



A8新媒体集团

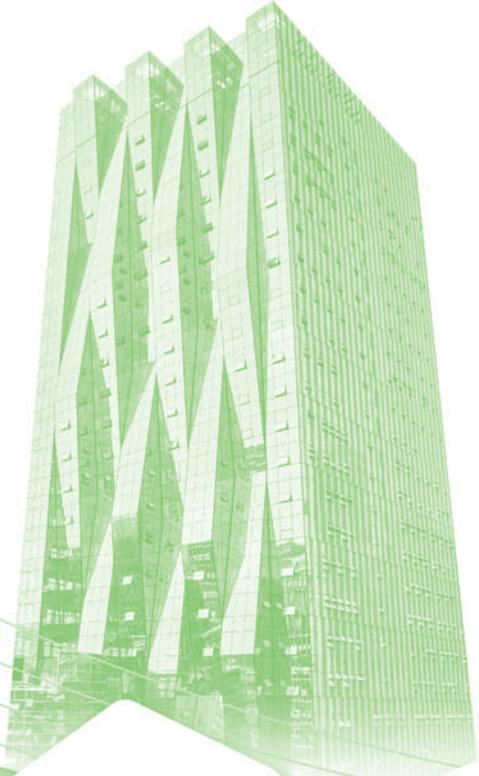
A8 NEW MEDIA GROUP

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 00800

INTERIM REPORT 2016





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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Liu Xiaosong
Mr. Liu Pun Leung

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. Liu Pun Leung

COMPANY SECRETARIES

Mr. Liu Pun Leung

AUDITORS

Ernst & Young

PRINCIPAL BANKERS

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

REGISTERED OFFICE

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Guangdong Province
The PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Wanchai
Hong Kong

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
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WEBSITE

www.a8.com
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STOCK CODE

00800

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2016

	Notes	For the six months ended 30 June	
		2016 (Unaudited) RMB'000	2015 (Unaudited) RMB'000
REVENUE, net of business tax	4	91,645	66,605
Cost of services provided		(52,257)	(42,244)
Gross profit		39,388	24,361
Other income and gains, net	4	15,776	31,469
Selling and marketing expenses		(8,557)	(8,284)
Administrative expenses		(16,188)	(21,118)
Other expenses		(1,147)	(5,478)
Share of losses of associates		(7,503)	(9,762)
Share of losses of joint ventures		(2,071)	(916)
PROFIT BEFORE TAX	5	19,698	10,272
Income tax expense	6	(3,350)	(4,751)
PROFIT FOR THE PERIOD		16,348	5,521
Attributable to:			
Owners of the Company		16,350	5,834
Non-controlling interests		(2)	(313)
		16,348	5,521
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	8		
Basic (RMB per share)		0.9 cent	0.4 cent
Diluted (RMB per share)		0.9 cent	0.4 cent

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2016

	For the six months ended 30 June	
	2016 (Unaudited) RMB'000	2015 (Unaudited) RMB'000
Profit for the period	16,348	5,521
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	2,380	291
Total comprehensive income for the period	18,728	5,812
Attributable to:		
Owners of the Company	18,730	6,125
Non-controlling interests	(2)	(313)
	18,728	5,812

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2016

	Notes	30 June 2016 (Unaudited) RMB'000	31 December 2015 (Audited) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	9	146,384	148,413
Investment properties	10	358,000	349,000
Prepaid land lease payments		13,354	13,516
Available-for-sale investments	11	56,994	46,994
Intangible assets		17,771	15,831
Investments in associates	12	28,057	27,229
Investments in joint ventures		29,282	31,353
Deferred tax assets		3,657	4,136
Conversion option embedded in preferred shares		–	6,309
Total non-current assets		653,499	642,781
CURRENT ASSETS			
Trade receivables	13	13,730	23,121
Prepayments, deposits and other receivables		12,164	114,855
Available-for-sale investments	11	45,000	–
Financial assets at fair value through profit or loss	14	296	342
Restricted cash balances		1,861	66,990
Cash and cash equivalents		492,980	429,745
Total current assets		566,031	635,053
CURRENT LIABILITIES			
Trade payables	15	33,619	29,305
Other payables and accruals		31,933	109,563
Tax payable		7,711	7,771
Deferred income		8,704	17,267
Total current liabilities		81,967	163,906
NET CURRENT ASSETS		484,064	471,147
TOTAL ASSETS LESS CURRENT LIABILITIES		1,137,563	1,113,928

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

As at 30 June 2016

	Note	30 June 2016 (Unaudited) RMB'000	31 December 2015 (Audited) RMB'000
NON-CURRENT LIABILITIES			
Deferred tax liabilities		57,360	55,110
Deferred income		10,215	9,475
Total non-current liabilities		67,575	64,585
Net assets		1,069,988	1,049,343
EQUITY			
Equity attributable to owners of the Company			
Issued capital	16	15,123	15,123
Reserves		1,055,564	1,034,917
		1,070,687	1,050,040
Non-controlling interests		(699)	(697)
Total equity		1,069,988	1,049,343

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2016

	Attributable to owners of the Company													
	Shares held under			Merger reserve	Employee share-based			Exchange fluctuation reserve	Statutory		Reserve fund	Retained profits	Non-controlling interests	Total equity
	Issued capital	Share premium account	share award scheme		Surplus contributions	compensation reserve	Capital reserve funds		Reserve					
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
At 1 January 2016	15,123	663,208	(4,942)	29,135	10,522	27,586	1,087	10,016	21,701	4,422	272,182	1,050,040	(697)	1,049,343
Profit for the period	-	-	-	-	-	-	-	-	-	-	16,350	16,350	(2)	16,348
Other comprehensive income for the period:														
Exchange differences on translation of foreign operations	-	-	-	-	-	-	2,380	-	-	-	-	2,380	-	2,380
Total comprehensive income for the period	-	-	-	-	-	-	2,380	-	-	-	16,350	18,730	(2)	18,728
Equity-settled share-based payment arrangements	-	-	-	-	-	1,917	-	-	-	-	-	1,917	-	1,917
Transfer of reserve upon the lapse of share options	-	-	-	-	-	(162)	-	-	-	-	162	-	-	-
Employee share award scheme:														
- release of award shares	-	-	201	-	-	(201)	-	-	-	-	-	-	-	-
At 30 June 2016	15,123	663,208*	(4,741)*	29,135*	10,522*	29,140*	3,467*	10,016*	21,701*	4,422*	288,694*	1,070,687	(699)	1,069,988

* These reserve accounts comprise the consolidated reserves of RMB1,055,564,000 (31 December 2015: RMB1,034,917,000) in the condensed consolidated statement of financial position.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

For the six months ended 30 June 2016

	Attributable to owners of the Company													Total equity (Unaudited) RMB'000
	Issued capital (Unaudited) RMB'000	Shares held under		Merger reserve (Unaudited) RMB'000	Surplus contributions (Unaudited) RMB'000	Employee share-based compensation reserve (Unaudited) RMB'000	Exchange fluctuation reserve (Unaudited) RMB'000	Capital reserve (Unaudited) RMB'000	Statutory reserve funds (Unaudited) RMB'000	Reserve fund (Unaudited) RMB'000	Retained profits (Unaudited) RMB'000	Total (Unaudited) RMB'000	Non-controlling interests (Unaudited) RMB'000	
		Share premium account (Unaudited) RMB'000	share award scheme (Unaudited) RMB'000											
At 1 January 2015	11,914	450,770	(5,324)	29,135	10,522	24,415	(7,388)	9,173	21,701	4,422	249,437	798,777	(366)	798,411
Profit for the period	-	-	-	-	-	-	-	-	-	-	5,834	5,834	(313)	5,521
Other comprehensive income for the period:														
Exchange differences on translation of foreign operations	-	-	-	-	-	-	291	-	-	-	-	291	-	291
Total comprehensive income for the period	-	-	-	-	-	-	291	-	-	-	5,834	6,125	(313)	5,812
Placement of new shares	2,257	162,493	-	-	-	-	-	-	-	-	-	164,750	-	164,750
Share issue expenses	-	(2,571)	-	-	-	-	-	-	-	-	-	(2,571)	-	(2,571)
Issuance of shares in connection with the exercise of share options	5	547	-	-	-	(129)	-	-	-	-	-	423	-	423
Equity-settled share-based payment arrangements	-	-	-	-	-	2,297	-	-	-	-	-	2,297	-	2,297
Transfer of reserve upon the lapse of share options	-	-	-	-	-	(342)	-	-	-	-	342	-	-	-
Employee share award scheme:														
- release of award shares	-	-	67	-	-	(67)	-	-	-	-	-	-	-	-
At 30 June 2015	14,176	611,239	(5,257)	29,135	10,522	26,174	(7,097)	9,173	21,701	4,422	255,613	969,801	(679)	969,122

