歡喜傳媒集團有限公司*

HUANXI MEDIA GROUP LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 1003)

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

The board of directors (the "Board") of Huanxi Media Group Limited (the "Company") announces the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2016, together with comparative figures for the year ended 31 December 2015, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	NOTES	**2016** *HK$'000*	2015 *HK$'000*
Revenue	4	**16,112**	266,913
Cost of sales and service rendered		**(20,565)**	(219,322)
Gross (loss) profit		**(4,453)**	47,591
Investment and other income	6	**5,215**	6,888
Other gains and losses	7	**(10,985)**	(4,351)
Selling and distribution costs		**(12,112)**	(921)
Administrative expenses		**(110,938)**	(47,361)
Share-based payments	17(b)	**(1,120,472)**	(81,000)
Impairment loss on goodwill		**–**	(4,395)
Finance costs	8	**–**	(617)
Loss before tax		**(1,253,745)**	(84,166)
Income tax expense	9	**–**	(8,630)
Loss for the year	10	**(1,253,745)**	(92,796)

* *for identification purpose only*

	NOTE	2016 HK$'000	2015 HK$'000
Other comprehensive expense			
Item that will not be reclassified to profit or loss:			
Exchange differences arising on translation of functional currency to presentation currency		**6,872**	–
Item that may be subsequently reclassified to profit or loss:			
Exchange differences arising on translation of foreign operations		**(8,132)**	(6,820)
		(1,260)	(6,820)
Total comprehensive expense for the year		**(1,255,005)**	(99,616)
Loss for the year attributable to owners of the Company		**(1,253,745)**	(92,796)
Total comprehensive expense for the year attributable to owners of the Company		**(1,255,005)**	(99,616)
Loss per share			
– Basic (HK dollar)	12	**(0.51)**	(0.08)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	NOTES	2016 HK$'000	2015 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**4,942**	1,826
Art work		**20,000**	–
Trade and other receivables, deposits and prepayments	14	**5,344**	–
Prepayment for film and TV rights	13	**220,814**	–
Available-for-sale investment		**208**	–
		251,308	1,826
CURRENT ASSETS			
Film and TV rights	15	**250,958**	13,925
Trade and other receivables, deposits and prepayments	14	**147,459**	257,356
Investments held for trading		**52,768**	55,580
Bank balances and cash		**309,062**	726,598
		760,247	1,053,459
CURRENT LIABILITIES			
Trade and other payables	16	**175,544**	55,243
Tax payable		**9,100**	9,926
		184,644	65,169
NET CURRENT ASSETS		**575,603**	988,290
NET ASSETS		**826,911**	990,116
CAPITAL AND RESERVES			
Share capital	17	**27,681**	23,086
Reserves		**799,230**	967,030
TOTAL EQUITY		**826,911**	990,116

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is an investment holding company.

Change in functional currency

Items included in the accounts of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency").

In prior years, the Company adopted Hong Kong dollars ("HK$") as its functional currency. As the Group changed its major business operation from provision of property agency and related services in Hong Kong and the People's Republic of China (the " PRC") to film and TV rights in the PRC during the year, the Company and a majority of its operating subsidiaries conducted transactions mainly in Renminbi ("RMB"). As such, effective from 1 September 2016, the Company has changed its functional currency from HK$ to RMB. The consolidated financial statements of the Company are presented in HK$ for the convenience of shareholders as the Company is a listed company in Hong Kong.

The change in functional currency of the Company was applied prospectively from date of change in accordance with HKAS 21 "The effect of changes in foreign exchange rate". On the date of the change of functional currency, all assets, liabilities, issued capital and other components of equity and profit and loss were translated into RMB at the exchange rate on that date.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

Amendments to HKFRS 11	Accounting for acquisitions of interest in joint operations
Amendments to HKAS 1	Disclosure initiative
Amendments to HKAS 16 and HKAS 38	Clarification of acceptable methods of depreciation and amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer plants
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment entities: Applying the consolidation exception
Amendments to HKFRSs	Annual improvements to HKFRSs 2012–2014 cycle

