

The movements in fair value measurements within Level 3 during the period 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
<b>As at 1 January 2019 (Audited)</b>	179,464	100,382
Total losses recognised in the condensed consolidated statement of profit or loss	(36,262)	–
Total gains recognised in other comprehensive income	–	133,032
Purchases	16,500	–
Disposals	(15,500)	–
	<hr/>	<hr/>
As at 31 December 2019 and 1 January 2020 (Audited)	144,202	233,414
	<hr/>	<hr/>
Total gains recognised in the condensed consolidated statement of profit or loss	<b>14,582</b>	–
Total gains recognised in other comprehensive income	–	<b>80,064</b>
Purchases	<b>10,040</b>	–
Disposals	<b>(16,500)</b>	–
	<hr/>	<hr/>
<b>As at 30 June 2020 (Unaudited)</b>	<b>152,324</b>	<b>313,478</b>

There were no transfers between Level 1 and Level 2 fair value measurements during the period, and no transfers into or out of Level 3 fair value measurements during the six months ended 30 June 2020 (Year ended 31 December 2019: Nil).

# Notes to Interim Condensed Consolidated Financial Information

## 19. SHARE OPTION SCHEME

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

	Weighted average exercise price per share HK\$	Number of options '000
At 1 January 2019	0.64	34,645
Granted during the period	0.22	78,207
Forfeited during the period	0.69	(200)
At 30 June 2019	0.35	112,652
At 1 January 2020	<b>0.35</b>	<b>112,652</b>
Forfeited during the period	<b>0.22</b>	<b>(2,029)</b>
At 30 June 2020	<b>0.35</b>	<b>110,623</b>

At the end of the reporting period, the Company had approximately 110,623,000 share options outstanding under the share option scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of approximately 110,623,000 additional ordinary shares of the Company and additional share capital of approximately HK\$1,106,000 and share premium of approximately HK\$37,612,000 (before issue expenses).

At the date of approval of this interim condensed consolidated financial information, the Company had approximately 110,623,000 share options outstanding under the share option scheme, which represented approximately 4.10% of the Company's shares in issue as at that date.

For the six months ended 30 June 2019, the fair value of the share options granted was HK\$8,421,000 at HK\$0.11 each. The Group recognised a share option expense of RMB858,000 (six months ended 30 June 2019: RMB3,856,000) during the six months ended 30 June 2020 in respect of share options granted in the current and prior periods.

## 20. APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

The unaudited interim condensed consolidated financial information was approved by the Board on 21 August 2020.

# Management Discussion and Analysis

## 1. BUSINESS REVIEW AND OUTLOOK

### Business review for the first half of 2020

The Group focus on the pan-entertainment market consisting of online literature, online games, film and television, short videos, music, etc., achieving development and realization of high-quality IP and IP derivatives by the vertical development of IP's long chain, continuously integrates and develops between various sub-sectors. The development of domestic pan-entertainment industry is high speed. Meanwhile, with the improvement of relevant policies, the state's supervision of the industry has become more stringent. The outbreak of the novel coronavirus ("COVID-19") pandemic posed a challenge to the global business environment. During the reporting period, 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 reduce the negative impact of the pandemic on the operation of the property investment business. The Group has taken the above measures and achieved significant results. The Group has turned loss into profit and record a net profit for the six months ended 30 June 2020 of RMB41.9 million.

### Game Business

Since the approval of the game license restarted in early 2019, the issuance of the number of license has reduced significantly, and the impact of the tightening of the license continues. In the first half of 2020, National Press and Publication Administration issued a total of 582 domestic online game license, which declined by 47% year-on-year. In the context of the industry-related policies continue to give high priority to high-quality original games from leading companies, the Group actively carried out strategic adjustments, and made structural adjustments and optimizations to its online game business line during the reporting period, reduced the scale of game distribution, and focused on game research and development to cope with the increasing competition in the gaming industry.

During the reporting period, the Group's gross revenue from the online game business was mainly derived from a card game "Card Monster" operated by Mu77 (the Group's subsidiary jointly invested with Tencent), a fast-paced, light-strategy casual type of card game. Tencent Aurora is the exclusive agent of "Card Monster" in mainland China. At the same time, another original game "Colossus Knights" (「巨像騎士團」) had been developed by Mu77 was launched in Taiwan, China in June 2020, and it is planned to be launched in mainland China in the second half of 2020. 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. In addition, "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.

# Management Discussion and Analysis

## Film & television production

“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.

In addition, as of 30 June 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.