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2016

	For the six months ended 30 June	
	2016 (Unaudited) RMB'000	2015 (Unaudited) RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash from/(used in) operations	11,293	(7,805)
Tax paid	(681)	(1,525)
Net cash flows from/(used in) operating activities	10,612	(9,330)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of available-for-sale investments	(55,000)	(26,000)
Purchases of items of property, plant and equipment	(1,473)	(16,979)
Purchases of financial assets at fair value through profit or loss	–	(3,000)
Interest received	4,457	4,060
Decrease in restricted cash	65,129	3,498
Increase in time deposits with original maturity of more than three months when acquired	(199,251)	–
Purchases of shareholdings in associates	–	(25,000)
Capital injection in an associate	(3,000)	–
Proceeds from redemption of convertible notes	101,572	–
Refund of refundable collateral security	(60,000)	–
Other cash flows arising used in investing activities	(1,442)	(7,283)
Net cash flows used in investing activities	(149,008)	(70,704)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	–	423
Proceeds from placement of shares	–	164,750
Share issue expenses	–	(2,571)
Net cash flows from financing activities	–	162,602
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(138,396)	82,568
Cash and cash equivalents at beginning of year	429,745	316,458
Effect of foreign exchange rate changes, net	2,380	291
CASH AND CASH EQUIVALENTS AT END OF PERIOD	293,729	399,317
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	81,963	181,096
Time deposits	411,017	218,221
Cash and cash equivalents as stated in the condensed consolidated statement of financial position	492,980	399,317
Time deposits with original maturity of more than three months when acquired	(199,251)	–
Cash and cash equivalents as stated in the condensed consolidated statement of cash flows	293,729	399,317

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1. CORPORATE INFORMATION

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

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

- provision of digital entertainment services
- property investment

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial information have been prepared in accordance with International Accounting Standard (“IAS”) 34 “Interim Financial Reporting” issued by the International Accounting Standards Board and the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”). The accounting policies and basis of preparation adopted in the preparation of the unaudited condensed consolidated interim financial information are the same as those used in the annual financial statements for the year ended 31 December 2015, except in relation to the following revised International Financial Reporting Standards, (“IFRSs”, which also include IASs and Interpretations) that affect the Group and are adopted for the first time for the current period’s financial statements:

Amendments to IFRS 11	<i>Accounting for Acquisitions of Interests in Joint Operation</i>
Amendments to IAS 1	<i>Disclosure Initiative</i>
Amendments to IAS 16 and IAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i>
<i>Annual Improvements 2012-2014 Cycle</i>	Amendments to a number of IFRSs

The adoption of the above revised IFRSs has had no significant financial effect on the interim financial information. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

3. OPERATING SEGMENT INFORMATION

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

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

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

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

For the six months ended 30 June

	Digital entertainment		Property investment		Total	
	2016 (Unaudited) RMB'000	2015 (Unaudited) RMB'000	2016 (Unaudited) RMB'000	2015 (Unaudited) RMB'000	2016 (Unaudited) RMB'000	2015 (Unaudited) RMB'000
Segment net revenue	64,985	44,708	26,660	21,897	91,645	66,605
Cost of services provided	(44,645)	(35,513)	(7,612)	(6,731)	(52,257)	(42,244)
Gross profit	20,340	9,195	19,048	15,166	39,388	24,361
Segment results	(49)	(10,783)	28,048	33,166	27,999	22,383
Reconciliation:						
Bank interest income					4,457	4,060
Corporate and other unallocated income and expenses, net					(12,758)	(16,171)
Profit before tax					19,698	10,272
Income tax expense					(3,350)	(4,751)
Profit for the period					16,348	5,521

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 of the Group are located outside the PRC.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

4. REVENUE, OTHER INCOME AND GAINS, NET

Revenue represents the net invoiced value (net of business tax) and estimated value of services rendered.

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

	For the six months ended 30 June	
	2016 (Unaudited) RMB'000	2015 (Unaudited) RMB'000
Revenue		
Digital entertainment		
Game-related revenue	57,072	36,050
Music-based entertainment	7,920	8,832
Sub-total	64,992	44,882
Property investment		
Rental and management fee income	27,627	23,025
	92,619	67,907
Less: Business tax	(974)	(1,302)
Net revenue	91,645	66,605
Other income and gains, net		
Bank interest income	4,457	4,060
Imputed interest income	–	9,191
Fair value gains on investment properties	9,000	18,000
Foreign exchange differences, net	2,234	50
Others	85	168
	15,776	31,469

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

5. PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2016 (Unaudited) RMB'000	2015 (Unaudited) RMB'000
Depreciation	3,626	3,381
Amortisation of intangible assets	1,060	5,311
Amortisation of prepaid land lease payments	162	162
Impairment of an investment in an associate	978	–
Fair value loss on conversion option embedded in preferred shares	–	1,761
Fair value loss on conversion option embedded in convertible notes	–	3,655
Fair value loss/(gain) on financial assets at fair value through profit or loss	46	(22)

6. INCOME TAX EXPENSE

An analysis of the income tax charges for the six months ended 30 June 2016 and 2015 is as follows:

	For the six months ended 30 June	
	2016 (Unaudited) RMB'000	2015 (Unaudited) RMB'000
Current – PRC		
Charge for the period	999	–
Overprovision in the prior year	(377)	(264)
Deferred	2,728	5,015
Total tax charge for the period	3,350	4,751

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the six months ended 30 June 2016 and 2015, respectively.

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

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

7. INTERIM DIVIDEND

The Board does not recommend payment of an interim dividend for the six months ended 30 June 2016 (six months ended 30 June 2015: Nil).

8. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic earnings per share amounts for the six months ended 30 June 2016 is based on the profit for the period attributable to ordinary equity holders of the Company of RMB16,350,000 (six months ended 30 June 2015: RMB5,834,000), and the weighted average number of ordinary shares in issue less shares held under share award scheme during the six months ended 30 June 2016 of 1,814,259,696 (six months ended 30 June 2015: 1,525,305,770).

No adjustment has been made to the basic earnings per share amount presented for the period ended 30 June 2016 in respect of a dilution as the impact of the shares options outstanding and the awarded shares had an anti-dilutive effect on the basic earnings per share amount presented.

The calculation of diluted earnings per share amounts for the six months ended 30 June 2015 is based on the profit for the period attributable to ordinary equity holders of the Company of RMB5,834,000 as used in the basic earnings per share calculation. The weighted average number of ordinary shares used in the calculation is 1,525,305,770 ordinary shares in issue less shares held under the share award scheme during the six months ended 30 June 2015, as used in the basic earnings per share calculation, and the weighted average of 8,237 ordinary shares assumed to have been issued at no consideration on the deemed exercise of dilutive potential ordinary shares into ordinary shares and the effect of awarded shares.

9. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment of RMB1,677,000 (six months ended 30 June 2015: RMB7,905,000). There were disposals and/or write-off of property, plant and equipment of RMB80,000 (six months ended 30 June 2015: RMB169,000) during the six months ended 30 June 2016.

10. INVESTMENT PROPERTIES

	(Unaudited) RMB'000
At 1 January 2015	310,000
Fair value gains on investment properties	39,000
At 31 December 2015 and 1 January 2016	349,000
Fair value gains on investment properties	9,000
At 30 June 2016	358,000

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

10. INVESTMENT PROPERTIES (CONTINUED)

The Group's completed investment properties were revalued on 30 June 2016 based on valuations performed by Asset Appraisal Limited, independent professionally qualified valuers.