The application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

4. REVENUE

An analysis of the Group's revenue for the year is as follows:

	2016	2015
	HK$'000	*HK$'000*
Film rights investment income net of tax	**5,073**	217,701
Property agency commission and service income in Hong Kong and the PRC	**11,039**	49,212
	16,112	266,913

(a) During the year ended 31 December 2015, the Group entered into agreements with 東陽映月影視文化傳播有限公司, a company in which Mr. Ning Ho ("Mr. Ning"), a non-executive director of the Company, has beneficial interest, to invest in income right of a film at a consideration of RMB11,800,000 (equivalent to HK$13,722,000), whereby the Group can share 20% of net income of box office sales income from exhibition in movie theatres less taxes and other governmental charges, deduction by movie theatres, payment for industrial development fund as well as other payment in relation to production and distribution of the film, royalty income on copyright on the internet, royalty income on copyright on game of using the content and income from placement marketing. During the year ended 31 December 2016, the film was released and the entire firm and TV rights was recognised as cost of sales.

The amount of RMB5,414,000 (equivalent to HK$6,296,000) represented the share of such net income of box office sales income from exhibition in movie theatres including tax, royalty income on copyright on the internet, royalty income on copyright on game of using the content, income from placement marketing, and the respective film rights investment cost was recognised as cost of sales accordingly.

(b) During the year ended 31 December 2015, the Group entered into agreements with Beijing Joy Leader Culture Communication Co. Ltd. (北京真樂道文化傳播有限公司) ("北京真樂道"), a company in which Mr. Xu Zheng ("Mr. Xu"), a non-executive director of the Company, has beneficial interest, to acquire film rights at a consideration of RMB150,000,000 (equivalent to HK$184,615,000), whereby the Group can share 47.5% box office sales income from exhibition in movie theatres less taxes and other governmental charges, deduction by movie theatres, payment for industrial development fund as well as other payment in relation to production and distribution of the film.

The amount of RMB188,173,000 (equivalent to HK$231,597,000) represented the share of such net box office sales income from exhibition in movie theatres including tax, and the respective film rights investment cost was recognised as cost of sales accordingly.

5. SEGMENT INFORMATION

The following is an analysis of the Group's revenue and results by operating and reportable segments, based on information provided to the chief operating decision maker ("CODM") representing the executive directors of the Company, for the purpose of resource allocation and assessment of segment performance on types of services provided and goods sold. This is also the basis upon which the Group is arranged and organised.

The Group's operations are currently organised into three operating and reportable segments as follows:

Film rights investment	– Film rights investment and investment in film and TV rights
Property agency in Hong Kong and the PRC	– Provision of property agency and related services in Hong Kong and the PRC
Securities trading and investments	– Securities trading and investments

The following is an analysis of the Group's revenue and results by operating and reportable segments:

	Film rights investment		Property agency in Hong Kong and the PRC		Securities trading and investments		Consolidated	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue – External sales net of tax	**5,073**	217,701	**11,039**	49,212	**–**	–	**16,112**	266,913
Segment (loss) profit	**(1,191,294)**	33,170	**(1,193)**	(9,690)	**(2,816)**	(1,832)	**(1,195,303)**	21,648
Unallocated corporate income							**9,211**	4,513
Unallocated corporate expenses							**(67,653)**	(28,710)
Share-based payments to a financial adviser							**–**	(81,000)
Finance costs							**–**	(617)
Loss before tax							**(1,253,745)**	(84,166)
Other information (included in measure of segment (loss) profit)								
Loss on change in fair value of investments held for trading	**–**	–	**–**	–	**4,236**	1,691	**4,236**	1,691
Investment and other income	**2,674**	2,237	**312**	127	**1,433**	11	**4,419**	2,375
Depreciation of property, plant and equipment	**359**	4	**89**	605	**–**	–	**448**	609
Loss on disposal of property, plant and equipment	**–**	–	**23**	84	**–**	–	**23**	84
Impairment loss on available-for-sale investment	**15,333**	–	**–**	–	**–**	–	**15,333**	–
Impairment loss on trade receivables	**–**	–	**30**	1,551	**–**	–	**30**	1,551
Impairment loss on goodwill	**–**	–	**–**	4,395	**–**	–	**–**	4,395
Share-based payments to film directors	**1,120,472**	–	**–**	–	**–**	–	**1,120,472**	–

All of the segment revenue net of tax on film rights investment above is from a related party. All of the segment revenue on property agency reported above are from external customers.

