

# REPORT OF DIRECTORS

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The board of directors (the “**Board**” or “**Directors**”) of Phoenix Media Investment (Holdings) Limited (the “**Company**”) submit their report together with the audited consolidated financial statements of the Company and its subsidiaries (the “**Group**”) for the year ended 31 December 2017.

## Business Review

A review of the Group’s business is set out on pages 6 to 7 of this report titled “Business Overview and Prospects” (the “**Business Overview**”). The Board is satisfied that the Business Overview together with the financial and non-financial information contained in this section is a fair description of the Group’s business and the external environment in which the Group operates, consistent with the scope of the consolidated financial statements and dealing even-handedly with both the favourable and adverse factors. To summarise the Business Overview, the Group grows steadily, including the omni media business structure consisting of television broadcasting, internet media and outdoor media, which has continued to merge with innovative development. The Group continues to adhere to and maintains the role of being a leading provider of Chinese-language media content as a solid foundation, and based on the Phoenix brand and high-end media content, leveraging leading-edge digital technologies, the Group has incubated and continuously invested in projects with value and sustainable business models. The relevant diversification of the Group has included animation, games, digital technology, cultural development, cloud technology services, education, exhibitions and other fields.

The Group will attach great importance to the in-depth integration of capital operation and industrial development, and build Phoenix Culture Media Industry Fund Group to support strategic changes. In the process of innovative development, Phoenix will, as always, safe guard the core competitiveness of its brand and content, and adhere to the spirit of journalistic professionalism in order to maximize the value of the Group.

The “Comments on Segmental Information” set out on pages 27 to 28 and “Liquidity and Financial Resources” set out on page 29 of this report provide analysis of the amounts of revenue, the results of business segments and gearing ratio of the Group. The operating margin of the Group, based on the profit from operations to revenue, was 3.2% as at 31 December 2017 (as at 31 December 2016: 4.8%). The current ratio of the Group, based on current assets to current liabilities, was 2.5 as at 31 December 2017 (as at 31 December 2016: 2.7). The Group’s earnings before interest expenses, taxes, depreciation, and amortization (EBITDA) was HK\$867,186,000 as at 31 December 2017 (as at 31 December 2016: HK\$764,915,000).

The “Chinese Gateway” set out on pages 24 to 26 of this report also provided the audience satisfaction information of the television broadcasting business.

There are a number of principal risks and uncertainties facing the Group, which include among other things: (i) the PRC regulatory restrictions on the reception and rebroadcasting of foreign satellite television programmes; (ii) the PRC regulatory controls on media content; and (iii) potential PRC regulatory prohibition against the variable interest entity structure in Mainland China through which certain subsidiaries of the Group operate the internet, education, animated comics, games and cloud technology services businesses of the Group in China. Please refer to page 103 of this report for the description of the major risks associated with the variable interest entity contractual arrangements within the Group.

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### Business Review (Continued)

The Group's business performance and business risks on the other hand arising from the challenge of internet and media evolution are discussed in the section of Business Overview on pages 6 to 7 of this report. Besides, the Group's day-to-day activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk, pricing risk, significant fluctuation in fair values, etc.), credit risk and liquidity risk. The Group's financial risk management and controls are set out in Note 3 to the consolidated financial statements on pages 145 to 158 of this report. The above is not intended to be an exhaustive list of all principal risks and uncertainties facing the Group. The risk profile may change over time as new risks and uncertainties emerge and others cease to be of concern.

The Board closely monitors the above risks and uncertainties in view of the fact that any adverse change of these risks and uncertainties would have a material negative effect on the Group's business, financial condition and the results of operations. Discussion of the Group's systems of risk management and internal control is presented in the Corporate Governance Report on pages 53 to 55 of this report.

Particulars of the major suppliers and customers of the Group are set out on page 97 of this report. Key performance indicators in relation to the audience satisfaction are set out on pages 24 to 26 of this report.

Details of the Group's relationship with its staff are set out on page 30 of this report.

Detailed discussions on the Group's environmental policies, performance and KPIs are contained in the Environmental, Social and Governance Report on pages 58 to 68 of this report.

In addition to the compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (the "**Listing Rules**") and the Corporate Governance Code (the "**Code**"), the Company is committed to duly observing the Securities and Futures Ordinance (Cap. 571) and the Codes on Takeovers and Mergers and Share Buy-backs published by the Securities and Futures Commission. The Group has complied with the Broadcasting Ordinance (Cap. 562), the Broadcasting (Miscellaneous Provisions) Ordinance (Cap. 391) and the related subsidiary legislation. The Group has also observed the terms of the Non-Domestic Television Programme Service Licence granted to Phoenix TV and the relevant sections of the Codes of Practice from time to time issued by the Communication Authority. Since the enactment of the Competition Ordinance (Cap. 619), the Group was mindful not to contravene the first conduct rule of the Competition Ordinance while continuously assessing its market power under the second conduct rule of the Competition Ordinance.

Particulars of important events affecting the Group that have occurred since the end of the financial period are set out in the paragraph titled "Other Important Events and Subsequent Events" on pages 32 to 35 of this report and on Note 45 to the consolidated financial statements.

### Principal Activity and Geographical Analysis of Operations

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are set out in Note 19 to the consolidated financial statements.

An analysis of the Group's performance for the year by reportable segments is set out in Note 5 to the consolidated financial statements.

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## Results and Appropriations

The results of the Group for the year are set out in the consolidated income statement on page 113.

The Board recommends the payment of a final dividend of 1 Hong Kong cent per ordinary share of the Company (“**Share(s)**”), totalling approximately HK\$49,935,000 to be payable to Shareholders of the Company (“**Shareholders**”) whose names appear on the register of members of the Company on Thursday, 14 June 2018. Subject to the passing of the relevant resolution at the forthcoming annual general meeting (“**AGM**”), the final dividend will be payable on or around Friday, 22 June 2018.

## Closure of Register of Members

The register of members of the Company will be closed from Friday, 1 June 2018 to Wednesday, 6 June 2018 (both dates inclusive), during which period no share transfer will be effected. In order to qualify for attending and voting at the forthcoming AGM, all share transfers must be lodged with the Company’s branch share registrar in Hong Kong, Hong Kong Registrars Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Thursday, 31 May 2018.

The register of members of the Company will also be closed from Tuesday, 12 June 2018 to Thursday, 14 June 2018 (both dates inclusive), during which period no share transfer will be effected. In order to qualify for the proposed final dividend (subject to shareholders’ approval at the forthcoming AGM), all share transfers must be lodged with the Company’s branch share registrar in Hong Kong, Hong Kong Registrars Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Monday, 11 June 2018.

## Reserves

Movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity. Movements in the reserves of the Company during the year are set out in Note 43 to the consolidated financial statements.

## Donations

Charitable donations made by the Group during the year amounted to HK\$1,341,000 (2016: HK\$3,254,000).

## Property, Plant and Equipment

Details of the movements in property, plant and equipment of the Group during the year are set out in Note 14 to the consolidated financial statements.

## Investment Properties

Details of the movement in investment properties of the Group during the year are set out in Note 15 to the consolidated financial statements.

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### Share Capital and Share Options

Details of the movements in share capital and share options of the Company during the year are set out in Note 31 and Note 32, respectively, to the consolidated financial statements.

### Pre-Emptive Rights

There is no provision for pre-emptive rights under the Company's articles of association ("**Articles of Association**") and there was no restriction against such rights under the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing Shareholders.

### Distributable Reserves

Distributable reserves of the Company as at 31 December 2017, calculated under the Companies Law (Revised) of the Cayman Islands, amounted to approximately HK\$1,052,130,000 (2016: HK\$1,007,763,000).

### Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 236.