## Property Investment Business

During the reporting period, in terms of property investment business, the Group’s gross revenue was derived from the rent and property services income of the National Music Industry Park — A8 Music Building. A8 Music Building is located in the core area of Shenzhen Bay Area. It has a superior location with a total gross floor area of 52,500 square meters. It integrates music performance, office and business services. In the first half of 2020, the property investment business contributed approximately RMB38.6 million in gross revenue (revenue before excluding taxes and surcharges) (“gross revenue”) to the Group.

In the first half of 2020, the commercial leasing market became saturated, coupled with the impact of the pandemic, the entire leasing market continued to be sluggish. 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”, expanded investment promotion, stabilized customers, increased revenue through multiple channels, and reasonably reduced costs. Also, continuously improved service quality and achieved significant results so that the income of the property investment business was limited affected by the market environment and the pandemic.

Relying on the A8 Music Building, the Group’s A8Live is an offline performance brand. Due to the impact of the pandemic, performances have been suspended from 23rd January. In the second half of 2020, A8Live will gradually recover under the circumstance of ensuring safety depend on the pandemic situation and relevant government policies, and actively adopt various measures to improve performance.

## Online literatures — Beijing Zhangwen

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), Ruoxia.com (若夏網) and Lemon Read (檸檬免費小說網). 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.

# Management Discussion and Analysis

Sustainable and stable in literature IP copyright operation. For the six months ended 30 June 2020, the revenue generated from copyright operation of Beijing Zhangwen increased by 52% 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.

The number of hours of audio works recorded in Beijing Zhangwen has increased by more than 25,000 compared with the corresponding period last year. Lots of audio novels of Beijing Zhangwen entered top ranking lists of platforms like Himalayan FM (「喜馬拉雅FM」), Irts.me (「懶人聽書」) and Dragonfly FM (「蜻蜓FM」).

Beijing Zhangwen's numerous comics also entered top ranking lists of Tencent Comic, kuaikanmanhua.com and xiaomingtaiji.com.

The online movie "The big illusion" (「大幻術師」), 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, the number of appointments reached 180,000. "The big illusion" ranked No.1 of iQIYI's Online Film Popular Playing List and Soaring List since the first day of its broadcast. As of 21 August 2020, the topic of "The big illusion" in Tik Tok exceeded 340 million, and it occupied the top of Popular Playing List and Box Office List for several days. With a total revenue distribution of more than 12 million, it has become No.1 of iQIYI's Revenue Distribution in the third quarter and one of the most popular online movies in all video platforms of this year.

Stable development in literature related business and steady growth in third-party distribution business. As at 30 June 2020, the cumulative numbers of registered users of Beijing Zhangwen has maintained approximately compound annual growth rate of 40% for four successive years. Lemon Read, the free reading platform of Beijing Zhangwen launched in 2018, currently has more than 600 thousand active users, maintaining approximately compound annual growth rate of 120% 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. In the first half of 2020, the third-party authorization business grew steadily. With the original distribution channels such as China Literature (「閱文集團」), Ali Literature (「阿裡文學」), iReader (「掌閱文學」), Chasing Artifacts (「追書神器」), Zongheng Literature (「縱橫文學」), Toutiao.com (「今日頭條」), Baidu Cloud (「百度雲」), Migu Culture (「咪咕文化」) in hand, Beijing Zhangwen continued to expand new distribution channels.

# Management Discussion and Analysis

## **Business outlook for the second half of 2020**

The main business direction of the Group in the second half year of 2020 will be the pan-entertainment market, which consists of online literature, online games, film and television, short videos and music. The Group will also select high quality IP and deeply develop various forms of IP derivatives; enforce research of pan-entertainment industry's products, market and future development trend; explore innovative business actively; enhance research and analysis of industry status and counterparts; and seek high quality investment targets which are promising. Meanwhile, the Group will strictly exercise cost and business risks control, including attraction of project cost control of labor, as well as improvement of the procurement system and procedures. The Group will remain focus on the development and status of the pandemic, continue to evaluate its impact on the financial position and operating results of the Group, and take necessary actions to reduce the impact of the pandemic on the business. Pan-entertainment industry policies are becoming more and more perfect, industry supervision is becoming more and more stringent. The Chinese government has continued to strengthen the protection of intellectual property rights, while awareness of subscription among users continue to grow stronger, driving the continuous development of high quality of the pan-entertainment industry in the PRC in the future. The Group will leverage on policy advantage and the huge potential of the pan-entertainment market, coupled with a high-quality management team and excellent operational capabilities, size up the situation in the changing macroeconomic environment and forge ahead, we have full confidence and expectation for the future.