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment (loss) profit represents the (loss) profit from each segment without allocation of unallocated corporate income (which mainly includes loan interest income, bank interest income, gain on disposal of subsidiaries, exchange gain and sundry income), unallocated corporate expenses (which mainly include administrative expenses), share-based payments to a financial adviser and finance costs. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

6. INVESTMENT AND OTHER INCOME

	2016	2015
	HK$'000	HK$'000
Interest on bank deposits	907	2,335
Interest on loan receivable	22	4,173
Dividend income	1,433	–
Government grant	2,245	–
Sundry income	608	380
	5,215	6,888

7. OTHER GAINS AND LOSSES

	2016	2015
	HK$'000	HK$'000
Loss on change in fair value of investments held for trading	(4,236)	(1,691)
Gain on disposal of subsidiaries	797	–
Impairment loss on trade receivables	(30)	(1,551)
Impairment loss on available-for-sale investment	(15,333)	–
Exchange gain	7,817	–
Loss on acquisitions of assets through acquisitions of subsidiaries	–	(1,109)
	(10,985)	(4,351)

8. FINANCE COSTS

	2016	2015
	HK$'000	HK$'000
Interest expense on loan payable	–	617

9. INCOME TAX EXPENSE

	2016	2015
	HK$'000	*HK$'000*
The tax charge comprises:		
Current Tax		
– Hong Kong Profits Tax	–	371
– PRC Enterprise Income Tax ("EIT")	–	8,282
	–	8,653
Overprovision in prior year		
– Hong Kong Profits Tax	–	(23)
	–	8,630

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

10. LOSS FOR THE YEAR

	2016	2015
	HK$'000	*HK$'000*
Loss for the year has been arrived at after charging (crediting):		
Directors' remuneration, including retirement benefits scheme contributions	**18,054**	6,546
Other staff costs	**23,501**	15,865
Other staff's retirement benefits scheme contributions	**1,941**	539
Total staff costs	**43,496**	22,950
Auditor's remuneration	**1,726**	1,280
Depreciation of property, plant and equipment	**1,012**	788
Reversal of impairment loss on trade receivables	**(268)**	(66)
Loss on disposal of property, plant and equipment	**606**	87
Operating lease payments for office premises, shops and photocopying machines	**13,629**	5,236
Commission expense on property agency	**6,843**	34,645

11. DIVIDENDS

No dividends were paid, declared or proposed for the years ended 31 December 2016 and 2015, nor has any dividend been proposed since the end of both reporting periods.

12. LOSS PER SHARE

The calculation of the basic loss per share attributable to the owners of the Company is based on the following data:

	2016	2015
	HK$'000	*HK$'000*
Loss for the year attributable to owners of the Company for the purpose of basic loss per share	**(1,253,745)**	(92,796)

	Number of ordinary shares	
	2016	2015
	'000	*'000*
Weighted average number of ordinary shares for the purpose of basic loss per share	**2,451,399**	1,151,121

No diluted loss per share is presented in both years, as there were no potential ordinary shares outstanding during the years ended 31 December 2016 and 2015.

13. PREPAYMENT FOR FILM AND TV RIGHTS

	2016	2015
	HK$'000	*HK$'000*
Master China Films Limited ("Master China") *(Note a)*	**111,161**	–
Mr. Chan Ho Sun Peter ("Mr. Chan") (Note b)	**100,000**	–
Rui Zhi Workshop Company Limited ("Rui Zhi") *(Note c)*	**9,653**	–
	220,814	–

(a) The prepayment was paid to Master China, a company owned by Mr. Wong Kar Wai ("Mr. Wong"), for the production of the proposed internet drama series pursuant to an agreement entered, details of which are set out in note 17b(i). The prepayment will form part of the contribution by the Group for the production cost of the proposed internet drama series (which is subject to acceptance by the Group before investment), of which the budget production cost will be provided to the Group and the related payment terms of such production cost will be further agreed between the respective parties.