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

The valuations of completed 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, for all investment properties that are measured at fair value, the current use of the properties is their highest and best use. The completed investment properties measured at fair value in the aggregate carrying amount of RMB358,000,000 and RMB349,000,000 as at 30 June 2016 and 31 December 2015, 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 2016 (Unaudited): Recurring fair value measurement for:				
Commercial building	–	–	358,000	358,000
As at 31 December 2015 (Audited): Recurring fair value measurement for:				
Commercial building	–	–	349,000	349,000

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 CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

10. INVESTMENT PROPERTIES (CONTINUED)

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

	Valuation technique	Significant unobservable inputs	Range (weighted average)	
			30 June 2016	31 December 2015
Commercial building (Completed)	Income approach (refer above)	Estimated rental value (per sq.m. and per month)	RMB121	RMB114
		Rental growth rate (per annum)	5.0%	5.0%
		Discount rate	9.95%	10.0%

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 and the discount rate.

11. AVAILABLE-FOR-SALE INVESTMENTS

During the period, the Group acquired 10% equity interest in Shanghai Hanqu Network Technology Company Limited, which is principally engaged in developing mobile games, for a total cash consideration of RMB10 million.

The Group has also entered into contracts with various financial institutions in the PRC to acquire structured investments amounted to RMB45 million during the period. The structured investments are non-capital protected financial products.

During the period ended 30 June 2016, no gain/loss in respect of the Group's available-for-sale investments were recognised in other comprehensive income or reclassified from other comprehensive income to profit or loss.

12. INVESTMENTS IN ASSOCIATES

During the period, a capital injection of RMB3 million was made to one of the associates, which principally engaged in producing anime and musical performance.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

13. TRADE RECEIVABLES

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

	30 June 2016 (Unaudited) RMB'000	31 December 2015 (Audited) RMB'000
Billed		
Within 1 month	3,962	431
Over 1 month but less than 2 months	788	6,264
Over 2 months but less than 3 months	341	1,334
Over 3 months but less than 4 months	418	674
Over 4 months	1,840	2,026
	7,349	10,729
Unbilled	6,381	12,392
	13,730	23,121

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.

14. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The Group's listed equity investments were upon initial recognition, designated by the Group as financial assets as at fair value through profit or loss and are stated at fair value.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

15. TRADE PAYABLES

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

	30 June 2016 (Unaudited) RMB'000	31 December 2015 (Audited) RMB'000
Within 1 month	2,236	11,188
1 to 3 months	1,502	5,202
4 to 6 months	3,521	1,575
Over 6 months	26,360	11,340
	33,619	29,305

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

16. SHARE CAPITAL

	30 June 2016 (Unaudited) RMB'000	31 December 2015 (Audited) RMB'000
Authorised:		
3,000,000,000 ordinary shares of HK\$0.01 each	26,513	26,513
Issued and fully paid:		
1,835,192,628 ordinary shares of HK\$0.01 each	15,123	15,123

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

17. SHARE OPTION SCHEME

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

	Weighted average exercise price HK\$ per share	Number of options '000
At 1 January 2015	0.83	47,204
Granted during the period	1.04	4,808
Lapsed during the period	1.30	(773)
Exercised during the period	0.66	(578)
At 30 June 2015	0.85	50,661
At 1 January 2016	0.84	49,779
Granted during the period	0.56	8,910
Lapsed during the period	1.30	(1,970)
Cancelled during the period	1.32	(5,417)
At 30 June 2016	0.72	51,302

At the end of the reporting period, the Company had 51,302,000 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 51,302,000 additional ordinary shares of the Company and additional share capital of HK\$513,000 and share premium of HK\$36,424,000 (before issue expenses).

At the date of approval of these condensed consolidated interim financial information, the Company had 51,302,000 share options outstanding under the share option scheme, which represented approximately 2.8% of the Company's shares in issue as at that date.

For the six months ended 30 June 2016, the fair value of the share options granted was RMB2,587,000 at RMB0.29 each (six months ended 30 June 2015: RMB2,361,000 at RMB0.49 each). The Group recognised a share option expense of RMB1,917,000 (six months ended 30 June 2015: RMB2,297,000) during the six months ended 30 June 2016 in respect of share options granted in the current and prior periods.

18. COMMITMENTS

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

	30 June 2016 (Unaudited) RMB'000	31 December 2015 (Audited) RMB'000
Contracted, but not provided for: Investments	—	10,000

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

19. RELATED PARTY TRANSACTION

In addition to those detailed elsewhere in these condensed consolidated interim financial information, during the current period, the Group has the following transaction:

	For the six months ended 30 June	
	2016 (Unaudited) RMB'000	2015 (Unaudited) RMB'000
Game licence fee	3,000	–

The licence of a mobile game was entrusted to Xiamen Mechanist Internet Technologies Co., Ltd. (“Mengjia”), a company of which Mr. Liu Xiaosong, the Chairman of the Group, is the shareholder and the director. The game licence fee was charged pursuant to the terms in the agreement signed between the Group and Mengjia.

20. FAIR VALUE AND FAIR VALUE HIERARCHY

The carrying amounts of the Group’s financial instruments are reasonable approximation to their fair values.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group’s financial instruments:

Assets measured at fair value

As at 30 June 2016

	Quoted prices in active markets (Level 1) (Unaudited) RMB'000	Significant observable inputs (Level 2) (Unaudited) RMB'000	Significant unobservable inputs (Level 3) (Unaudited) RMB'000	Total (Unaudited) RMB'000
Financial assets at fair value through profit or loss	296	–	–	296

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

20. FAIR VALUE AND FAIR VALUE HIERARCHY (CONTINUED)

Fair value hierarchy (Continued)

Assets measured at fair value (Continued)

As at 31 December 2015

	Quoted prices in active markets (Level 1) (Audited) RMB'000	Significant observable inputs (Level 2) (Audited) RMB'000	Significant unobservable inputs (Level 3) (Audited) RMB'000	Total (Audited) RMB'000
Financial assets at fair value through profit or loss	342	–	–	342
Conversion option embedded in preferred shares	–	–	6,309	6,309
	342	–	6,309	6,651

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

21. EVENT AFTER THE REPORTING PERIOD

On 13 May 2016, the Group has entered into a sale and purchase agreement with independent third parties to acquire 35% equity interests in Beijing Jiangwen Information Technology Co., Ltd. ("Beijing Jiangwen") for a cash consideration of RMB192.5 million. Beijing Jiangwen is principally engaged in incubation and operation of prime copyrights. Subsequent to the end of the reporting period on 12 August 2016, the Group has obtained approval from shareholders of the Company at an extraordinary general meeting for the acquisition. The transaction has not been completed as at the date of approval of this unaudited interim financial information.

22. APPROVAL OF THE UNAUDITED INTERIM FINANCIAL INFORMATION

The unaudited interim financial information was approved by the Board on 24 August 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

Business Review for the first half of 2016

According to the information published by China Internet Network Information Center in August 2016, China's mobile internet population had reach 656 million as at June 2016, representing an increase of 36 million as compared with the end of 2015 and had reached up to 92.5% of the China's internet population. Along with the increasing mobile screen size and user experiences on mobile application, mobile phone has further consolidated its position as the major access channel to Internet. Among the markets which the Group involves, mobile music and mobile games market continued to grow rapidly.

Prime mobile games publishing platform

In the first half of 2016, along with the continuing popularity of prime copyrights, Shenzhen Finger Fun Network Technology Limited ("Finger Fun") (「指游方寸」) continued its effort into the layouts of prime copyrights to strengthen the reserves of copyrights and mobile games, while striving to develop Finger Fun as a global mobile entertainment provider. During the reporting period, Finger Fun has implemented prime copyright incubation scheme and taken the lead on HTML5 games and collaboration between films and games. Finger Fun is currently under the progress of transformation from a domestic mobile game publisher to a global mobile entertainment provider.

Prime copyrights layouts

During the reporting period, the Company has strengthened the layouts of prime copyrights and implemented prime copyright incubation scheme. On 13 May 2016, the Company has entered into a purchase and sales agreement to acquire 35% of equity interests in Beijing Jiangwen Information Technology Co., Ltd. ("Beijing Jiangwen"). Meanwhile, 65% of remaining equity interests in Beijing Jiangwen was acquired by Mr. Liu Xiaosong ("Mr. Liu"), the chairman of the Board and executive Director of the Company, through an indirect wholly-owned company.