## **2. FINANCIAL REVIEW**

### **Revenue**

For the six months ended 30 June 2020, the gross revenue of the Group amounted to approximately RMB42.5 million, representing a decrease of approximately 29.5% as compared with the corresponding period in 2019 (2019: approximately RMB60.2 million).

### **Digital entertainment services**

For the six months ended 30 June 2020, the gross revenue of digital entertainment services of the Group amounted to approximately RMB3.9 million, representing a significant decrease of approximately 83.2% as compared with the corresponding period in 2019 (2019: approximately RMB23.0 million). The decrease was mainly due to the fact that the Group adjusted the development strategies, resulting in a decrease of approximately RMB19.1 million in gross revenue from game publishing business and film and television production.

### **Property investment business**

For the six months ended 30 June 2020, the gross revenue of property investment business derived from the rental and management fee amounted to approximately RMB38.6 million, representing an increase of approximately 3.7% as compared with the corresponding period in 2019 (2019: approximately RMB37.2 million).

# Management Discussion and Analysis

## Cost of services provided

For the six months ended 30 June 2020, the cost of services provided of the Group amounted to approximately RMB10.3 million, representing a decrease of approximately 71.0% as compared with the corresponding period in 2019 (2019: approximately RMB35.7 million). The decrease was mainly due to the decrease of approximately RMB24.3 million in related cost compared with the corresponding period in 2019 accompanied with the decrease in game and film and television production related revenue.

## Digital entertainment services

For the six months ended 30 June 2020, the cost of services provided of digital entertainment services amounted to approximately RMB2.8 million, decreased by approximately 89.8% as compared with the corresponding period in 2019 (2019: approximately RMB27.1 million).

## Property investment business

For the six months ended 30 June 2020, the cost of services provided of property investment business amounted to approximately RMB7.6 million, decreased by approximately 12.3% as compared with the corresponding period in 2019 (2019: approximately RMB8.6 million). During the period, the Group has implemented effective cost control to reduce the impact of the COVID-19 pandemic on property investment business.

## Gross profit

For the six months ended 30 June 2020, the gross profit of the Group amounted to approximately RMB32.1 million, representing an increase of approximately 39.7% as compared with the corresponding period in 2019 (2019: approximately RMB23.0 million). For the six months ended 30 June 2020, the overall gross margin ratio of the Group was approximately 75.6%, while it was approximately 38.2% for the corresponding period last year. The increase of the overall gross margin ratio of the Group was mainly resulted from the increase of gross margin ratio of film and television production business.

## Other income and gains, net

For the six months ended 30 June 2020, the other income and gains, net of the Group were approximately RMB30.6 million, representing a significant increase of approximately 204.4% as compared with the corresponding period last year (2019: approximately RMB10.1 million). The increase was mainly due to that for the six months ended 30 June 2020, the recognition of gain on fair value change of financial assets at fair value through profit or loss amounted to approximately RMB14.5 million, while loss on fair value change of financial assets at fair value through profit or loss amounted to approximately RMB15.3 million was recognized under other expenses for the six months ended 30 June 2019. In addition, the foreign exchange differences, net increased by approximately RMB4.0 million as compared with the corresponding period last year.

## Selling and marketing expenses

For the six months ended 30 June 2020, the selling and marketing expenses of the Group amounted to approximately RMB2.7 million, decreased by approximately 35.6% as compared with the corresponding period in 2019 (2019: approximately RMB4.1 million). The decrease was mainly resulted from the reduction of game related publishing business.

# Management Discussion and Analysis

## **Administrative expenses**

For the six months ended 30 June 2020, the administrative expenses of the Group amounted to approximately RMB16.3 million, representing a decrease of approximately 44.3% as compared with the corresponding period in 2019 (2019: approximately RMB29.3 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 six months ended 30 June 2020, the other expenses, net of the Group amounted to approximately RMB11.4 million, decreased by approximately 48.2% as compared with the corresponding period in 2019 (2019: approximately RMB22.0 million). The decrease was mainly due to that for the six months ended 30 June 2019, the recognition of loss on fair value change of financial assets at fair value through profit or loss related to investment in Lanlanlanlan Film & Television amounted to approximately RMB17.0 million. For the six months ended 30 June 2020, the other expenses, net consisted of i) a fair value loss on investment property amounted to RMB5.0 million; ii) the impairment provision of inventories amounted to approximately RMB3.7 million; iii) write-off of trade receivables amounted to approximately RMB2.7 million due to the impact of the COVID-19 pandemic, we offered rent and management fee concession to lessees.