Upon commencement of the production of the internet drama series, the amount will be transferred to film and TV rights. The Group paid an amount of RMB100,000,000 (equivalent to approximately HK$111,161,000) during the year ended 31 December 2016 in relation to the production of the internet drama series. As at 31 December 2016 and the date of this report, the Group is still negotiating with Master China for the film and TV rights investment plan, there is no any acceptance for any investment in internet drama series.

(b) The prepayment was paid to Mr. Chan for the production of the proposed films pursuant to an agreement entered, details of which are set out in note 17b(ii). The prepayment will form part of the contribution by the Group for the production cost of the proposed films (which is subject to acceptance by the Group before investment), of which the budget production cost will be provided to the Group and the related payment terms of such production cost will be further agreed between the respective parties.

Upon commencement of the production of the films, the amount will be transferred to film and TV rights. The Group paid an amount of HK$100,000,000 during the year ended 31 December 2016 in relation to the production of the films. As at 31 December 2016 and the date of this report, the Group is still negotiating with Mr. Chan for the film and TV rights investment plan, there is no any acceptance for any investment in film production.

(c) The prepayment was paid to Rui Zhi for the production of the proposed films pursuant to an agreement dated 28 September 2016. Rui Zhi would provide exclusively to the Group within a period of 3 years proposals for at least 4 films to be produced by Rui Zhi for the Group to invest (not less than 60% interest) in the production of such proposed films. The Group would be granted a right to acquire an exclusive distribution right through new media platform for the proposed films at consideration to be further determined at fair market price. When the Group decides to invest in the proposed films, the Group is required to contribute its share of production cost (base on its respective percentage of investment on the films), of which such terms would be subject to another agreement to be further entered. The prepayment will form part of the contribution by the Group for the production cost of the proposed films (which is subject to acceptance by the Group before investment), of which the budget production cost will be provided to the Group and the related payment terms of such production cost will be further agreed between the respective parties.

Upon commencement of the production of the films, the amount will be transferred to film and TV rights. The Group paid an amount of HK$9,653,000 during the year ended 31 December 2016 in relation to the production of the films. As at 31 December 2016 and the date of this report, the Group is still negotiating with Rui Zhi for the film and TV rights investment plan, there is no any acceptance for any investment in film production.

14. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2016	2015
	HK$'000	*HK$'000*
Trade receivables	**8,477**	245,647
Less: Allowance for doubtful debts	**(2,278)**	(7,557)
	6,199	238,090
Prepayment on film script fee	**2,440**	73
Other deposits paid	**5,844**	9,365
Prepayments	**14,981**	1,676
Other receivables	**12,178**	8,152
Secured deposit	**111,161**	–
	152,803	257,356
Less: Amounts due within one year shown under current assets	**(147,459)**	(257,356)
Amounts shown under non-current assets	**5,344**	–

Trade receivables from film rights investment income are usually received within 60 days after the completion of release of the film in movie theatres according to the timing for settlement schedule stipulated in the investment agreement.

For property agency segment in Hong Kong, the Group allows an average credit period of 60 to 90 days to property developers whilst the individual customers are obliged to settle the amounts upon completion of the relevant agreements and generally no credit terms are granted. For property agency segment in the PRC, the Group allows an average credit period of 30 to 60 days to property developers.

The aged analysis of trade receivables, net of allowance for doubtful debts, presented based on the invoice date at the end of the reporting period is as follows:

	2016	2015
	HK$'000	*HK$'000*
Trade receivables		
0–30 days	**76**	1,402
31–60 days	**29**	221,794
61–90 days	**60**	2,282
91–180 days	**3,805**	3,684
Over 180 days	**2,229**	8,928
	6,199	238,090

These receivables relate to a number of independent customers that have a good payment track record with the Group. The management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit risk and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

Before accepting any new customer, the Group will assess and understand the potential customer's credit quality and defines its credit limits. Credit limits attributed to each customer are reviewed regularly. All of the accounts receivables that are neither past due nor impaired have no default payment history.