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## Purchase, Sale or Redemption of Securities

During the year ended 31 December 2017, the Company has bought back 3,478,000 Shares on the Stock Exchange for a total consideration of HK\$4,511,820. The buy-backs were made for the benefit of the Company and its Shareholders as a whole by enhancing the earnings per share of the Company.

Details of the share buy-backs are disclosed as follows:

Trading Date	No. of Shares	Total Consideration HK\$	Price per Share	
			Highest HK\$	Lowest HK\$
<b>January 2017</b>				
4	182,000	238,380	1.31	1.30
6	300,000	393,000	1.31	–
16	34,000	44,880	1.32	–
	<u>516,000</u>	<u>676,260</u>		
<b>February 2017</b>				
6	470,000	615,880	1.32	1.29
7	1,000,000	1,297,920	1.30	1.29
13	500,000	643,500	1.29	1.28
14	992,000	1,278,260	1.29	1.28
	<u>2,962,000</u>	<u>3,835,560</u>		
	<u>3,478,000</u>	<u>4,511,820</u>		

The above 3,478,000 Shares repurchased during the period were cancelled on 2 March 2017.

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of its securities during the year.

## Equity-linked Agreements

Details of the share options granted in prior years and current year of the Group are set out in Note 32 of the consolidated financial statements and "Share Option Schemes" section contained in this Report of Directors.

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### Share Option Schemes

#### A) Share Option Schemes of the Company

##### (1) *Summary of Post-IPO Share Option Scheme*

###### *Purpose of the scheme*

The purpose of the post-IPO share option scheme adopted by the Company on 7 June 2000 (the “**Post-IPO Share Option Scheme**”) is to retain and provide incentives to the employees of the Group to achieve its business objectives.

###### *The participants of the scheme*

Employees of any member of the Group, including any executive directors of any member of the Group, in full-time employment with the Company (or its subsidiaries) may take up options to subscribe for Shares.

###### *The total number of securities available for issue*

Shareholders’ approval had been obtained on 6 August 2002 to refresh the 10% limit. The Directors might grant options for subscription of up to 493,173,000 Shares (which do not include those options that are outstanding, cancelled or lapsed), representing 9.88% of the issued share capital as at the date of this report.

###### *The maximum entitlement of each participant under the scheme*

Unless approved by the Shareholders, the total number of securities issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the relevant class of securities of the Company in issue.

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## Share Option Schemes (Continued)

## (A) Share Option Schemes of the Company (Continued)

## (1) Summary of Post-IPO Share Option Scheme (Continued)

*Time of exercise of option*

An option may be exercised in accordance with the terms of the scheme at any time during the period commencing one (1) year from the date of grant of the option and expiring ten (10) years after the date of grant of the option in accordance with the following schedule:

<b>Date of exercise of an option</b>	<b>Percentage of Shares comprised in an option which is vested and exercisable</b>
Between the date of grant of an option and less than 12 months following the date of grant of an option	zero
Between the period falling 12 months or more but less than 24 months from the date of grant of an option	up to 25%
Between the period falling 24 months or more but less than 36 months from the date of grant of an option	up to 50%
Between the period falling 36 months or more but less than 48 months from the date of grant of an option	up to 75%
Any time falling 48 months from the date of grant of an option and thereafter	up to 100%

*Minimum holding period*

As stated above, no option can be exercised within the first 12-months following the date of grant of an option.

*The amount payable on acceptance of the option*

Upon acceptance of the option, the option holder shall pay HK\$1.00 to the Company as consideration of the grant.

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## Share Option Schemes (Continued)

## (A) Share Option Schemes of the Company (Continued)

## (1) Summary of Post-IPO Share Option Scheme (Continued)

*The basis of determining the exercise price*

The subscription price for the Shares under the scheme shall be determined by the committee established for administration of the Post-IPO Share Option Scheme and will be no less than the highest of (a) the closing price of the Shares as stated in the daily quotations sheets from the Stock Exchange on the date of grant which must be a business day, (b) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant and (c) the nominal value of a Share.

*The remaining life of the scheme*

The Post-IPO Share Option Scheme has no remaining life as no further options can be granted but the provisions of the scheme shall in all other respects remain in full force and effect and options which are granted during the life of the Post-IPO Share Option Scheme may continue to be exercisable in accordance with the terms of issue.

The details of share options granted by the Company under the Post-IPO Share Option Scheme to the employees of the Group to acquire Shares were as follows:

Type and number of remaining grantees	Date of grant	Vesting period	Exercise period	Exercise price per Share HK\$	Number of share options			Balance as at 31 December 2017
					Balance as at 1 January 2017	Lapsed during the year	Exercised during the year	
13 employees	2007.03.26	2007.03.26 to 2011.03.25	2008.03.26 to 2017.03.25	1.45	3,944,000	(3,944,000)	-	-

The Post-IPO Share Option Scheme expired on 25 March 2017 and thus all outstanding options lapsed automatically on the day after date of expiry.



## Share Option Schemes (Continued)

### (A) Share Option Schemes of the Company (Continued)

#### (2) *Summary of 2009 Share Option Scheme*

On 19 June 2009, the Shareholders approved and adopted a share option scheme of the Company ("**2009 Share Option Scheme**"). The 2009 Share Option Scheme is administered by a committee of four Directors ("**2009 Share Option Scheme Committee**").

#### *Purpose of the scheme*

The purpose of the scheme is to retain and provide incentive to the employees of the Group to achieve its business objectives.

#### *The participants of the scheme*

Any full-time employees of the Group, including any director of the Group, may take up options to subscribe for the Shares.

#### *The total number of securities available for issue*

The total number of the Shares in respect of which options are issuable under the scheme is 495,441,200 Shares, representing 9.92% of the issued share capital of the Company as at the date of this report.

#### *The maximum entitlement of each participant under the scheme*

No option may be granted to any eligible person which, if at the relevant time exercised in full, would result in the total number of the Shares are subject of such option, when added to the number of the Shares which may be subscribed by that eligible person under any outstanding options granted to that eligible person and to the number of the Shares previously subscribed by the eligible person under any options granted to the eligible person under the 2009 Share Option Scheme exceeding 25% of the aggregate number of the Shares available for subscription under the scheme at that time.

Unless approved by the Shareholders, the total number of Shares issued and to be issued upon exercise of the options granted and to be granted to any eligible person (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the Shares in issue.

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## Share Option Schemes (Continued)

## (A) Share Option Schemes of the Company (Continued)

## (2) Summary of 2009 Share Option Scheme (Continued)

*Time of exercise of option*

An option may be exercised in accordance with the terms of the 2009 Share Option Scheme at any time during the period commencing one (1) year from the date of grant of the option and expiring ten (10) years after the date of grant of the option in accordance with the following vesting schedule:

<b>Date of exercise of an option</b>	<b>Percentage of Shares comprised in an option which is vested and exercisable</b>
Between the date of grant of an option and less than 12 months following the date of grant of an option	Zero
Between the period falling 12 months or more but less than 24 months from the date of grant of an option	up to 25%
Between the period falling 24 months or more but less than 36 months from the date of grant of an option	up to 50%
Between the period falling 36 months or more but less than 48 months from the date of grant of an option	up to 75%
Any time falling 48 months from the date of grant of an option and thereafter	up to 100%

## Share Option Schemes (Continued)

### (A) Share Option Schemes of the Company (Continued)

#### (2) Summary of 2009 Share Option Scheme (Continued)

##### *Minimum holding period*

As stated above, no option can be exercised within the first 12-months following the date of grant of an option.

##### *The amount payable on acceptance of the option*

Upon acceptance of the option, the option holder shall pay HK\$1.00 to the Company as consideration of the grant.

##### *The basis of determining the exercise price*

The subscription price for the Shares under the scheme shall be determined by the 2009 Share Option Scheme Committee and will be no less than the highest of (a) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant which must be a business day, (b) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of grant and (c) the nominal value of a Share.