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

For the six months ended 30 June 2020, the Group shared profits and losses of associates amounted to approximately RMB15.1 million, increased by approximately 150.8% as compared with the corresponding period in 2019 (2019: approximately RMB6.0 million). The increase was mainly due to the shared profits of Beijing Zhangwen increased by approximately RMB7.8 million as compared with the corresponding period in 2019.

## **Income tax credit/(expense)**

For the six months ended 30 June 2020, income tax expense of the Group amounted to approximately RMB3.2 million, while the income tax credit for the corresponding period in 2019 was approximately RMB4.7 million. This change was mainly due to the deferred tax expenses amounted to approximately RMB3.6 million derived from the increased fair value of financial asset at fair value through profit or loss for the six months ended 30 June 2020, while it was due to the deferred tax credit amounted to approximately RMB5.5 million derived from the decreased fair value of financial asset at fair value through profit or loss and investment property for the corresponding period last year.

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

As a result of above-mentioned, for the six months ended 30 June 2020, the profit attributable to equity holders of the Company amounted to approximately RMB44.7 million, while it was a loss of approximately RMB11.8 million for the corresponding period last year.

# Management Discussion and Analysis

## Liquidity and financial resources

As at 30 June 2020, cash and bank balances and highly liquid short-term assets of the Group including cash and cash equivalents, restricted cash and pledged deposits and financial assets at fair value through profit or loss amounted to approximately RMB513.2 million in aggregate (2019: approximately RMB571.9 million). Among which, approximately RMB175.9 million, or approximately 34% was denominated in RMB.

As at 30 June 2020, the Group had short-term interest-bearing bank borrowings in aggregate amounted to approximately RMB51.0 million (2019: approximately RMB130.0 million), and the gearing ratio which is measured by the net borrowings over the total assets is 2.8% (2019: approximately 7.2%).

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

As at 30 June 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

As at 30 June 2020, the Group's financial assets at fair value through profit or loss amounted to approximately RMB152.5 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. The increase was mainly attributable to the increase in fair value of investments in funds.

## Financial assets at fair value through other comprehensive income

As at 30 June 2020, the Group's financial assets at fair value through other comprehensive income amounted to approximately RMB313.5 million (2019: approximately RMB233.4 million). The increase was mainly attributable to the significant increase in the performance of a game development company, which resulted in the increase in fair value of the game development company.

## Human resources

As at 30 June 2020, the Group had 77 employees (as at 30 June 2019: 123 employees). The average headcounts of the period was 85 while it was 136 for the corresponding period in 2019. Total employee costs for the six months ended 30 June 2020, including directors' emoluments, amounted to approximately RMB11.3 million (2019: approximately RMB20.7 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 and a share award scheme have also been put in place for the Company to encourage employees to work towards enhancing the value of the Company and promote the long-term growth of the Company. Furthermore, the Group offers training programs for employees to upgrade their skills and knowledge on a regular basis.

# Management Discussion and Analysis

## 3 USE OF PROCEEDS

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

As of the date of this report, the accumulated amount of RMB101.3 million of the proceeds from the Subscriptions have been used. Among which, approximately RMB59.6 million of the net proceeds from the Subscription 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.

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

On the date of this report, the remaining amount of the proceeds from the Subscription was RMB236.0 million. The company has no plans to change the use of the proceeds from the Subscription for the time being. The remaining unutilized proceeds from the Subscription will be used as intended. As at the date of this report, the Company has not identified other suitable business or investment opportunities. The Company will continue to use its best endeavors to identify appropriate business opportunities for investment. Currently, the Company placed such unutilized proceeds as short-term interest-bearing deposits in licensed bank in Hong Kong.

## 4 SIGNIFICANT INVESTMENTS

The Group did not launch any new significant investments during the six months ended 30 June 2020.

# Management Discussion and Analysis

## 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 the pandemic, fluctuations in market prices of rent and property fees and uncertainty of tenant mobility.

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

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

### **Policy Risk**

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

### **Foreign Exchange Risk**

On 30 June 2020, HK Dollars and US Dollars in cash and cash equivalents held by the Group were approximately HK\$3.9 million and US\$47.1 million. The Group's main business is located in China, and most of its revenues and expenditures are settled in RMB. Therefore, the Group may face the risk of foreign currency exchange.