Beijing Jiangwen is principally engaged in incubation and operation of prime copyrights, including but not limited to the provision of pay-to-read services on Beijing Jiangwen's websites; and the licensing of authorization to use and adaptation to cartoons, comics, audio works, mobile games, network drama, television drama and movies. Popular online literature works can accumulate substantial fans through internet platforms, which generate extremely strong copyrights synergies. It achieved cross-value conversion from online literature works to other fields including movies, TV drama and games, which showed a massive space for adding values to prime copyrights.

Mobile game publishing business

During the reporting period, in addition to the published games including "PaPa Three Kingdoms" (「啪啪三國」) on Android platforms, "Release the General" (「關門放呂布」) and "Hunger for World Conquest HTML5" (「我欲封天HTML5」), a number of user-end games, such as "Trouble of Clans" (「部落特煩惱」) and a number of HTML5 games, such as 「熱血球球HTML5」 and "Burning Brother HTML5" (「燃燒吧二弟HTML5」) were newly published.

In the first half of 2016, "PaPa Three Kingdoms" (「啪啪三國」) on Android version has attracted the return of veteran users through version updates and promotion activities while obtaining new users by enhancing its market exposure. Benefited from precise management and early user acquisition, "PaPa Three Kingdoms" (「啪啪三國」) maintained its average monthly turnover at approximately RMB3 million since its launch for nearly 3 years, which is beyond our expectation. Since the launch of "Hunger for World Conquest HTML5" (「我欲封天HTML5」), its maximum monthly turnover reached nearly RMB1 million. It has also obtained a number of important awards in the industry, such as the "Most Popular HTML5 Game of the Year" (「年度最受歡迎H5遊戲」) under the Golden Pocket Award (「金口袋獎」) and the "Best Novel IP Mobile Game of the Year" (「年度最佳小說IP移動遊戲」) under the Golden Key Award (「金鑰獎」).

MANAGEMENT DISCUSSION AND ANALYSIS

During the reporting period, Finger Fun has introduced a number of games, such as 「天空傳說」, 「全民大拉轟」 and 「熱血球球HTML5」, as our product reserves, of which, 「熱血球球HTML5」 has been published in June 2016. The remaining products are expected to be published in the second half of 2016.

During the reporting period, Finger Fun focused on HTML5 games. Following the successful operation of “Hunger for World Conquest HTML5” (「我欲封天HTML5」), Finger Fun has published a number of new HTML5 games, including 「熱血球球HTML5」 and “Burning Brother HTML5” (「燃燒吧二弟HTML5」). Amongst them, the publication of 「熱血球球HTML5」 facilitated to fill the market gap in HTML5 sport games.

During the reporting period, Finger Fun has made pilot overseas publishing to publish games in overseas markets. In the first half of the year, “Release the General” (「關門放呂布」) was firstly published in Hong Kong. In May 2016, Finger Fun has formed its professional overseas publishing team as talent reserve for the upcoming games publishing in second half of the year.

Music-based entertainment industry chain based on mobile internet

China’s mobile music commercialization will be accelerated and the music scale will grow steadily with the enhanced music copyright supervision.

Offline live music performance brand (“A8Live”) is operated together with the LiveHouse Theater located in the podium of the A8 Music Building, its business functions include live music performance, maker café, professional studio, band rehearsal rooms and music education center. A8Live has held a number of performance activities during the first half of 2016 with diversified activity styles such as artists or band performance, concerts, fans meeting, press releases, charitable activities and live broadcast, etc. Artists invited are becoming more international which include MIKA, a UK music genius, Will Jay, an American Chinese singer, Soft Lipa, a Taiwanese hip hop singer and a number of artists and bands from Hong Kong and Mainland China. Singers who used our studio include Yang Yuying, a Chinese singer, Han Lei, a Chinese singing genius and Aya Liu, a famous Taiwanese host and singer, etc. Operating models include self-organized activities, facility rental and ticket sharing. Going onwards, celebrities having performances in small venues such as LiveHouse will become a trend. Interactive performances within short distance will also become a selling point for LiveHouse to attract audience. Through these activities, the team has accumulated extensive experiences. The enhanced brand will facilitate the subsequent exploration of the operations of LiveHouse and O2O model to a larger extent.

Duomi Music Holding Limited (“Duomi Music”) has started the strategic corporation with Migu Culture and Technology Co., Ltd. (“Migu Culture”), a wholly-owned subsidiary of China Mobile Communications Corporation (“China Mobile”) during the reporting period. As the exclusive music partner of China Mobile, Duomi Music has jointly established a corporative membership system to generate more users and revenue by corporative operational promotion with Migu Culture and create a new revenue growth by the means of being the content provider of Migu Culture. For “Oops” (「偶扑」) platform, a new internet+ entertainment business model has been adopted. Integrating the advantageous entertainment resources of the upstream and downstream in the entertainment industry chain as owned by the Company, “Oops” platform is targeted to be built as the largest platform for fans interaction in China, satisfying the fans organization in terms of fans recruitment, fund-raising, management of fans group, supports and live broadcasts. Up to the present, “Oops” platform has entered into several thousands of fans groups in China.

MANAGEMENT DISCUSSION AND ANALYSIS

During the reporting period, Duomi Music has continued to work on the listing matters of Beijing Duomi Online Technology Co. Ltd. (「北京多米在線科技股份有限公司」) (“Beijing Duomi”, formerly known as Beijing Caiyun Online Technology Co. Ltd. (「北京彩雲在線技術開發有限公司」) (“Beijing Caiyun”)), a domestic operating entity, which has submitted application to the National Equities Exchange and Quotations System on 31 May 2016 and expected to be listed by 2016.

Duomi Music has successfully incubated “Inke”, a mobile video live broadcast platform, in 2015. According to a report published by “QuestMobile”, a domestic mobile big data service provider, the Monthly Active User (“MAU”) of network live broadcast App has recorded an explosive growth during the reporting period, representing a year-on-year increase of 156.2%. Among all live broadcast Apps, MAU of Inke Live Broadcast platform reached 35.24 million in June 2016, which successfully ranked in the first tier of network live broadcast Apps. According to QuestMobile’s information, Inke ranked in the first place in terms of activation on iOS and Android platforms, which are rated at 63.6% and 60.8%, respectively.

A8 Music Building

A8 Music Building is located near to the Central Business District of Nanshan District, Shenzhen, which belongs to the Software Industry Park area. The total building area of A8 Music Building exceeds 50,000 square meters which include commercial office, commercial retail and parking slot areas. The property investment of A8 Music Building has been re-designated as the principal business of the Group since the interim report of 2015. A8 Music Building has contributed an overall income of over RMB27.63 million in the first half of 2016, representing an increase of approximately 20% as compared to that of the same period last year.

Business outlook for the second half of 2016

In the second half of 2016, the Company will continue to build the music-based entertainment industry chain and prime game publishing platform, and at the same time to strengthen the layout of upstream and downstream in the copyrights industry chain, and to seek the incubation and operations of copyrights.

Prime mobile games publishing platform

Strengthening the layout of prime copyrights and incubating prime copyrights

In the second half of 2016, Finger Fun will continue to strengthen its copyright layout and accelerate the incubation and operation of prime copyrights. “Crazy Journey to the West” (「猴西遊」), which was planned to publish in the second half of 2016, is the first incubation attempt towards prime copyright by Finger Fun, which has experienced the incubation process from comics to animation to games. Upon the Group’s acquisition of 35% equity interests of Beijing Jiangwen, Finger Fun will further reinforce the deep corporation in the field of copyrights with Beijing Jiangwen, as Beijing Jiangwen reserves substantial amount of prime literature copyrights, Finger Fun will deeper excavate and maximize the values of copyright, and expand to accessory market based on prime copyrights, with the coverage including cartoon, animation, vocal products, mobile games, network drama, TV drama and movies.