##### *The remaining life of the scheme*

The 2009 Share Option Scheme will remain in force for a period of ten (10) years commencing on the date of the adoption of the scheme. Upon termination, no further options may be granted under the scheme.

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## Share Option Schemes (Continued)

## (A) Share Option Schemes of the Company (Continued)

## (2) Summary of 2009 Share Option Scheme (Continued)

*The remaining life of the scheme (Continued)*

The details of share options granted by the Company under the 2009 Share Option Scheme to the employees of the Group to acquire the Shares of the Company were as follows:

Type and number of remaining grantees	Date of grant	Vesting period	Exercise period	Exercise price per Share HK\$	Number of share options					
					Balance as at 1 January 2017	Granted during the year	Lapsed during the year	Cancelled during the year	Exercised during the year	Balance as at 31 December 2017
2 employees	2009.07.22	2009.07.22 to 2013.07.21	2010.07.22 to 2019.07.21	1.17	250,000	-	-	-	-	250,000
3 Executive Directors LIU Changle	2011.03.09	2011.03.09 to 2015.03.08	2012.03.09 to 2021.03.08	2.92	4,900,000	-	-	(4,900,000)	-	-
CHUI Keung	2011.03.09	2011.03.09 to 2015.03.08	2012.03.09 to 2021.03.08	2.92	3,900,000	-	-	(3,900,000)	-	-
WANG Ji Yan	2011.03.09	2011.03.09 to 2015.03.08	2012.03.09 to 2021.03.08	2.92	3,900,000	-	-	(3,900,000)	-	-
431 employees	2011.03.09	2011.03.09 to 2015.03.08	2012.03.09 to 2021.03.08	2.92	80,154,000	-	(6,100,000)	(74,054,000)	-	-
6 employees	2011.06.28	2011.06.28 to 2015.06.27	2012.06.28 to 2021.06.27	3.06	2,790,000	-	-	(2,790,000)	-	-
Total:					95,894,000	-	(6,100,000)	(89,544,000)	-	250,000

During the year ended 31 December 2017, 6,100,000 options granted to 12 employees were lapsed when they ceased their employment with the Group. 89,544,000 options granted to 437 employees were surrendered and cancelled.

Save as disclosed above, no share option was granted, exercised, lapsed or cancelled during the year. No option was granted to the Directors, chief executives or substantial Shareholders of the Company, or their respective associates, or to the suppliers of goods or services under the 2009 Share Option Scheme. No participant was granted any option in excess of the individual limit as set out under the 2009 Share Option Scheme.

## Share Option Schemes (Continued)

### (A) Share Option Schemes of the Company (Continued)

#### (3) Summary of 2017 Share Option Scheme

On 7 February 2017, the Shareholders approved and adopted the 2017 Share Option Scheme (“**2017 Share Option Scheme**”) and the cancellation of the outstanding share options (the “**Existing Options**”) granted to directors and employees of the Group to subscribe for a total of 95,894,000 Shares under the 2009 Share Option Scheme which have not been exercised or lapsed, subject to the Existing Options being surrendered and cancelled. The 2017 Share Option Scheme is administered by the Remuneration Committee.

##### *Purpose of the scheme*

The purpose of the scheme is to enable the Company to grant options to selected eligible participants as incentives or rewards for their contribution to the Group and/or to enable the Group to recruit and retain high caliber employees and attract human resources that are valuable to the Group and any invested entity of the Group.

##### *The participants of the scheme*

Any employee (whether full time or part time, including any executive Director but excluding any non-executive Director) of the Company, or any of its subsidiaries or invested entities in which any member of the Group holds any equity interest; or any non-executive Director (including independent non-executive Directors) of the Company, any of its subsidiaries or invested entities; or any other person (including any employee or director of any business counterparty) whom the Board considers, in its sole discretion, has contributed or will contribute to the Group.

##### *The total number of securities available for issue*

The total number of the Shares in respect of which options are issuable under the scheme and any other share option scheme(s) of the Company is 500,099,950 Shares, representing 10.02% of the issued share capital of the Company as at the date of this report.

##### *The maximum entitlement of each participant under the scheme*

No eligible participant shall be granted an option if exercised in full, would result in the total number of Shares issued and to be issued upon exercise of the options granted to such eligible participant (including both exercised and outstanding options) in any 12-month period exceeding 1% of the total number of Shares in issue.

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## Share Option Schemes (Continued)

## (A) Share Option Schemes of the Company (Continued)

(3) *Summary of 2017 Share Option Scheme (Continued)**The maximum entitlement of each participant under the scheme (Continued)*

Any further grant of options to an eligible participant which would result in the Shares issued and to be issued upon exercise of all options granted and to be granted to such eligible participant under the 2017 Share Option Scheme and any other share option scheme(s) of the Company (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the Shares in issue shall be subject to the Shareholders' approval in general meeting with such eligible participant and his close associates (or his associates if the eligible participant is a connected person) abstaining from voting. The Company must send a circular to the Shareholders containing the information required under the Listing Rules. The number of Shares subject to the options to be granted and the terms of the options to be granted to such eligible participants shall be fixed before the Shareholders' approval and the date of the Board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the subscription price.

*Time of exercise of option*

An option is exercisable as set out in the offer of the option, which shall, at the discretion of the Directors, commence at any time on or after the offer date and expire no later than the tenth (10th) anniversary of such offer date.

*Minimum holding period*

The scheme does not contain any such minimum period.

*The amount payable on acceptance of the option*

Upon acceptance of the option, the option holder shall pay HK\$1.00 to the Company as consideration of the grant.

*The basis of determining the exercise price*

The subscription price in respect of any option under the 2017 Share Option Scheme shall be such price as determined by the Board in its absolute discretion at the time of the grant of the relevant option but in any case shall be at least the highest of (a) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the offer date, which must be a business day; (b) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotations sheets for the five (5) business days immediately preceding the offer date; and (c) the nominal value of a Share.

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## Share Option Schemes (Continued)

## (A) Share Option Schemes of the Company (Continued)

## (3) Summary of 2017 Share Option Scheme (Continued)

*The remaining life of the scheme*

2017 Share Option Scheme will remain in force for a period of ten (10) years commencing on the date of the adoption of the scheme. Upon termination, no further options may be granted under the scheme.

Type and number of grantees	Date of grant	Vesting period	Exercise period	Exercise price per Share HK\$	Number of share options granted (Subject to acceptance of the grantees)
3 Executive Directors LIU Changle	2017.03.21	2017.03.21 to 2018.03.20	2018.03.21 to 2027.03.20	1.41	4,900,000
CHUI Keung	2017.03.21	2017.03.21 to 2018.03.20	2018.03.21 to 2027.03.20	1.41	3,900,000
WANG Ji Yan	2017.03.21	2017.03.21 to 2018.03.20	2018.03.21 to 2027.03.20	1.41	3,900,000
LIU Diandian <sup>#</sup>	2017.03.21	2017.03.21 to 2018.03.20	2018.03.21 to 2027.03.20	1.41	120,000
441 employees	2017.03.21	2017.03.21 to 2018.03.20	2018.03.21 to 2027.03.20	1.41	78,874,000
Total:					<u>91,694,000*</u>

<sup>#</sup> LIU Diandian is a daughter of LIU Changle.

<sup>\*</sup> On 21 March 2017, 91,694,000 share options were granted under the 2017 Share Option Scheme, subject to the acceptance of the grantees by agreeing to surrender and cancel their same number of Existing Options under the 2009 Share Option Scheme. There were a total of 89,544,000 share options under the 2009 Share Option Scheme cancelled accordingly.