# Management Discussion and Analysis

## **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.

# Disclosure of Interests

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

As at 30 June 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

Name of Directors	Nature of interest	Number of shares		Approximate percentage of interest in the Company's issued share capital <sup>1</sup>
		Ordinary shares	Underlying Shares (under equity derivatives of the Company)	
Mr. Liu Xiaosong ("Mr. Liu")	Founder of trust <sup>2</sup>	1,481,741,398 <sup>3</sup>	Nil	54.86% <sup>3</sup>
	Beneficial Owner	5,766,000	41,575,600 <sup>3</sup>	1.75%
Mr. Lin Qian	Beneficial Owner	Nil	5,000,000 <sup>3</sup>	0.19%
Mr. Chan Yiu Kwong	Beneficial Owner	Nil	1,415,000 <sup>3</sup>	0.05%
Ms. Wu Shihong	Beneficial Owner	Nil	1,320,000 <sup>3</sup>	0.05%
Mr. Li Feng	Beneficial Owner	Nil	1,050,000 <sup>3</sup>	0.04%

Notes:

- The percentage of interest in the Company is calculated by reference to the number of Shares in issue as at 30 June 2020 (i.e. 2,700,886,628 Shares).
- Mr. Liu is the founder of a family trust which is deemed under SFO to be interested in all the shares held by Ever Novel Holdings Limited ("Ever Novel") and Prime Century Technology Limited ("Prime Century") in the Company. As at 30 June 2020, Prime Century directly held 405,370,303 shares and Ever Novel directly held 1,076,371,095 shares in the Company. As of the date of this report, Prime Century directly held 421,796,303 shares and Ever Novel directly held 1,076,371,095 shares in the Company.
- As of the date of this report, the ordinary shares held by Mr. Liu as Founder of trust are 1,498,167,398, and the approximate percentage of interest in the in the company's issued share capital is 55.47%.
- Details of share options held by the Directors are shown in the section of "Share Option Schemes".

# Disclosure of Interests

## Long positions in associated corporations of the Company

Name of associated corporations	Name of Directors	Nature of Interest	Registered capital/no. of shares held	Approximate percentage of interest in the total issued share capital
Duomi Music Holding Ltd (“Duomi Music”) <sup>1</sup>	Mr. Liu	Interest of controlled corporation	35,435,640 <sup>2</sup>	33.94%
Beijing Duomi Online Technology Co., Ltd (“Beijing Duomi”) <sup>3</sup>	Mr. Liu	Beneficial owner	25,383,000 <sup>4</sup>	28.71%
Beijing Zhangwen <sup>5</sup>	Mr. Liu	Beneficial owner	RMB13,000,000 <sup>6</sup>	65.00%

### Notes:

- Duomi Music is a company incorporated in the Cayman Islands with limited liability. As at 30 June 2020, the Company was interested in approximately 48.13% of the shares of Duomi Music through its wholly-owned subsidiary, Phoenix Success Limited, and therefore Duomi Music is an associated corporation of the Company. Mr. Liu, through his wholly-owned holding company, Fortune Light Investments Limited (“Fortune Light”), was interested in approximately 33.94% of the shares of Duomi Music.
- This represents the number of shares of Duomi Music held by Mr. Liu.
- Beijing Duomi is a limited liability company incorporated in the PRC. As at 30 June 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.
- This represents the number of shares of Beijing Duomi held by Mr. Liu.
- Beijing Zhangwen is a limited liability company incorporated in the PRC. As at 30 June 2020, the Company was interested in 35% of the registered capital of Beijing Zhangwen through its wholly-owned subsidiary, Yunhai Qingtian, and therefore Beijing Zhangwen is an associated corporation of the Company. Mr. Liu, through a holding company which he was interested in 90% of the shares, 深圳市浩祥投資有限公司 (Shenzhen Haoxiang Investment Co., Ltd) (the English name is for identification purpose only), was interested in 65% of the Shares of Beijing Zhangwen.
- This represents the amount of registered capital of Beijing Zhangwen held by Mr. Liu.

Save as disclosed, as at 30 June 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.

# Disclosure of Interests

## 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.

On 25 May 2018, the shareholders of the Company adopted a new share option scheme (the “2018 Share Option Scheme”) (with Pre-IPO Share Option Scheme and 2008 Share Option Scheme collectively called “Share Option Schemes”) for the purpose of providing incentives and rewards to its Directors, executive officers, employees and other eligible persons. As of 30 June 2020, 78,207,000 share options under the 2018 Share Option Scheme was granted.