As at 31 December 2015, trade receivables included an amount of HK$222,059,000 from 北京真樂道, which is wholly-owned by Mr. Xu, a non-executive director of the Company.

As at 31 December 2016, prepayments mainly represented the prepayment of HK$12,000,000 which was paid to an independent third party for development cost on an established online video platform for the Group. The development of the online video platform has been processed during the year, and the management estimated the online video platform will be launched in year 2017. Accordingly, the prepayment was classified as a current asset.

As at 31 December 2016, other receivables included legal claim receivable of HK$12,089,000 (equivalent to RMB10,875,000) (2015: HK$7,891,000) as set out in note 18 and such amount was fully settled in January 2017.

As at 31 December 2016, secured deposit represented the deposit paid to third parties to secure the repayment of a short-term cash advance from the third parties of RMB100,000,000 (equivalent approximately to HK$111,161,000), details of which set out in note 16.

15. FILM AND TV RIGHTS

	2016	2015
	HK$'000	*HK$'000*
Film and TV rights		
– Under production	**122,985**	–
– Film right investment	**81,286**	13,925
– Internet broadcasting right	**46,687**	–
	250,958	13,925

	HK$'000
At 1 January 2015 and 31 December 2015	13,925
Additions	262,544
Recognised as an expense included in cost of sales	(13,723)
Exchange realignment	(11,788)
At 31 December 2016	250,958

As at 31 December 2016, production in relation to film and TV rights has not been completed. The management of the Group considered the expected future income of certain film and TV rights is able to recover the film and TV rights. Accordingly, no impairment was recognised.

The comparative of film right investment has been re-presented and reclassify to film and TV rights in order to conform with the presentation adopted in current year. The changes in the presentation of film right investment and film and TV rights do not have any impact on the Group's consolidated financial statements.

16. TRADE AND OTHER PAYABLES

	2016	2015
	HK$'000	*HK$'000*
Trade payables	**41,461**	17,394
Other payables	**14,408**	16,021
Accruals	**8,514**	4,586
Short-term payable *(Note 14)*	**111,161**	–
Film rights investment payable	**–**	5,900
Provision for losses on litigation *(Note 18)*	**–**	11,342
	175,544	55,243

As at 31 December 2016, trade payables of HK$33,349,000 (2015: nil) represented the internet income rights payable to an independent third party for a film directed by Mr. Lu Yang. And the remaining HK$8,112,000 (2015: HK$17,394,000) represented mainly the commissions payables to property consultants and cooperative estate agents, which are due for payment only upon the receipt of corresponding agency fees from customers.

As at 31 December 2016, other payables mainly comprised of receipts in advance, service fee for developing an online video platform, accrued directors' and staff costs and other sundry creditors.

As at 31 December 2016, short-term payable represented advances from third parties of RMB100,000,000 (equivalent approximately to HK$111,161,000) for the movie investment activities in the PRC and will be settled in year 2017. The advance is secured by a deposit of HK$111,161,000 paid by the Group to the third parties.

17. SHARE CAPITAL

	Number of shares	Share capital *HK$'000*
Authorised:		
Ordinary shares		
At 1 January 2015, 31 December 2015 and 31 December 2016, at HK$0.01 each	50,000,000,000	500,000
Issued and fully paid:		
At 1 January 2015	577,138,852	5,771
Issue of shares upon subscription of shares *(Note a)*	1,701,416,556	17,015
Issue of shares to a financial adviser *(Note a)*	30,000,000	300
At 31 December 2015	2,308,555,408	23,086
Issue of shares to film directors *(Note b)*	459,500,000	4,595
At 31 December 2016	2,768,055,408	27,681

Notes:

(a) Pursuant to the subscription agreement and an amendment agreement dated 14 April 2015 and 13 May 2015 respectively, 1,701,416,556 subscription shares were allotted and issued on 2 September 2015 at a subscription price of HK$0.40 per share and 30,000,000 shares were allotted and issued on 2 September 2015 to a financial adviser of HK$2.70 per share, being fair value of the date of issuance, for settlement of the financial advisory services rendered to the Company. The net proceeds from the subscription of shares was approximately HK$672,622,000, which was intended to be used for (i) providing the Group with an opportunity to leverage on the extensive experience, expertise and business connection of the subscribers, particularly Mr. Dong Ping, Mr. Ning and Mr. Xu to develop existing and new business in the advertising, media and entertainment industry; and (ii) the Group's general working capital. For the details of the subscription of shares and issue of shares to a financial adviser, please refer to the Company's circular dated 5 August 2015.