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## Share Option Schemes (Continued)

## (A) Share Option Schemes of the Company (Continued)

(3) *Summary of 2017 Share Option Scheme (Continued)**The remaining life of the scheme (Continued)*

During the year, 40,000 share options under 2009 Share Option Scheme were lapsed and cancelled due to non-acceptance within the acceptance period, 2,150,000 share options were lapsed and cancelled due to non-response within the acceptance period, which was deemed to be rejection by the grantees. Under the 2017 Share Option Scheme, a total of 89,504,000 share options were granted to and accepted by the grantees, while 1,200,000 share options granted to 14 employees were lapsed and cancelled when they ceased their employment with the Group. As at 31 December 2017, under the 2017 Share Option Scheme, there were a balance of 88,304,000 share options.

Save as disclosed above, no share option had been granted, exercised, lapsed or cancelled during the year.

## (B) Share Option Schemes of the Subsidiaries of the Company

(1) *PNM Share Option Scheme*

On 20 June 2008, the Shareholders approved the share option scheme ("**PNM Share Option Scheme**") of PNM, a subsidiary of the Company.

*Summary of PNM Share Option Scheme**Purpose of the scheme*

The purposes of the PNM Share Option Scheme is to recognise the contribution or potential contribution of the executives, employees, directors, consultants, advisers, agents, business partners, joint venture partners, service providers and contractors of PNM and/or its affiliates by granting options to them as incentives or rewards.

*The participants of the scheme*

Subject to the terms of the PNM Share Option Scheme and the Listing Rules and for so long as PNM remains a subsidiary of the Company, the board of directors of PNM ("**PNM Board**") may, at its absolute discretion (subject to any terms and conditions as it may think fit) during the scheme period, make offers to any eligible persons to take up options. The eligibility of the eligible persons is determined by the PNM Board with reference to their past and expected commitment and contribution to PNM and/or its affiliates.



## Share Option Schemes (Continued)

### (B) Share Option Schemes of the Subsidiaries of the Company (Continued)

#### (1) PNM Share Option Scheme (Continued)

##### *Summary of PNM Share Option Scheme (Continued)*

###### *The total number of securities available for issue*

The total number of shares of PNM ("**PNM Shares**") available for issue under options which may be granted under the PNM Share Option Scheme and any other share option schemes of PNM shall not in aggregate exceed 10% of 320,000,000 of PNM Shares in issue on 20 June 2008, being the effective date of PNM Share Option Scheme.

On 8 June 2012, the Shareholders approved to refresh and renew the scheme mandate limit of the PNM Share Option Scheme and any other share option schemes of PNM to enable grant of further options to subscribe for up to 31,410,107 Class A ordinary of PNM Shares, representing 10% of Class A ordinary PNM Shares in issue on 8 June 2012.

On 5 June 2014, the EGM of the Company passed the refreshment of scheme mandate limit under the PNM Share Option Scheme. Based on 284,014,925 Class A ordinary PNM Shares in issue, the scheme mandate limit has been "refreshed" to enable grant of further options to subscribe for up to 28,401,492 Class A ordinary PNM Shares, representing 10% of the Class A ordinary PNM Shares in issue as at the date of the EGM.

On 20 October 2016, the Shareholders approved the refreshment of the scheme mandate limit under the PNM Share Option Scheme. Based on 256,335,266 Class A ordinary PNM Shares in issue, PNM may grant further options to subscribe for up to 25,633,526 Class A ordinary PNM Shares, representing 10% of the Class A ordinary PNM Shares in issue on 20 October 2016, being the date of the extraordinary general meeting ("**EGM**") at which the Shareholders approved the above refreshment of mandate limit and the grant of replacement options as set out in the Company's circular dated 23 September 2016 (see also "Grant of replacement options" below).

###### *The maximum entitlement of each participant under the scheme*

Unless approved by the Shareholders and shareholders of PNM ("**PNM Shareholders**") in the manner set out in the PNM Share Option Scheme, the total number of PNM Shares issued and to be issued upon the exercise of the options granted and to be granted to any eligible person (including both exercised and outstanding options) in any 12-month period up to and including the offer date shall not exceed 1% of the PNM Shares in issue as at the offer date.

REPORT OF DIRECTORS

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## Share Option Schemes (Continued)

## (B) Share Option Schemes of the Subsidiaries of the Company (Continued)

## (1) PNM Share Option Scheme (Continued)

*Summary of PNM Share Option Scheme (Continued)**Time of exercise of option*

Pursuant to the PNM Share Option Scheme, options may be exercised with its terms at any time during a period as notified by the PNM Board to each eligible person in the offer, provided that such period shall not be longer than ten (10) years from the date of offer. The PNM Board may also impose restrictions on the exercise of an option during the period an option may be exercised.

*The amount payable on acceptance of the option*

Pursuant to the PNM Share Options Scheme, HK\$1.00 (or foreign currency equivalent) is payable to PNM by the eligible persons by 5:00 p.m. on the date specified in the offer letter as the latest date for acceptance.

*The basis of determining the exercise price*

The option price shall be determined by the PNM Board on a fair and reasonable basis, taking into consideration the prevailing market condition, performance of PNM and after having assessed the efforts, performance and/or future potential contribution of the eligible person to the success of the business and operations of PNM (and its affiliates from time to time), which shall be no less than the nominal value of the PNM Shares on the date of offer.

*The remaining life of the scheme*

The PNM Share Option Scheme will remain valid for a period of ten (10) years commencing on 20 June 2008 save that PNM, by an ordinary resolution of PNM Shareholders and an ordinary resolution of the Shareholders (for so long as PNM remains a subsidiary of the Company) in general meetings may at any time terminate the operation of the PNM Share Option Scheme.

During the year ended 31 December 2017, 6,707,000 and 548,000 options were granted to eligible persons consisting of staff of wholly-owned subsidiaries of PNM, under the PNM Share Option Scheme with an exercise price of US\$0.4149 and US\$0.5344 per share, respectively.

## REPORT OF DIRECTORS

## Share Option Schemes (Continued)

## (B) Share Option Schemes of the Subsidiaries of the Company (Continued)

## (1) PNM Share Option Scheme (Continued)

*Summary of PNM Share Option Scheme (Continued)**The remaining life of the scheme (Continued)*

During the year ended 31 December 2017, the details of options granted to the employees being exercised were as follows:

Number of employees	Number of options exercised	Exercise price per share US\$
21	1,184,904	0.03215
13	1,698,988	0.445925
1	50,168	0.7867
18	297,992	0.4734
25	1,859,644	0.4823

The weighted average market price of the options exercised during the year ended 31 December 2017 was US\$0.77 per share.

*Grant of replacement options*

At the EGM of the Company held on 20 October 2016, the Shareholders approved the proposed grant of options under the PNM Share Option Scheme to holders of existing options as replacement options beyond the refreshed limit (i.e. 10% of PNM Shares in issue as at the date of EGM on 20 October 2016). For details, please refer to the Company's circular dated 23 September 2016.

With the approvals of the board of directors and shareholders of PNM, an option exchange program was implemented from 21 October 2016 to 1 November 2016 whereby the directors, employees and consultants of PNM exchanged options to purchase 21,011,951 Class A ordinary of PNM Shares granted under the PNM Share Option Scheme with various exercise prices greater than US\$0.4823 per share (or US\$3.8584 per American Depositary Share) for new options granted under the PNM Share Option Scheme with a new exercise price of US\$0.4823 per share and a new vesting schedule that generally adds 12 months to each original vesting date, and the new options would vest no sooner than 1 May 2017.