During the six months ended at 30 June 2020, no share option granted under this Scheme was exercised, and 2,028,576 share options were forfeited following the resignation of the relevant employees and eligible persons.

The following table discloses movements in the Company’s share options outstanding under the Share Option Scheme during the period:

Name/category of participants	At 31 December 2019	Exercised during the period	Granted during the period	Forfeited during the period	Cancelled during the period	At 30 June 2020	Date of grant of share options	Vesting period of share options	End of exercise period	Exercise price of share options HK\$ per share	Closing price of shares immediately before date of grant HK\$ per share
<b>Directors of the Group</b>											
Liu Xiaosong	41,575,600	-	-	-	-	41,575,600					
	7,600,000	-	-	-	-	7,600,000	23 April 2014	One-fourth of the share options granted will be vested every 12-month period starting from 23 April 2015	23 April 2021	0.65	0.65
	4,807,600	-	-	-	-	4,807,600	14 May 2015	One-fourth of the share options granted will be vested every 12-month period starting from 14 May 2016	14 May 2022	1.04	1.04
	8,910,000	-	-	-	-	8,910,000	16 May 2016	One-third of the share options granted will be vested every 12-month period starting from 16 May 2017	16 May 2023	0.56	0.54
	1,715,000	-	-	-	-	1,715,000	9 January 2018	One-half of the share options granted will be vested on 16 May 2018 and the other one-half on 16 May 2019	9 January 2025	0.57	0.56
	18,543,000	-	-	-	-	18,543,000	20 June 2019	The share options granted was fully vested at one time on 20 June 2019	20 June 2029	0.221	0.220
Lin Qian	5,000,000	-	-	-	-	5,000,000	5 April 2017	One-fourth of the share options granted will be vested every 12-month period starting from 24 December 2017	5 April 2024	0.512	0.51

# Disclosure of Interests

Name/category of participants	At 31 December 2019	Exercised during the period	Granted during the period	Forfeited during the period	Cancelled during the period	At 30 June 2020	Date of grant of share options	Vesting period of share options	End of exercise period	Exercise price of share options HK\$ per share	Closing price of shares immediately before date of grant HK\$ per share
Chan Yiu Kwong	1,415,000	-	-	-	-	1,415,000					
	315,000	-	-	-	-	315,000	23 April 2014	One-fourth of the share options granted will be vested every 12-month period starting from 23 April 2015	23 April 2021	0.65	0.65
	1,100,000	-	-	-	-	1,100,000	7 May 2018	One-fourth of the share options granted will be vested every 12-month period starting from 7 May 2018	7 May 2025	0.439	0.44
Wu Shihong	1,320,000	-	-	-	-	1,320,000					
	420,000	-	-	-	-	420,000	23 April 2014	One-fourth of the share options granted will be vested every 12-month period starting from 23 April 2015	23 April 2021	0.65	0.65
	900,000	-	-	-	-	900,000	7 May 2018	One-fourth of the share options granted will be vested every 12-month period starting from 7 May 2018	7 May 2025	0.439	0.44
Li Feng	1,050,000	-	-	-	-	1,050,000					
	150,000	-	-	-	-	150,000	21 April 2017	One-half of the share options granted will be vested at 24 April 2017 and 24 April 2018, respectively	21 April 2024	0.487	0.51
	900,000	-	-	-	-	900,000	7 May 2018	One-fourth of the share options granted will be vested every 12-month period starting from 7 May 2018	7 May 2025	0.439	0.44
<b>Subtotal</b>	<b>50,360,600</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>50,360,600</b>					
<b>Other employees and eligible persons of the Group</b>	<b>1,377,053</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,377,053</b>	<b>23 April 2014</b>	<b>One-fourth of the share options granted will be vested every 12-month period starting from 23 April 2015</b>	<b>23 April 2021</b>	<b>0.65</b>	<b>0.65</b>
	1,250,000	-	-	-	-	1,250,000	23 April 2014	All of the share options granted have been vested on 15 October 2015	23 April 2021	0.65	0.65
	59,664,000	-	-	2,028,576	-	57,635,424	28 June 2019	50%, 30% and 20% of the share options granted will be vested every 12-month period starting from 30 June 2019 respectively	28 June 2029	0.219	0.219
<b>Subtotal</b>	<b>62,291,053</b>	<b>-</b>	<b>-</b>	<b>2,028,576</b>	<b>-</b>	<b>60,262,477</b>					
<b>TOTAL</b>	<b>112,651,653</b>	<b>-</b>	<b>-</b>	<b>2,028,576</b>	<b>-</b>	<b>110,623,077</b>					

During the six months ended 30 June 2020, 2,028,576 share options were forfeited following the resignation of the relevant employees and eligible persons.