MANAGEMENT DISCUSSION AND ANALYSIS

Strengthening the game publishing business overseas and consolidating prime game publishing in subdivided fields

In the second half of 2016, Finger Fun will continue to operate the published games, besides this, it plans to publish a series of new games such as 「天空傳說」 and 「全民大拉轟」. In the second half of 2016, Finger Fun has planned to leverage the newly established professional overseas publishing team to reinforce the overseas publishing business. Meanwhile, Finger Fun will further excavate creative, highlighted and innovative mobile games, and further expand its market share by precise management and strong ability in channelization and precise marketing strategies.

Music-based entertainment industry chain based on mobile internet

In the second half of 2016, the Company will continue to develop our music performance business on A8Live, reinforce the branding promotion and strengthen its industry influence. A8Live will continue to introduce sophisticated contents to reward our audience. A8Live will further be operated in terms of performers by inviting the artists who are most desirable and favorite to the audience. In the second half of 2016, A8Live is planning to introduce a well-known music education brand to jointly establish a music training center, providing a platform to learn, interact and grow for original musicians and grass-rooted musicians. In the mean time, outstanding students will receive trainings, develop towards the direction as an artist and produce their own songs, MV and short films which further creating the values of copyrights. In the second half of 2016, the Company will further plan to execute an electronic music project and operate with a well-known Korean musicians and music company to jointly introduce resources such as Korean DJ, artists and music festivals, etc, to explore the music entertainment business.

For Duomi Music, the new listing matters of Beijing Duomi is expected to complete in the second half of 2016, which will become the first internet music concept company listed in China. In the second half of 2016, Duomi Music will continue to enhance the corporation with China Mobile and commence a comprehensive corporation with Migu Music, Migu performance arts, Migu Reading, Migu Video and Migu Running, which are under China Mobile, to establish activities including joint membership, joint operation of fan club and joint marketing promotion. In the second half of 2016, we will also further develop “Oops” platform as the largest fans interactive platform in China through deep corporations between celebrities and fan clubs offline and online, completing the VIP membership design, optimizing the management function of fans clubs and function of fans activity organization and developing a comprehensive corporation amongst multi-dimensional entertainment marketing system with multiple network shows.

A8 Music Building

In the second half of 2016, as the auxiliary facilities in the regions where the buildings are located are becoming mature, and the traffic is increasingly driven by the moving-in of a large number of renowned enterprises, it is expected that the increase of rental income of the buildings will remain stable. At the same time, the Group will also continue to enhance the property management level of the building and to provide better services to our tenants in order to contribute a consistent and stable cash flow for the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue and profit attributable to equity holders of the Company

For the six months ended 30 June 2016, the revenue of the Group amounted to approximately RMB92.6 million, representing an increase of approximately 36.4% as compared with the corresponding period in 2015 (2015: approximately RMB67.9 million).

Digital entertainment services

For the six months ended 30 June 2016, the revenue of digital entertainment services of the Group amounted to approximately RMB65.0 million, representing an increase of approximately 44.8% as compared with the corresponding period in 2015 (2015: approximately RMB44.9 million). The increase was resulted from the increase of game related services amounted to approximately RMB21.0 million.

Property investment business

For the six months ended 30 June 2016, the revenue of property investment business derived from the rental and management fee amounted to approximately RMB27.6 million, representing an increase of approximately 20.0% as compared with the last corresponding period (2015: approximately RMB23.0 million). The increase was mainly due to the increased occupancy rate and unit rental resulted from high quality property management services.

For the six months ended 30 June 2016, the profit attributable to equity holders of the Company amounted to approximately RMB16.4 million, representing a significant increase of approximately 180.3% as compared with the corresponding period in 2015 (2015: approximately RMB5.8 million). The significant improvement of the Group's profit was mainly due to the combined effect of increase in recognition of deferred game related revenue and cost savings due to the effective cost control activities implemented during the period.

Cost of services provided

For the six months ended 30 June 2016, the cost of services provided of the Group amounted to approximately RMB52.3 million, representing an increase of approximately 23.7% as compared with the corresponding period in 2015 (2015: approximately RMB42.2 million).

Digital entertainment services

For the six months ended 30 June 2016, the cost of services provided of digital entertainment services amounted to approximately RMB44.6 million, increased by approximately 25.7% as compared with the corresponding period in 2015 (2015: approximately RMB35.5 million). It mainly comprises revenue shared with mobile operators, distribution channels, business alliances and other costs such as music copyrights, game publishing rights and direct labor costs.

Revenue shared with mobile operators and distribution channels mainly ranged from 30% to 60% of total digital entertainment services revenue received from mobile users and it averaged at approximately 50.4% for the six months ended 30 June 2016 (2015: approximately 45.6%), while revenue shared with business alliances averaged at approximately 15.2% of total digital entertainment services revenue for the six months ended 30 June 2016 (2015: approximately 23.9%). The changes of the average cost ratios were mainly due to the change in product mix.

MANAGEMENT DISCUSSION AND ANALYSIS

Property investment business

For the six months ended 30 June 2016, the cost of services provided of property investment business amounted to approximately RMB7.6 million, increased by approximately 13.1% as compared with the corresponding period in 2015 (2015: approximately RMB6.7 million). It mainly comprised of employee's compensation, utility charges and other maintenance costs in relation to the investment property.

Gross profit

For the six months ended 30 June 2016, the gross profit of the Group amounted to approximately RMB39.4 million, representing a significant increase of approximately 61.7% as compared with the corresponding period in 2015 (2015: approximately RMB24.4 million). The overall gross margin ratio of the Group was approximately 42.5%, as compared with approximately 35.9% for the last corresponding period. The increase of gross profit and the overall gross margin ratio was mainly resulted from the contribution of digital entertainment services.

Other income and gains, net

For the six months ended 30 June 2016, the other income and gains of the Group were approximately RMB15.8 million, as compared with a net gain of approximately RMB31.5 million for the last corresponding period, representing a decrease of approximately 49.9%. The decrease was mainly due to the decrease in the imputed interest income generated from preferred shares and convertible notes and fair value gain on investment properties amounted to approximately RMB9.2 million and RMB9.0 million, respectively, which were partly offset by the increase of foreign exchange gain of approximately RMB2.2 million.

Selling and marketing expenses

For the six months ended 30 June 2016, the selling and marketing expenses of the Group amounted to approximately RMB8.6 million, slightly increased by 3.3% as compared with the corresponding period in 2015, representing approximately 13.2% of the digital entertainment services revenue (2015: approximately RMB8.3 million, representing approximately 18.5% of digital entertainment services revenue).

The increase in selling and marketing expenses was mainly due to the increase of labor cost of approximately RMB1.0 million which were partly offset by the decrease of marketing and promotion expenses amounted to approximately RMB0.5 million. The decrease in the ratio to digital entertainment services revenue was attributable to the efficient marketing strategy implemented during the period.

Administrative expenses

For the six months ended 30 June 2016, the administrative expenses of the Group amounted to approximately RMB16.2 million, representing a decrease of 23.3% as compared with the corresponding period in 2015 (2015: approximately RMB21.1 million), which resulted from effective cost control activities carried out during the period.

Share of losses of associates

For the six months ended 30 June 2016, the Group shared losses of associates amounted to approximately RMB7.5 million, representing a decrease of 23.1% as compared with approximately RMB9.8 million in the last corresponding period. The decrease was mainly due to the decrease of shared loss of Beijing Duomi amounted to approximately RMB3.7 million.

MANAGEMENT DISCUSSION AND ANALYSIS

Tax

For the six months ended 30 June 2016, income tax of the Group amounted to approximately RMB3.4 million, as compared with approximately RMB4.8 million for the corresponding period in 2015.

The effective tax rate of the Group was approximately 17.0% in the six months ended 30 June 2016 (2015: approximately of 46.3%). As a result of the new Corporate Income Tax Law in China, the statutory tax rates are 15% and 25% in the respective operating subsidiaries of the Group in 2016. The decrease in tax expense was mainly due to the decrease of the deferred tax liabilities in relation to the appreciation of investment property of approximately RMB2.2 million.

Non-current assets

As at 30 June 2016, the total non-current assets of the Group amounted to approximately RMB653.5 million (2015: approximately RMB642.8 million), increased by approximately RMB10.7 million. The increase was mainly due to the increase of available-for-sale investments and fair value increase of investment properties amounted to approximately RMB10.0 million and RMB9.0 million, respectively, which were partly offset by the decrease of conversion options embedded in preferred shares amounted to approximately RMB6.3 million.