## REPORT OF DIRECTORS

## Share Option Schemes (Continued)

## (B) Share Option Schemes of the Subsidiaries of the Company (Continued)

## (1) PNM Share Option Scheme (Continued)

*Summary of PNM Share Option Scheme (Continued)*

*The remaining life of the PNM Share Option Scheme after grant of replacement options*

During the year ended 31 December 2017, 7,319,500 options granted to 32 employees lapsed and were cancelled. Details of the options granted under the PNM Share Option Scheme to the employees of the Group are as follows:

Type of remaining grantees	Date of grant	Exercise period	Exercise price per PNM share (US\$)	Number of share options					Balance as at 31 December 2017
				Balance as at 1 January 2017	Granted during the year	Lapsed during the year	Cancelled during the year	Exercised during the year	
Employees	2008.07.04	2008.07.04-2018.05.25	0.03215	2,224,877	-	-	-	(226,400)	1,998,477
	2008.07.04	2008.07.09-2018.05.25	0.03215	6,000	-	-	-	(6,000)	-
	2008.07.04	2008.08.28-2018.05.25	0.03215	3,375	-	-	-	-	3,375
	2008.07.04	2008.09.17-2018.05.25	0.03215	16,500	-	-	-	-	16,500
	2008.07.04	2008.10.10-2018.05.25	0.03215	4,500	-	-	-	(4,500)	-
	2008.07.04	2008.10.10-2018.05.25	0.03215	4,000	-	-	-	-	4,000
	2008.07.04	2008.10.23-2018.05.25	0.03215	6,750	-	-	-	-	6,750
	2008.07.04	2008.12.17-2018.05.25	0.03215	6,000	-	-	-	(6,000)	-
	2008.07.04	2008.12.24-2018.05.25	0.03215	3,750	-	-	-	-	3,750
	2008.07.04	2009.01.15-2018.05.25	0.03215	439,504	-	-	-	(439,504)	-
	2008.07.04	2009.02.26-2018.05.25	0.03215	3,375	-	-	-	(3,375)	-
	2008.07.04	2009.03.10-2018.05.25	0.03215	5,500	-	-	-	-	5,500
	2008.07.04	2009.03.17-2018.05.25	0.03215	2,475	-	-	-	-	2,475
	2008.07.04	2009.03.24-2018.05.25	0.03215	20,000	-	-	-	(20,000)	-
	2008.07.04	2009.03.31-2018.05.25	0.03215	3,000	-	-	-	-	3,000
	2008.07.04	2009.04.01-2018.05.25	0.03215	450	-	-	-	-	450
	2008.07.04	2009.04.07-2018.05.25	0.03215	6,750	-	-	-	(3,750)	3,000
	2008.07.04	2009.04.09-2018.05.25	0.03215	3,000	-	-	-	-	3,000

## REPORT OF DIRECTORS

## Share Option Schemes (Continued)

## (B) Share Option Schemes of the Subsidiaries of the Company (Continued)

## (1) PNM Share Option Scheme (Continued)

## Summary of PNM Share Option Scheme (Continued)

The remaining life of the PNM Share Option Scheme after grant of replacement options (Continued)

Type of remaining grantees	Date of grant	Exercise period	Exercise price per PNM share (US\$)	Number of share options					Balance as at 31 December 2017
				Balance as at 1 January 2017	Granted during the year	Lapsed during the year	Cancelled during the year	Exercised during the year	
	2008.07.04	2009.05.19-2018.05.25	0.03215	10,688	-	-	-	(3,375)	7,313
	2008.07.04	2009.05.26-2018.05.25	0.03215	33,087	-	-	-	-	33,087
	2009.07.31	2010.01.04-2018.05.25	0.03215	781,250	-	-	-	-	781,250
	2009.07.31	2010.02.16-2018.05.25	0.03215	100,000	-	-	-	-	100,000
	2009.07.31	2010.04.27-2018.05.25	0.03215	5,250	-	-	-	-	5,250
	2009.07.31	2010.05.18-2018.05.25	0.03215	96,001	-	-	-	-	96,001
	2009.07.31	2010.07.10-2018.05.25	0.03215	61,600	-	-	-	-	61,600
	2009.09.15	2010.09.15-2018.05.25	0.03215	693,800	-	-	-	(252,000)	441,800
	2010.01.08	2011.01.08-2018.05.25	0.03215	104,400	-	-	-	-	104,400
	2010.07.01	2008.03.05-2018.05.25	0.03215	111,000	-	-	-	-	111,000
	2010.07.01	2010.09.15-2018.05.25	0.03215	26,000	-	-	-	-	26,000
	2010.07.01	2011.02.21-2018.05.25	0.03215	220,000	-	-	-	(220,000)	-
	2010.07.01	2011.07.01-2018.05.25	0.03215	52,000	-	-	-	-	52,000
	2013.03.15	2014.03.15-2023.03.14	0.445925	5,855,088	-	-	-	(1,698,988)	4,156,100
	2013.05.23	2014.05.23-2023.05.22	0.46565	2,900,000	-	-	-	-	2,900,000
	2013.10.01	2014.10.01-2023.09.30	0.78670	56,250	-	-	-	(50,168)	6,082
	2015.07.16	2016.07.16-2025.07.15	0.91550	395,000	-	(395,000)	-	-	-
	2016.10.17	2017.10.17-2026.10.16	0.47340	9,581,964	-	(1,995,000)	-	(297,992)	7,288,972
	2016.10.21	2017.05.01-2020.07.06	0.48230	20,601,951	-	(4,829,500)	-	(1,859,644)	13,912,807
	2017.09.14	2018.09.14-2027.09.13	0.41490	-	6,707,000	(90,000)	-	-	6,617,000
	2017.11.24	2018.11.24-2027.11.23	0.53440	-	548,000	(10,000)	-	-	538,000
Total:				44,445,135	7,255,000	(7,319,500)	-	(5,091,696)	39,288,939

Save as disclosed above, no option was granted to the Directors, chief executives or substantial Shareholders, or their respective associates of the Company, or to the suppliers of goods or services under the PNM Share Option Scheme during the year.

## REPORT OF DIRECTORS

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### Directors

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

#### Executive Directors:

LIU Changle (alternate director to CHUI Keung)

CHUI Keung (alternate director to LIU Changle)

WANG Ji Yan (alternate director to LIU Changle and CHUI Keung)

#### Non-executive Directors:

SHA Yuejia

GONG Jianzhong

SUN Yanjun

XIA Bing

#### Independent Non-executive Directors:

LEUNG Hok Lim

Thaddeus Thomas BECZAK

FANG Fenglei

HE Di

#### Alternate Director:

LAU Wai Kei, Ricky (alternate director to SUN Yanjun)

In accordance with Article 87(1) & (2) of the Articles of Association, Mr. CHUI Keung, Mr. GONG Jianzhong and Mr. SUN Yanjun shall retire by rotation and being eligible, offer themselves for re-election at the forthcoming AGM of the Company.

### Confirmation of Independence

The Company has received from each of Mr. LEUNG Hok Lim, Mr. Thaddeus Thomas BECZAK, Mr. FANG Fenglei and Mr. HE Di their respective annual confirmation of their independence pursuant to Rule 3.13 of the Listing Rules as at the date of this report and the Company considers them to be independent.

## REPORT OF DIRECTORS

### Update on Directors' Information Under Rule 13.51B(1) of the Listing Rules

Changes of Directors' information which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules are set out below:

LIU CHANGLE

Resignation

China Southern Airlines Company Limited – independent non-executive director

LEUNG HOK LIM

Resignation

Yangtzekiang Garment Limited – independent non-executive director

YGM Trading Limited – independent non-executive director

Save as disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

### Directors' Service Contracts

Mr. LIU Changle and Mr. CHUI Keung, the executive Directors, each entered into a service contract with the Company for a term of three years commencing from 1 July 2018 subject to termination by either party giving to the other not less than three months' written notice. None of the Directors proposed for re-election at the forthcoming AGM has entered into any service contract with the Company which is not determinable by the Company within one year without payment of compensation.

The terms of office of each of the executive Directors (other than the chairman of the Board), non-executive Directors and independent non-executive Directors are subject to retirement by rotation in accordance with the Articles of Association and the Company's own code on Corporate Governance.