As at the date of approval of this interim report, there were 110,623,077 outstanding share options granted under the Share Option Scheme, representing approximately 4.1% of the issued share capital of the Company.

Please refer to note 19 to the financial statements for further information of the Share Option Scheme and the value of share options granted.

# Disclosure of Interests

## SHARE AWARD SCHEME

The Board has approved the adoption of a share award scheme (the "Share Award Scheme") on 16 August 2010 ("Adoption Date") for the purpose of providing incentives and rewards to its Directors, executive officers, employees and other eligible persons. Law Debenture Trust (Asia) Limited (the "Trustee") acts as the trustee for the Share Award Scheme. The Share Award Scheme will operate in parallel with the Company's Pre-IPO Share Option Scheme, 2008 Share Option Scheme and 2018 Share Option Scheme.

During the six months ended 30 June 2020, no awarded shares were granted under the Share Award Scheme, no awarded shares were released to awarders, no awarded shares were lapsed.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30 June 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 shareholders	Nature of interest	Number of Ordinary shares (long positions)	Approximate percentage of interest in the Company's issued share capital <sup>1</sup>
HSBC International	Trustee (other than a bare trustee) <sup>2</sup>	1,569,621,398	58.11%
River Road	Interest in controlled corporation <sup>2</sup>	1,481,741,398	54.86%
Knight Bridge	Interest in controlled corporation <sup>2</sup>	1,481,741,398	54.86%
Ever Novel	Interest in controlled corporation <sup>3</sup>	405,370,303	15.01%
	Beneficial Owner <sup>3</sup>	1,076,371,095	39.85%
Prime Century	Beneficial Owner <sup>3</sup>	405,370,303	15.01%

# Disclosure of Interests

## Notes:

1. The percentage of interest in the Company is calculated by reference to the number of Shares in issue as at 30 June 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 Investment Limited (“River Road”), Knight Bridge Holding Limited (“Knight Bridge”), Ever Novel, Prime Century and Grand Idea Holdings Limited (“Grand Idea”)), exercise or control the exercise of one third or more voting power at the general meetings of such companies and is deemed under the SFO to be interested in the shares of the Company held by such companies (as at 30 June 2020, 1,569,621,398 Shares in total). As of the date of this report, HSBC International is deemed to be interested in 1,586,047,398 shares of the company held by such companies.
3. As at 30 June 2020, Prime Century directly held 405,370,303 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 405,370,303 shares in the Company held directly by Prime Century. As of the date of this report, Prime Century directly held 421,796,303 shares and Ever Novel directly held 1,076,371,095 shares in the Company.

Save as disclosed above, as at 30 June 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.