Current assets and current liabilities

As at 30 June 2016, the total current assets of the Group amounted to approximately RMB566.0 million (2015: approximately RMB635.1 million), decreased by approximately RMB69.1 million.

The decrease was mainly due to the decrease of prepayments, deposits and other receivable of approximately RMB102.7 million resulted from the repayment of principal and interest of convertible notes of Duomi Music and the decrease of trade receivables amounted to approximately RMB9.4 million, which were partly offset by the increase in cash and cash equivalents, available-for-sale investments and restricted cash of approximately RMB43.1 million in aggregate. Trade receivables amounted to approximately RMB13.7 million (2015: approximately RMB23.1 million), and the turnover days of trade receivables was approximately 36 days (2015: approximately 67 days).

As at 30 June 2016, the total current liabilities of the Group amounted to approximately RMB82.0 million (2015: approximately RMB163.9 million), decreased by approximately RMB81.9 million. The decrease was mainly resulted from the decrease in other payables and accruals and deferred income amounted to approximately RMB77.6 million and RMB8.6 million, which were partly offset by the increase of trade payables of approximately RMB4.3 million. The decrease in other payables and accruals were mainly resulted from the refund of refundable collateral security for receivables on redemption of convertible notes to Duomi Music amounted to approximately RMB60.0 million.

Liquidity and financial resources

As at 30 June 2016, cash and bank balances and highly liquid short term assets of the Group including cash and cash equivalents, restricted cash, available-for-sale investments and financial assets at fair value through profit or loss amounted to approximately RMB540.1 million (2015: approximately RMB497.1 million). Among which, approximately RMB299.3 million, or approximately 55% was denominated in RMB.

As at 30 June 2016, the Group did not have any borrowings or debts. Accordingly, the gearing ratio which is measured by the net borrowings over the total assets is not applicable.

MANAGEMENT DISCUSSION AND ANALYSIS

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 2016, the Group did not have any derivatives for hedging against both the interest and exchange rate risks.

Human resources

As at 30 June 2016, the Group had 122 employees (as at 30 June 2015: 174 employees). However, the average headcounts of the period was 135 while it was 162 for the corresponding period in 2015. Total employee costs for the six months ended 30 June 2016, including directors' emoluments, amounted to approximately RMB14.0 million (2015: approximately RMB16.0 million). The decrease in employee costs was mainly resulted from the labor adjustment in relation to business restructuring.

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.

Event after the reporting period

On 13 May 2016, the Group has entered into a sale and purchase agreement with independent third parties to acquire 35% equity interests in Beijing Jiangwen for a cash consideration of RMB192.5 million. Beijing Jiangwen is principally engaged in incubation and operation of prime copyrights. Subsequent to the end of the reporting period on 12 August 2016, the Group has obtained approval from shareholders of the Company at an extraordinary general meeting for the acquisition. The transaction has not been completed as at the date of approval of this unaudited interim financial information.

DISCLOSURE OF INTERESTS

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2016, the Directors and chief executives 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 Director	Nature of interest	Number of shares		Approximate percentage of interest in the Company’s issued share capital ⁽¹⁾
		Ordinary shares	Underlying Shares (under equity derivatives of the Company)	
Mr. Liu Xiaosong	Founder of trust ⁽²⁾	524,067,398 ⁽²⁾	Nil	28.56%
	Beneficial Owner	5,766,000	21,914,910 ⁽³⁾	1.51%
Mr. Liu Pun Leung	Beneficial Owner	Nil	5,000,000 ⁽³⁾	0.27%
Mr. Chan Yiu Kwong	Beneficial Owner	105,000	315,000 ⁽³⁾	0.02%
Ms. Wu Shihong	Beneficial Owner	Nil	420,000 ⁽³⁾	0.02%
Mr. Song Ke	Beneficial Owner	Nil	420,000 ⁽³⁾	0.02%

Notes:

- The percentage of interest in the Company is calculated by reference to the number of Shares in issue as at 30 June 2016 (i.e. 1,835,192,628 Shares).
- Mr. Liu Xiaosong is the founder of a family trust which is deemed under SFO to be interested in all the shares held by Ever Novel and Prime Century in the Company. As at 30 June 2016, Prime Century directly held 379,496,303 shares and Ever Novel directly held 144,571,095 shares in the Company.
- 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 corporation	Name of Director	Nature of Interest	Registered capital/no. of shares held	Approximate percentage of interest
Shenzhen Huadong Feitian Network Development Co., Ltd. ("Huadong Feitian") ⁽¹⁾	Mr. Liu	Beneficial owner	RMB21,510,000 ⁽⁴⁾	75%
Duomi Music Holding Ltd ("Duomi Music") ⁽²⁾	Mr. Liu	Interest of controlled corporation	35,435,640 ⁽⁵⁾	30.13%
Beijing Duomi Online Technology Co., Ltd ("Beijing Duomi") ⁽³⁾	Mr. Liu	Interest of controlled corporation	23,638,132 ⁽⁶⁾	27.08%

Notes:

- Huadong Feitian is a limited liability company incorporated in the PRC whose financial results are, through a number of structure contracts, consolidated into the financial statements of the Company and therefore an associated corporation of the Company.
- Duomi Music is a company incorporated in the Cayman Islands with limited liability. As at 30 June 2016, the Company was interested in approximately 42.73% of the issued share capital of Duomi Music (assuming after conversion of all the outstanding Preferred Shares in full and no option of Duomi Music has been exercised) 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 company, Fortune Light Investments Limited ("Fortune Light"), held approximately 30.13% of the issued share capital of Duomi Music.
- Beijing Duomi is a company incorporated in the PRC with limited liability. As at 30 June 2016, the Company was interested in approximately 22.80% of the registered capital of Beijing Duomi through its wholly-owned subsidiary, Shenzhen Kuitonglian Technology Co., Ltd. ("Kuitonglian"), and therefore Beijing Duomi is an associated corporation of the Company. Mr. Liu was interested in approximately 27.08% of the registered capital of Beijing Duomi.
- This represents the amount of registered capital of Huadong Feitian held by Mr. Liu.
- This represents the number of shares of Duomi Music held by Mr. Liu.
- This represents the number of shares of Beijing Duomi held by Mr. Liu.

Save as disclosed, as at 30 June 2016, none of the Directors, chief executives and their respective associates had any interest or short positions in the Shares, underlying Shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO); or are required, pursuant to section 352 of the SFO to be entered into the register referred to therein; or are required, pursuant to the Model Code to be notified to the Company and the Stock Exchange.

DISCLOSURE OF INTERESTS

SHARE OPTION SCHEMES

On 26 May 2008, the shareholders of the Company adopted the share option schemes (the “**Share Option Scheme**”) for the purpose of providing incentives and rewards to its Directors, executive officers, employees and other eligible persons. The following table discloses movements in the Company’s share options outstanding under the Share Option Scheme during the last six months ended 30 June 2016:

Name/category of participants	At 1 January 2016	Exercised during the period	Granted during the period	Lapsed during the period	Cancelled during the period	At 30 June 2016	Date of grant of share options	Vesting period of share options	End of exercise period	Original Exercise price of share options HK\$ per share	Closing price of shares immediately before date of grant HK\$ per share
Directors of the Company											
Mr. Liu Xiaosong	13,004,910	-	8,910,000	-	-	21,914,910					
Including:	597,310	-	-	-	-	597,310	5 October 2009	One-third of the Share Options will be vested every 12-month period starting from 5 October 2010	26 May 2018	2.4156	2.98
	7,600,000	-	-	-	-	7,600,000	23 April 2014	One-fourth of the Share Options 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 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 will be vested every 12-month period starting from 16 May 2017	16 May 2023	0.56	0.54
Mr. Liu Pun Leung	5,000,000	-	-	-	-	5,000,000	23 April 2014	One-fourth of the Share Options will be vested every 12-month period starting from 15 October 2015	23 April 2021	0.65	0.65
Mr. Chan Yiu Kwong	315,000	-	-	-	-	315,000	23 April 2014	One-fourth of the Share Options will be vested every 12-month period starting from 23 April 2015	23 April 2021	0.65	0.65