### Directors' Interests in Contracts

No contracts of significance in relation to the Group's business to which the Company, or any of its subsidiaries, fellow subsidiaries or its parent company was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

### Directors' Permitted Indemnity Provision

As permitted by the Articles of Association, every Director is entitled to be indemnified out of the assets and profits of the Company against all actions, costs, charges, losses, damages and expenses which he may sustain or incur in or about the execution of the duties of his office or otherwise in relation thereto, provided that such indemnity do not extend to any matter in respect of any fraud or dishonesty by such Director. Such provision has been in force for the benefit of the Directors throughout the year and up to the date of this report.

The Company has taken out and maintained Directors' liability insurance throughout the year, which provides appropriate cover to the Directors.

## REPORT OF DIRECTORS

## Directors' and Chief Executives' Interests in Securities

As at 31 December 2017, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (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 or short positions which such Directors or chief executives were taken or deemed to have under such provisions of the SFO); or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or which were required, pursuant to the Model Code as set out in Appendix 10 of the Listing Rules to be notified to the Company and the Stock Exchange, were as follows:

## (1) Long position in the Shares and underlying Shares of the Company (excluding share options)

*Ordinary shares of the Company*

Name	Number of ordinary shares held			Position	Approximate shareholding percentage as at 31 December 2017
	Personal/ other interest	Corporate interest	Total interest		
LIU Changle (Note 2)	2,688,000	1,854,000,000	1,856,688,000	Long	37.18%

Notes:

- As at 31 December 2017, the number of the issued Shares was 4,993,469,500.
- As at 31 December 2017, Mr. LIU Changle was the beneficial owner of 93.30% of the issued share capital of Today's Asia Limited, which in turn had an interest in approximately 37.18% of the issued share capital of the Company.



## REPORT OF DIRECTORS

## Directors' and Chief Executives' Interests in Securities (Continued)

- (2) Long position in the shares and underlying shares of an associated corporation of the Company

*PNM*

Name	Number of class A ordinary of PNM Shares			Position	Approximate shareholding percentage as at 31 December 2017
	Personal/ other interest	Corporate interest	Total interest		
LIU Changle (Note 3)	–	1,483,200	1,483,200	Long	0.56%

Notes:

- As at 31 December 2017, the number of the issued Class A ordinary PNM Shares was 264,335,266.
- PNM is a non-wholly owned subsidiary of the Company.
- As at 31 December 2017, Mr. LIU Changle was the beneficial owner of 93.30% of the issued share capital of Today's Asia Limited, which in turn had an interest in approximately 0.56% of the issued class A ordinary of PNM Shares.

## REPORT OF DIRECTORS

## Directors' and Chief Executives' Interests in Securities (Continued)

## (3) Share Options

Name	Date of grant	Exercise period	Exercise price per Share HK\$	Underlying Shares pursuant to the share options as at 31 December 2017
3 Executive Directors				
LIU Changle	2017.03.21	2018.03.21 to 2027.03.20	1.41	4,900,000
CHUI Keung	2017.03.21	2018.03.21 to 2027.03.20	1.41	3,900,000
WANG Ji Yan	2017.03.21	2018.03.21 to 2027.03.20	1.41	3,900,000
LIU Diandian <sup>#</sup>	2017.03.21	2018.03.21 to 2027.03.20	1.41	120,000

<sup>#</sup> LIU Diandian is a daughter of LIU Changle

Save as disclosed above, so far as the Directors are aware, as at 31 December 2017, none of the Directors and chief executives of the Company had any interest or short positions in the shares, underlying shares and debentures of the Company or any associated corporations (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 or short positions which the Directors or chief executives were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code of the Listing Rules to be notified to the Company and the Stock Exchange.

## Directors' Rights to Acquire Shares or Debentures

Under the terms of the Post-IPO Share Option Scheme, 2009 Share Option Scheme and 2017 Share Option Scheme, the relevant committee responsible to administer the share option schemes may, at their discretion, invite any employee of the Company or any of the Group companies, including any executive directors, to take up options to subscribe for Shares. The maximum number of Shares in respect of which options may be granted under the share option schemes must not exceed 10% of the issued share capital of the Company. However, the Post-IPO Share Option Scheme expired on 25 March 2017 and no further options can be granted under the scheme.

Save as disclosed herein, and other than those in connection with the Group reorganisation scheme prior to the Company's listing of Shares, at no time during the year was the Company or any of the companies comprising the Group a party to any arrangement to enable the Directors or their associates to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

## REPORT OF DIRECTORS

## Substantial Shareholders' Interests and Short Positions in the Shares and Underlying Shares of the Company

As at 31 December 2017, so far as is known to the Directors and the chief executive of the Company, the interest of the Shareholders (not being Directors and the chief executive of the Company) in the Shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO and required to be entered in the register maintained by the Company pursuant to Section 336 of the SFO or entered in the register kept by the Company pursuant to Section 352 of the SFO, were as follows:

### (1) Long positions of substantial Shareholders in the Shares of the Company

Name of substantial Shareholders	Number of Shares	Approximate shareholding percentage as at 31 December 2017
Today's Asia Limited (Note 2)	1,854,000,000	37.13%
Extra Step Investments Limited (Note 3)	983,000,000	19.69%
TPG China Media, L.P. (Note 4)	607,000,000	12.16%

Notes:

- As at 31 December 2017, the number of issued Shares was 4,993,469,500.
- Today's Asia Limited is beneficially owned by Mr. LIU Changle and Mr. CHAN Wing Kee as to 93.30% and 6.70% respectively.
- Extra Step Investments Limited is a wholly-owned subsidiary of China Mobile (Hong Kong) Group Limited ("**CMHKG**") which in turn is a subsidiary of China Mobile Communications Group Co., Ltd. ("**CMCC**"). By virtue of the SFO, CMCC and CMHKG are deemed to be interested in the 983,000,000 Shares held by Extra Step Investments Limited. Mr. SHA Yuejia and Mr. XIA Bing, both non-executive Directors, are respectively executive director and vice president of China Mobile Limited and general manager of the Marketing Department of CMCC.
- TPG China Media, L.P. is controlled by TPG Asia Advisors VI DE, Inc., which in turn is ultimately controlled by Mr. David BONDERMAN and Mr. James G. COULTER. By virtue of the SFO, TPG Asia Advisors VI DE, Inc., Mr. David BONDERMAN and Mr. James G. COULTER are all deemed to be interested in the 607,000,000 Shares held by TPG China Media, L.P. Mr. SUN Yanjun and Mr. LAU Wai Kei Ricky, being the non-executive Director and alternate Director respectively, are both managing director and partner of TPG.

## REPORT OF DIRECTORS

## Substantial Shareholders' Interests and Short Positions in the Shares and underlying Shares of the Company (Continued)

## 2) Long position of other person in the Shares of the Company

<b>Name of other person who has more than 5% interest</b>	<b>Number of Shares</b>	<b>Approximate shareholding percentage as at 31 December 2017</b>
China Wise International Limited (Note 2)	412,000,000	8.25%

## Notes:

- As at 31 December 2017, the number of issued Shares was 4,993,469,500.
- China Wise International Limited is a wholly-owned subsidiary of Cultural Developments Limited, which in turn is a wholly-owned subsidiary of Bank of China Group Investment Limited. Bank of China Group Investment Limited is a wholly-owned subsidiary of Bank of China Limited, which in turn is a subsidiary of Central Huijin Investments Limited. By virtue of the SFO, Central Huijin Investments Limited, Bank of China Limited, Bank of China Group Investment Limited and Cultural Developments Limited are all deemed to be interested in the 412,000,000 Shares held by China Wise International Limited. Mr. GONG Jianzhong, non-executive Director of the Company, is a director and chief executive officer of Bank of China Group Investment Limited and a director of a number of companies controlled by Bank of China Group Investment Limited or in which Bank of China Group Investment Limited has an interest.