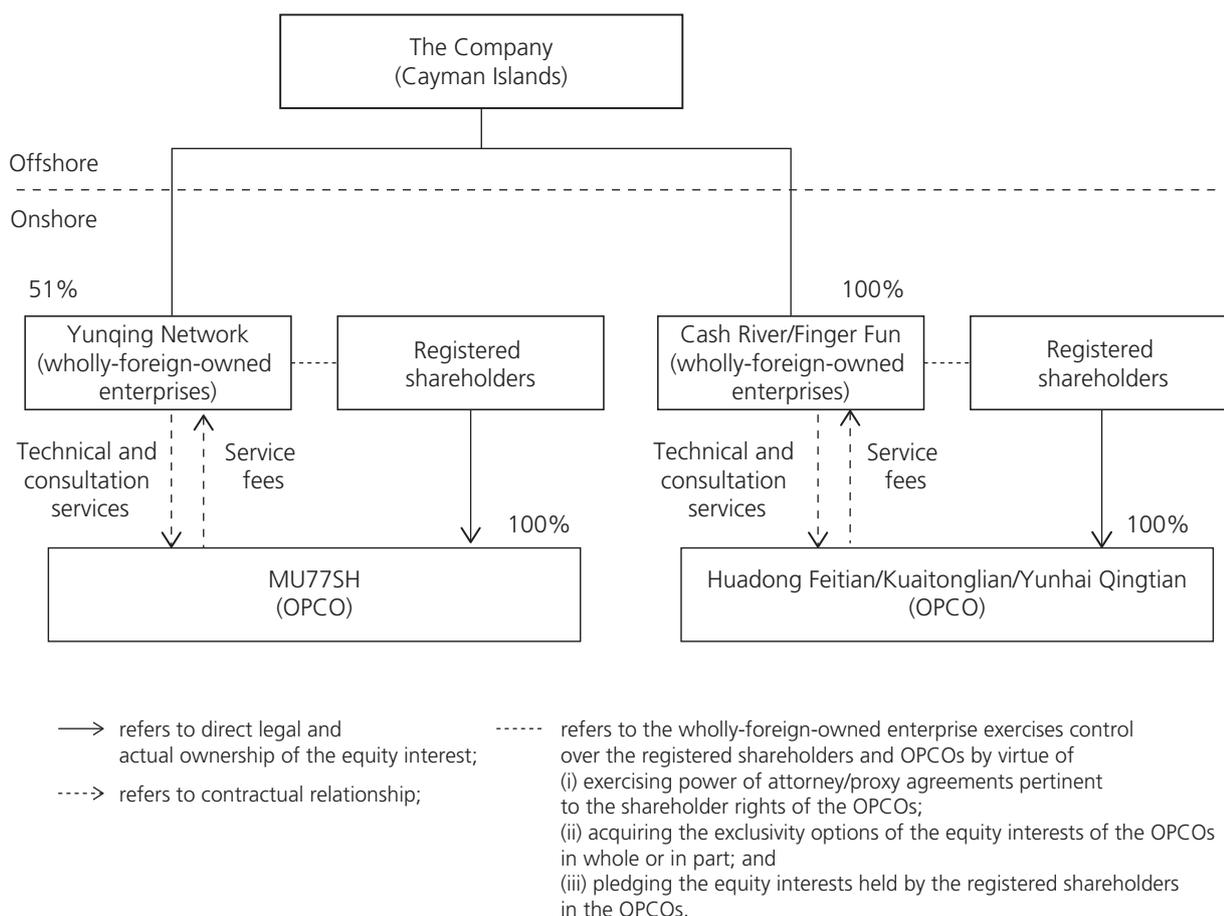
# Information on the Contractual Arrangements

## 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 facto control over the business operations of the OPCOs, and is entitled to all economic benefits generated from the business operations of the OPCOs. In this regard, the Board is of opinion that the Company is able to consolidate the financial results of these OPCOs into the financial results of the Group as if they are the subsidiaries of the Company.

The Company entered into the agreements about Huadong Feitian, Kwaitonglian, 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 Kwaitonglian 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 30 June 2020:

# Information on the Contractual Arrangements



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.

# Information on the Contractual Arrangements

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

## Summary of the major terms of Structure Contracts

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

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

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.

# Information on 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, Kwaitonglian, 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.

# Information on the Contractual Arrangements

## RISKS RELATING TO 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).

# Information on the Contractual Arrangements

## **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.

# Information on the Contractual Arrangements

## **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.

# Other Information

## INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for 2020.

## PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

As of the date of this report, the Company and its subsidiaries did not purchase, sell or redeem any of the listed securities of the Company during the six months ended 30 June 2020.

## COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

During the period ended 30 June 2020, all the code provisions set out in the Code on Corporate Governance Practices (“CG Code”) contained in Appendix 14 of the Listing Rules were met by the Company, except for the deviation from code provision A.2.1 providing for the roles of chairman and chief executive officer (the “CEO”) to be performed by different individuals.

Mr. Liu has diversified experience in the technology, media and telecommunication industry and has been being responsible for overall management and strategic planning of the Group. The Board considered that Mr. Liu is able to make better business decision for the Group in performing the roles of the chairman and CEO. Therefore, Mr. Liu has had the dual roles of the chairman and CEO of the Company despite deviation from code provision A.2.1 during this reporting period.

## COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

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

## REVIEW OF FINANCIAL INFORMATION

The Audit Committee has reviewed the Group’s unaudited condensed consolidated interim financial information for the six months ended 30 June 2020. Based on this review and discussions with the management, the Audit Committee was satisfied that the financial information was prepared in accordance with applicable accounting standards and fairly presented the Group’s financial position and results for the six months ended 30 June 2020.

## AUDIT COMMITTEE

The Audit Committee, which comprises three independent non-executive Directors, has reviewed the accounting principles and practices adopted by the Company and discussed internal control and financial reporting matters. The Audit Committee has reviewed the Group’s unaudited interim condensed consolidated financial information for the six months ended 30 June 2020.

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

Hong Kong, 21 August 2020