DISCLOSURE OF INTERESTS

Name/category of participants	At 1 January 2016	Exercised during the period	Granted during the period	Lapsed during the period	Cancelled during the period	At 30 June 2016	Date of grant of share options	Vesting period of share options	End of exercise period	Original Exercise price of share options HK\$ per share	Closing price of shares immediately before date of grant of grant HK\$ per share
Ms. Wu Shihong	420,000	-	-	-	-	420,000	23 April 2014	One-fourth of the Share Options will be vested every 12-month period starting from 23 April 2015	23 April 2021	0.65	0.65
Mr. Song Ke	420,000	-	-	-	-	420,000	23 April 2014	One-fourth of the Share Options will be vested every 12-month period starting from 23 April 2015	23 April 2021	0.65	0.65
Subtotal	19,159,910	-	8,910,000	-	-	28,069,910					
Senior Management of the Group											
	786,900	-	-	786,900	-	-	25 March 2011	One-fourth of the Share Options will be vested every 12-month period starting from 20 September 2011	24 March 2016	1.8376	2.26
	524,600	-	-	-	-	524,600	18 August 2011	One-fourth of the Share Options will be vested every 12-month period starting from 9 August 2012	17 August 2016	0.9150	1.27
	3,177,500	-	-	-	-	3,177,500	24 January 2014	One-fourth of the Share Options will be vested every 12-month period starting from 24 January 2015	24 January 2021	0.684	0.68
	9,222,000	-	-	-	-	9,222,000	23 April 2014	One-fourth of the Share Options will be vested every 12-month period starting from 23 April 2015	23 April 2021	0.65	0.65
Subtotal	13,711,000	-	-	786,900	-	12,924,100					

DISCLOSURE OF INTERESTS

Name/category of participants	At 1 January 2016	Exercised during the period	Granted during the period	Lapsed during the period	Cancelled during the period	At 30 June 2016	Date of grant of share options	Vesting period of share options	End of exercise period	Original Exercise price of share options HK\$ per share	Closing price of shares immediately before date of grant of grant HK\$ per share
Other employees and eligible persons of the Group											
	2,888,762	-	-	-	-	2,888,762	15 October 2008	One-fourth of the Share Options will be vested every 12-month period starting from 15 October 2009	14 October 2018	0.9028	1.15
	321,612	-	-	-	-	321,612	5 October 2009	One-third of the Share Options will be vested every 12-month period starting from 5 October 2010	26 May 2018	2.4156	2.98
	3,352,194	-	-	283,283	3,068,911	-	25 March 2011	One-fourth of 3,068,911 Share Options will be vested every 12-month period starting from 11 May 2012	24 March 2016	1.8376	2.26
	1,950,000	-	-	-	-	1,950,000	14 January 2014	One-fourth of the Share Options will be vested every 12-month period starting from 14 January 2015	14 January 2019	0.69	0.66
	8,395,500	-	-	900,000	2,347,946	5,147,554	23 April 2014	One-fourth of the Share Options will be vested every 12-month period starting from 23 April 2015	23 April 2021	0.65	0.65
Subtotal	16,908,068	-	-	1,183,283	5,416,857	10,307,928					
TOTAL	49,778,978	-	8,910,000	1,970,183	5,416,857	51,301,938					

During the six months ended 30 June 2016, 8,910,000 share options were granted under the Share Option Scheme and no share options granted under the Share Option Scheme was exercised. 7,387,040 share options granted under the Share Option Scheme were lapsed/cancelled following the resignation of the relevant employees and eligible persons.

As at the date of approval of this unaudited interim financial information there were 51,301,938 outstanding share options under the Share Option Scheme, representing an aggregate of approximately 2.80% of the issued share capital of the Company.

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

DISCLOSURE OF INTERESTS

SHARE AWARD SCHEME

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

During the six months ended 30 June 2016, 780,800 awarded shares were released to awardees under the Share Award Scheme, no awarded shares were lapsed following the resignations of the relevant employees and eligible persons. The Trustee has not purchased any of the Company’s existing Shares on the market for the purpose of the Share Award Scheme.

As at the date of approval of this unaudited interim financial information, there were 250,000 outstanding awarded shares under the Share Award Scheme, representing approximately 0.01% of the Share Award Scheme Limit of the Company.

SUBSTANTIAL SHAREHOLDERS’ INTERESTS

As at 30 June 2016, the persons or corporations (other than a Director or chief executive of the Company) who have interest or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO or have otherwise notified to the Company are as follows:

Name of substantial shareholder	Nature of interest	Number of Ordinary shares (long positions)	Approximate percentage of interest in the Company’s issued share capital (note 1)
HSBC International River Road	Trustee (other than a bare trustee) (note 2)	611,947,398	33.35%
Knight Bridge	Interest in controlled corporation (note 2)	524,067,398	28.56%
Ever Novel	Interest in controlled corporation (note 3)	379,496,303	20.68%
Prime Century	Beneficial Owner (note 3)	144,571,095	7.88%
	Beneficial Owner (note 3)	379,496,303	20.68%

Notes:

- The percentage of interest in the Company is calculated by reference to the number of Shares in issue as at 30 June 2016 (i.e. 1,835,192,628 Shares).
- HSBC International Trustee Limited (“HSBC International”) is the trustee of family trusts of Mr. Liu Xiaosong, which, through intermediate holding companies (including but not exclusively River Road, Knight Bridge, Ever Novel, Prime Century and Grand Idea), exercise or control the exercise of one third or more voting power at the general meetings of such companies and is deemed under the SFO to be interested in the shares of the Company held by such companies (611,947,398 Shares in total).
- As at 30 June 2016, Prime Century directly held 379,496,303 shares and Ever Novel directly held 144,571,095 shares in the Company. Ever Novel was entitled to exercise or control the exercise of one third or more of the voting power at the general meetings of Prime Century and was deemed to be interested in the 379,496,303 shares in the Company held directly by Prime Century.

Save as disclosed above, as at 30 June 2016, the Directors are not aware of any other person or corporation other than the Directors or chief executives of the Company whose interests are set out in the section “Directors’ and chief executives’ interests in shares and underlying shares” above having an interest or short position in the shares or underlying shares of the Company representing 5% or more of the issued share capital of the Company which is required to be recorded pursuant to section 336 of the SFO.

INFORMATION ON THE CONTRACTUAL ARRANGEMENTS

Due to restrictions in the PRC laws and regulations on foreign investment in businesses providing telecommunications value-added services in the PRC, the Group has entered into a number of contracts (“**Structure Contracts**”) with certain PRC operating companies (“**OPCOs**”) solely for the purpose of operating the Group’s relevant businesses in the PRC (“**Contractual Arrangement**”). The Structure Contracts are designed to provide the Company with effective control over and (to the extent permitted by the PRC laws) the right to acquire the equity interests in and/or assets of the OPCOs. The original contracts relating to the Contractual Arrangement were entered into in 2004. In light of the new requirements of the Stock Exchange and, to keep align with the recent practices commonly adopted by other listed companies in relation to the terms and conditions of the structure contracts to strengthen the control of the Company over the OPCOs, the Group has entered into new contracts to replace its existing Contractual Arrangement in order to align with such new regulatory requirements and the recent practices.

In compliance with the disclosure requirements on the contract-based arrangements or structures pursuant to the updated guidance letter issued by the Stock Exchange (HKEx-GL77-14), the Group provides a summary of the Group’s business which is operated through the OPCOs.

1. PARTICULARS OF OPCO AND ITS REGISTERED OWNERS

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

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

深圳市快通聯科技有限公司 (“**Kuaitonglian**”)

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

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

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

2. DESCRIPTION OF OPCOS’ BUSINESS

Huadong Feitian and its subsidiaries are principally engaged in the provision of telecommunications instant messaging and value-added services, and property investment business.

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

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

INFORMATION ON THE CONTRACTUAL ARRANGEMENTS

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

Several Structure Contracts of similar terms were made:

- (1) between 佳仕域信息科技(深圳)有限公司 (“**Cash River**”) and (i) Huadong Feitian and its registered shareholders, and (ii) Kuaitonglian and its registered shareholders, respectively; and
- (2) between 深圳市指游方寸網絡科技有限公司 (“**Finger Fun**”) and Yunhai Qingtian and its registered shareholder,

which allows Cash River/Finger Fun to exercise control and enjoy economic benefit generated from the OPCOs. Each of Cash River and Finger Fun is a wholly-owned subsidiary of the Company.