Save as disclosed above, there was no person (other than the Directors or the chief executives of the Company) known to the Directors or the chief executives of the Company, who, as at 31 December 2017, had an interest or short position in the Shares, underlying Shares or debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and were required to be entered in the register kept by the Company pursuant to section 336 of the SFO.

## REPORT OF DIRECTORS

### Management Contracts

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

### Major Suppliers and Customers

The percentages of programme purchases and sales for the year attributable to the Group's major suppliers and advertising end-customers are as follows:

	Year 2017	Year 2016
Programme purchases		
– the largest supplier	<b>25%</b>	17%
– five largest suppliers	<b>66%</b>	52%
Sales		
– the largest advertising end-customer	<b>3%</b>	3%
– five largest advertising end-customers	<b>9%</b>	10%

None of the Directors, the chief executives, or their close associates, or any Shareholders (which to the best knowledge of the Directors owns more than 5% of the Company's issued share capital) had any beneficial interest in the major suppliers or customers mentioned above.

## REPORT OF DIRECTORS

## Continuing Connected Transactions

During the year ended 31 December 2017, the Group had conducted certain continuing transactions with connected persons of the Group as defined in Chapter 14A of the Listing Rules to be reported in this section.

The following transactions constituted non-exempt continuing connected transactions subject only to the reporting, announcement and annual review requirements as defined under Chapter 14A of the Listing Rules.

## I. LED Panel Advertisement Agreements

鳳凰都市傳媒科技股份有限公司 (Phoenix Metropolis Media Technology Company Limited) ("**Phoenix Metropolis**"), entered into various agreements relating to the sale of advertising airtime on the LED Panels operated by or licensed to Phoenix Metropolis and/or its subsidiaries in the PRC with CMCC and its associates (collectively the "**CMCC Group**") for promoting the CMCC Group covering various periods.

The Other Contracting Party	Agreement	Agreement & Announcement Date	Term	Actual Usage in 2017 (RMB)	Annual/Term Cap (RMB)
中國移動通信集團貴州有限公司 (China Mobile Group Guizhou Co., Ltd.) (" <b>CMGG</b> ")	CMGG Advertising Contract	25.01.2017	25.01.2017 to 31.03.2017	0	2,120,000
咪咕文化科技有限公司 (MIGU Cultural and Technology Co., Ltd.) (" <b>MIGU</b> ")	MIGU Advertising Contract	21.03.2017	21.03.2017 to 20.03.2018	3,765,600	3,800,000
	2nd MIGU Advertising Contract	26.09.2017	26.09.2017 to 25.09.2018	6,223,600	8,540,000
中國移動通信有限公司 (China Mobile Communication Co., Ltd.) (" <b>CMC</b> ")	2016 CMC Outdoor Advertising Contract	26.04.2016	26.04.2016 to 31.03.2017	4,072,003 (From 01.01.2017 to 31.03.2017) (From 26.04.2016 to 31.12.2016: 11,857,997)	15,930,000
	2017 CMC Outdoor Advertising Contract	18.05.2017	18.05.2017 to 31.03.2018	10,000,000	13,130,000
中國移動通信集團終端有限公司 China Mobile Group Device Co., Ltd. (" <b>CMGD</b> ")	2016 CMGD Outdoor Advertising Contract	26.04.2016	26.04.2016 to 31.03.2017	1,021,429 (From 01.01.2017 to 31.03.2017) (From 26.04.2016 to 31.12.2016: 2,408,571)	7,510,000
	2017 CMGD Outdoor Advertising Contract	06.07.2017	06.07.2017 to 31.03.2018	3,110,000	5,970,000

(The Annual/Term Cap and the Actual Usage in 2017 displayed herein are all sales tax inclusive)

## REPORT OF DIRECTORS

## Continuing Connected Transactions (Continued)

## II. TV Channel Advertisement Agreement

Phoenix TV, through 神州電視有限公司 (Shenzhou Television Company Limited) ("**Shenzhou**") acting as its agent, entered into a framework agreement with CNHK Media Limited (中港傳媒有限公司) ("**CNHK Media**", acting for the benefit of the CMCC Group) for the sale of advertising airtime at the Phoenix Chinese Channel and the Phoenix InfoNews Channel for the promotion of the CMCC Group for the year commencing 1 January 2017 to 31 December 2017.

The Other Contracting Party	Agreement	Agreement & Announcement Date	Term	Actual Usage in 2017 (RMB)	Annual Cap (RMB)
CNHK Media	2017 TV Channel Advertisement Contract	08.12.2016	01.01.2017 to 31.12.2017	15,840,355	40,000,000

## III. Internet Advertisement Agreement

北京天盈九州網絡技術有限公司 (Beijing Tianying Jiuzhou Network Technology Co. Ltd.) ("**Beijing Tianying**"), entered into a framework agreement with 北京鳳凰理它信息技術有限公司 (Beijing Phoenix Li Li Ta Information Technology Co, Ltd.) ("**LLT**"), relating to the placement of internet advertisements provided by LLT from time to time on (i) the websites operated by Beijing Tianying, including www.ifeng.com and wap.ifeng.com and (ii) the mobile apps operated by Beijing Tianying, including but not limited to ifeng news and v.ifeng.com, etc. for the three years from 1 January 2015 to 31 December 2017.

The Other Contracting Party	Agreement	Agreement & Announcement Date	Term	Actual Usage in 2017 (RMB)	2017 Annual Cap (RMB)
LLT	Internet Advertisement Agreement	04.12.2015 (as supplemented on 17.05.2016)	01.01.2015 to 31.12.2017	10,000,000	80,000,000

## REPORT OF DIRECTORS

## Continuing Connected Transactions (Continued)

The following transactions constituted non-exempt continuing connected transactions subject to reporting, independent shareholders' approval and annual review requirements as defined under Chapter 14A of the Listing Rules.

## I. New Media Platform Services Transactions

The Company expected PNM and its subsidiaries ("PNM Group") would, in the ordinary and usual course of business, enter into continuing connected transactions ("New Media CCT") in relation to provision of website portal, value-added telecommunications, promotional and ancillary services by and to PNM Group to and by CMCC Group for the three years from 1 January 2016 to 31 December 2018. The Company applied for and the Stock Exchange granted to the Company a waiver from strict compliance with the requirement under Rule 14A.34 and Rule 14A.51 of the Listing Rules to enter into a framework agreement with the CMCC Group at the outset covering all of New Media CCT. Independent shareholders' approval for the New Media CCT was also obtained at the extraordinary general meeting of the Company held on 4 December 2015.

Connected party	Transactions	Agreement & Announcement Date	Term	Actual Usage in 2017 (RMB)	2017 Annual Cap (RMB)
CMCC Group	New Media CCT	06.11.2015	01.01.2016 to 31.12.2018	159,600,867	286,000,000

## The Connected Relationships

- CMHKG, a subsidiary of CMCC, is a substantial shareholder of the Company holding approximately 19.69% of the issued share capital of the Company through its wholly-owned subsidiary Extra Step Investments Limited. Therefore, the CMCC Group, including CMGG, MIGU, CMC and CMGD are connected persons of the Company under the Listing Rules. As such, the transactions respectively contemplated under the CMGG Advertising Contract, MIGU Advertising Contract, 2nd MIGU Advertising Contract, 2016 CMC Outdoor Advertising Contract, 2017 CMC Outdoor Advertising Contract, 2016 CMGD Advertising Contract and the 2017 CMGD Outdoor Advertising Contract as well as the New Media CCT are continuing connected transactions under Chapter 14A of the Listing Rules.
- CNHK Media entered into contracts with a subsidiary of CMCC in the PRC relating to and including the purchase from the Group of advertising airtime at Chinese Channel and the Phoenix InfoNews Channel for the benefit and on behalf of the CMCC Group covering the period under the 2017 TV Channel Advertisement Contract. CNHK Media is therefore considered a deemed connected person of the Company under Rule 14A.20(1) of the Listing Rules. As such, the transactions contemplated under the 2017 TV Channel Advertisement Contract are continuing connected transactions under Chapter 14A of the Listing Rules.
- Beijing Tianying is a non wholly-owned subsidiary of the Company. As Mr. HE Xin, the controlling shareholder of LLT, is the son-in-law of Mr. LIU Changle, the Chairman of the Board and the Chief Executive Officer of the Company, LLT is therefore a connected person of the Company under the Listing Rules. As such, the transactions contemplated under the Internet Advertisement Agreement are continuing connected transactions under Chapter 14A of the Listing Rules.



### Continuing Connected Transactions (Continued)

The independent non-executive Directors had reviewed the aforesaid continuing connected transactions and confirmed that:

1. the transactions were entered into by the relevant member of the Group in the ordinary and usual course of its business;
2. the transactions were entered into either on normal commercial terms or better, on an arm's length basis or terms no less favorable to the Group than terms available to or from independent third parties; and
3. the transactions were entered into in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with the Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued an unqualified letter to the Board of Directors containing the findings and conclusions in respect of the continuing connected transactions disclosed by the Group on pages 98 to 101 of this report in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange. The Company confirmed during the year ended 31 December 2017, there was no continuing transaction which become continuing connected transaction.

Save as disclosed above, none of the related party transactions (as defined in HKAS 24 – Related Party Disclosures) entered into by the Group during the year ended 31 December 2017 disclosed in Note 41 to the consolidated financial statements falls under the scope of connected transaction or continuing connected transaction as defined in Chapter 14A of the Listing Rules which is subject to the reporting, announcement or Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

REPORT OF DIRECTORS

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## Contractual Arrangements of PNM Group

Foreign investment in the internet and mobile services industries is currently prohibited or restricted in China. The internet business of the Group in China is operated by PNM through contractual arrangements with the legal shareholders of its variable interest entities, among others, Beijing Tianying. The Group does not have equity interests in Beijing Tianying or its subsidiaries. However, as a result of a series of structured contracts (the “**Structured Contracts**”) entered into on 31 December 2009 by a subsidiary of PNM, Fenghuang On-line (Beijing) Information Technology Company Limited (“**Fenghuang On-line**”), the Group has become the primary beneficiary of Beijing Tianying and its subsidiaries and account for them as its indirect subsidiaries under Hong Kong Financial Reporting Standards (“**HKFRS**”). As at the date of this report, Beijing Tianying is owned as to 51% by Mr. QIAO Haiyan and 49% by Mr. GAO Ximin respectively, and the permitted business items of Beijing Tianying includes: internet information services (excluding information on news, publishing, education, medical health, medicine, medical devices); internet advertising via www.ifeng.com; information services of category II value-added telecommunications services (excluding fixed line telephone information services and internet information services); production and publishing of animation, television entertainment, feature; distribution of published books and journals via internet (including mobile network), publishing of internet game and mobile game; performance agency; retail of books, newspaper, journals, electronic publications and audiovisual products. Whereas the general business items of Beijing Tianying includes: technology development, technology consulting; design, production, agent, publishing of advertisement; organizing cultural exchange activities; organizing exhibitions; enterprise planning; economy and trade consulting; lease of computer and communications equipment (excluding those items without the administrative licensing).

The Group has consolidated the financial results of Beijing Tianying and its subsidiaries in its consolidated financial statements in accordance with HKFRS. In 2017, Beijing Tianying and its subsidiaries accounted for 21.5% of the total revenues and 11.7% of the total assets of the Group.

The Group has evaluated the relationship among PNM, Fenghuang On-line and Beijing Tianying in accordance with HKFRS. Pursuant to the Voting Right Entrustment agreement, PNM has obtained power, as granted to the legal shareholders by the applicable PRC law and under the articles of association of Beijing Tianying, to direct all significant activities of Beijing Tianying, which include but are not limited to budgeting, financing, and making other strategic and operational decisions, and will significantly impact Beijing Tianying’s economic performance. Pursuant to the Exclusive Technical licensing and service agreements and other agreements, PNM has the right to receive benefits of Beijing Tianying in the form of technical service fees, which could potentially be significant to Beijing Tianying’s net income. In addition, PNM has the right to receive all the residual assets of Beijing Tianying through exercise of the Exclusive Option agreement. As a result, the Group, through PNM and Fenghuang On-line, is considered the primary beneficiary of Beijing Tianying and therefore includes Beijing Tianying’s assets, liabilities and operating results in its consolidated financial statements. With the contractual agreements with Beijing Tianying, the Group has the power to direct the activities of Beijing Tianying, and can freely have assets transferred out of Beijing Tianying’s without any restrictions.

Details of the Structured Contracts and the related information were set out in the Company’s announcement dated 9 November 2009 (the “**Company’s Announcement**”).

There were no material changes to the Structured Contracts and/or the circumstances under which they were adopted, nor was there any unwinding of them or of a failure to do the same due to the restrictions that led to their adoption being removed.

## Contractual Arrangements of PNM Group (Continued)

The reasons for using the Structured Contracts were disclosed in the sub-section headed "Reasons for and benefits of the Acquisitions" under the section headed "Reasons For And Benefits Of The Transaction" of the Company's Announcement.

The major risks associated with them include, among others:

1. If the PRC government finds that the agreements that establish the structure for operating its businesses in China do not comply with PRC governmental restrictions on foreign investment in internet businesses, or if these regulations or the interpretation of existing regulations change in the future, the Group would be subject to severe penalties or be forced to relinquish its interests in those operations.
2. The Group relies on contractual arrangements with Beijing Tianying in China, and their legal shareholders, for its business operations, which may not be as effective in providing operational control or enabling us to derive economic benefits as through ownership of controlling equity interest.
3. The legal shareholders of Beijing Tianying may have potential conflicts of interest with the Group.

For details of the above-mentioned risks during the reporting period, please refer to "Item 3. Key Information – D. Risk Factors – Risks Relating to Our Corporate Structure" of the 2016 Annual Report of PNM disclosed on its website ([ir.ifeng.com](http://ir.ifeng.com)).

4. The Group also noted on 19 January 2015, the Ministry of Commerce of the PRC released on its website for public comment a proposed PRC law (the "**Draft FIE law**") that appears to include variable interest entities within the scope of entities that could be considered to be foreign invested enterprises that would be subject to restrictions under existing PRC law on foreign investment in certain categories of industry. The Group is not aware of any progress of legislation of the Draft FIE law but will continuously closely monitor any progress.

## Competing Business

During the year ended 31 December 2017 and up to the date of this report, none of the Directors had any interests in a business which competes or was likely to compete, either directly or indirectly, with the business of the Group and which was required to be disclosed pursuant to Rule 8.10 of the Listing Rules.

## Advances to an Entity

Details of the relevant advances to an entity from the Group are set out in Note 22 to the consolidated financial statements.

## Corporate Governance

A report on the principal corporate governance practices adopted by the Company is set out on pages 42 to 57 of this report.

## REPORT OF DIRECTORS

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### Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has, during the year and up to the date of this report, maintained a public float of not less than 25% of the total issued share capital of the Company as required under the Listing Rules.

### Audit Committee

The Audit Committee had reviewed the Group's annual results for the year ended 31 December 2017 and provided advice and comments thereon.

### Auditor

The consolidated financial statements for the year have been audited by PricewaterhouseCoopers who will retire, and being eligible, offer themselves for re-appointment at the forthcoming AGM.

On behalf of the Board

**LIU Changle**

*Chairman*

Hong Kong, 16 March 2018