The major terms of these Structure Contracts are summarised as follows.

a. Exclusive Business Cooperation and Service Agreement

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

- (1) the parties to the Exclusive Business Cooperation and Service Agreement shall cooperate with each other in technical support, business support and related consultancy services which include but not limited to technical service, business consultation, equipment leasing, market consultation, system integration, product research and development and system maintenance, and intellectual property rights;
- (2) Cash River/Finger Fun shall provide certain technical and business support and the consultancy services to the OPCO in return for the service fee;
- (3) The OPCO shall not have any similar cooperation with any third party;
- (4) The OPCO shall not transfer any of its rights and/or obligations under the Exclusive Business Cooperation and Service Agreement without the prior consent of Cash River/Finger Fun; and
- (5) The OPCO grants Cash River/Finger Fun an irrevocable and exclusive right to purchase, or to designate any person to purchase on its behalf, all or part of its assets and business, including, among others, fixed assets, current assets, intellectual property rights, ownership of equity interests in any person within or outside the PRC and the benefit of all contracts entered into by the OPCO at the lowest purchase price as permitted by the PRC laws.

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

INFORMATION ON THE CONTRACTUAL ARRANGEMENTS

b. Share Disposition and Exclusive Option to Purchase Agreement

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

- (1) the shareholder(s) of the OPCO grants Cash River/Finger Fun an irrevocable and exclusive right to purchase, or designate any person to purchase on its behalf, all or part of their respective equity interests in the respective OPCO, in one or more transfers as determined by Cash River/Finger Fun in its sole discretion at the purchase price(s) of RMB1.00 or such higher amount as required by the PRC laws;
- (2) the shareholder(s) of the OPCO covenants or where applicable, jointly and severally covenant that he/she will, among others, waive his/her right of first refusal or pre-emptive right to acquire any equity interests in the OPCO being transferred by another shareholder of the OPCO; and
- (3) the OPCO covenants that it will, among others, not distribute profits to its shareholders directly or indirectly, not acquire or make any investment in any person without the prior written consent of Cash River/Finger Fun.

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

c. Equity Interest Pledge Agreement

Pursuant to the Equity Interest Pledge Agreement:

- (1) the shareholder(s) of the OPCO granted to Cash River/Finger Fun a continuing security interest of first priority and subject to no other encumbrances in their respective equity interests in the OPCO, as collateral security for the prompt and full performance of the OPCO's shareholders' obligations under all the Structure Contracts; and
- (2) the registered shareholder(s) of the OPCO warranted to Cash River/Finger Fun that all appropriate arrangements had been made and all necessary documents had been executed to ensure that none of their successors, guardians, creditors, spouses and other third parties would adversely impact or hinder the enforcement of the Equity Pledge Agreement in the event of death, loss of legal capacity, bankruptcy, divorce or any other situation of the registered shareholder(s) of the OPCO.

INFORMATION ON THE CONTRACTUAL ARRANGEMENTS

d. Proxy Agreement

The Proxy Agreement, among other things, provides that:

- (1) the registered shareholder(s) of the OPCO agrees to authorise Cash River/Finger Fun or the person(s) designated by Cash River/Finger Fun to exercise all of their rights and powers as shareholder, including convening and attending the shareholders' meeting, exercising the voting right and other shareholder's rights and powers, without seeking prior consent from the registered shareholder(s) of the relevant OPCO;
- (2) the registered shareholder(s) of the OPCO shall not revoke the authorisation and without the consent of Cash River/Finger Fun, shall not exercise the shareholder's rights and powers;
- (3) the OPCO shall inform Cash River/Finger Fun the relevant information relating to the exercise of the shareholder's rights and shall provide all necessary assistance; and
- (4) the OPCO and their respective registered shareholder(s) shall not be entitled to any indemnity or compensation under the Proxy Agreement.

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

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

- (1) any dispute arising from the interpretation and implementation of the Contractual Arrangement between the parties should first be resolved through negotiation, failing which any party may submit the said dispute to the South China International Economic and Trade Arbitration Commission ("SCIA") in Shenzhen for arbitration in accordance with their arbitration rules and the results of the arbitration shall be final and binding on all relevant parties;
- (2) the arbitrators may award remedies over the shares or land assets of OPCO, injunctive relief (e.g. for the conduct of business or to compel the transfer of assets) or order the winding up of OPCO; and
- (3) the courts of competent jurisdictions have the power to grant interim remedies in support of the arbitration pending formation of the arbitral tribunal or in appropriate cases. The courts of Cayman Islands, the OPCO's place of incorporation, and the place where the Company or OPCO's principal assets are located have jurisdiction for this purpose.

INFORMATION ON THE CONTRACTUAL ARRANGEMENTS

4. REVENUE AND ASSETS SUBJECT TO THE CONTRACTUAL ARRANGEMENTS

The consolidated total revenue, the consolidated total assets and the consolidated total net assets of the OPCOs and their subsidiaries for the period ended 30 June 2016 were approximately RMB92,619,000, RMB605,361,000 and RMB535,688,000, respectively.

The revenue of Huadong Feitian, Yunhai Qingtian and Kuitonglian amounted to approximately RMB31,407,000, RMB59,657,000 and RMB1,555,000 respectively, representing approximately 33.9%, 64.4% and 1.7% of the consolidated total revenue of the Group, respectively.

5. RISKS RELATING TO THE CONTRACTUAL ARRANGEMENTS

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

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

6. MATERIAL CHANGE

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

7. UNWINDING OF STRUCTURE CONTRACTS

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

OTHER INFORMATION

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2016.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the period ended 30 June 2016, neither the Company, nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities.

SUBSEQUENT EVENTS

Reference is made to the announcement of the Company dated 15 August 2016 in relation to the change of Chief Financial Officer. Mr. Liu Pun Leung will cease to be the Chief Financial Officer of the Company on 1 September 2016, and Mr. Liu Pun Leung will remain as the Executive Director, Company Secretary and one of the Authorised Representatives under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited of the Company. Mr. Lin Qian ("**Mr. Lin**") will be appointed as the Chief Financial Officer of the Company.

Mr. Lin, aged 33, graduated from Imperial College London in 2006 with a Bachelor's degree in Material Science and Engineering. Prior to joining the Company, he was a senior auditor at Ernst & Young from October 2006 to October 2009 and an investment manager at Shanghai Dong Fang Hui Jin (上海東方惠金文化產業投資有限公司) from October 2009 to May 2011. He was also a vice president of the investment banking department at Hua Tai United Securities Co., Ltd. (華泰聯合證券有限公司) from May 2011 to June 2014 and a director at CVCapital (投中資本) from June 2014 to August 2016. Mr. Lin has over 10 years of experience in capital operations and project management in relation to mergers and acquisitions and he is also familiar with capital markets in the People's Republic of China and abroad and is proficient in capital operations. Mr. Lin is also experienced in auditing, corporate internal control and team management.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

During the period ended 30 June 2016, 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 Xiaosong has diversified experience in the technology, media and telecommunication industry and has been being responsible for overall management and strategic planning of the Group. The Board considered that Mr. Liu is able to lead the Board in making better business decision for the group. Therefore, Mr. Liu has had the dual roles of the chairman and CEO of the Company despite deviation from code provision A.2.1 during the 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 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.

OTHER INFORMATION

REVIEW OF FINANCIAL STATEMENTS

The Audit Committee has reviewed the Group's unaudited condensed consolidated interim financial statements for the six months ended 30 June 2016. Based on this review and discussions with the management, the Audit Committee was satisfied that the financial statements were prepared in accordance with applicable accounting standards and fairly presented the Group's financial position and results for the six months ended 30 June 2016.

AUDIT COMMITTEE

The audit committee, which comprises three independent non-executive Directors, has reviewed the accounting principles and practices adopted by the Company and discussed internal control and financial reporting matters. The audit committee has reviewed the Group's unaudited interim financial information for the six months ended 30 June 2016.

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

Hong Kong, 24 August 2016