(b) (i) During the year, the Group entered into an agreement ("Agreement 1") with Master China, whereby the Company issued 100,000,000 ordinary shares to Mr. Wong, Mr. Wong would provide exclusively to the Group within a period of 6 years proposals for internet drama series with two seasons to be produced by Master China as well as partially directed by Mr. Wong for the Group to consider to invest in the production of such internet drama series, and an exclusive internet distribution through new media platform would be granted to the Group after investment is decided to be made by the Group in such internet drama series. When the Group decides to invest in the internet drama series, the Group is required to contribute fully the production cost, of which such terms would be subject to another agreement to be further entered. A prepayment of RMB100,000,000 (equivalent to approximately HK$111,161,000) in relation to the development of the production was required to be paid by the Group to Master China, details of which are set out in note 13(a). The 100,000,000 ordinary shares were issued on 17 June 2016 at HK$2.10 (being the fair value on the date of issuance, with a total value of HK$210,000,000). According to the Agreement 1, these shares were vested with the holder(s) of the shares once issued and the total fair values of the shares issued were recognised as share-based payments in the profit or loss during the year.

(ii) During the year, the Group entered into another agreement ("Agreement 2") with Mr. Chan, whereby the Company issued 144,500,000 ordinary shares to Mr. Chan, Mr. Chan would provide exclusively to the Group within a period of 6 years proposals for at least 2 films to be directed or co-directed by Mr. Chan for the Group to invest (not more than 60% interest) in the production of such proposed films, and the Group would be granted a right to acquire an exclusive distribution right through new media platform for the proposed films at consideration to be further determined at fair market price. When the Group decides to invest in the proposed films, the Group is required to contribute its share of production cost (base on its respective percentage of investment on the films), of which such terms would be subject to another agreement to be further entered. A prepayment of HK$100,000,000 in relation to the development for the production was required to be paid by the Group to Mr. Chan, details of which are set out in note 13(b). The 144,500,000 ordinary shares were issued on 17 June 2016 at HK$2.10 (being the fair value on the date of issuance, with a total value of HK$303,450,000). According to the Agreement 2, these shares were vested with the holder(s) of the shares once issued and the total fair values of the shares issued were recognised as share-based payments in the profit or loss during the year.

(iii) During the year, the Group entered into another agreement ("Agreement 3") with Mr. Gu Changwei ("Mr. Gu"), whereby the Company issued 75,000,000 ordinary shares to Mr. Gu, Mr. Gu would provide exclusively to the Group within a period of 6 years proposals for at least 2 films to be directed by Mr. Gu for the Group to grant a right to acquire an exclusive distribution right through new media platform for the proposed films at consideration to be further determined at fair market price. Mr. Gu will use his best endeavours to provide the Group with priority rights to invest in his productions. The exact investment amount in each of his productions is to be agreed between the Group and Mr. Gu. When the Group decides to invest in the proposed films, the Group is required to contribute its share of production cost (base on its respective percentage of investment on the films), of which such terms would be subject to another agreement to be further entered. Furthermore, Mr. Gu would provide exclusively to the Group within a period of 6 years proposals for internet drama series with two seasons to be directed or co-directed by Mr. Gu for the Group to consider to invest in the production of such internet drama series, and an exclusive internet distribution through new media platform would be granted to the Group after investment is decided to be made by the Group in such internet drama series. When the Group decides to invest in the internet drama series, the Group is required to contribute fully the production cost, of which such terms would be subject to another agreement to be further entered.

The 75,000,000 ordinary shares were issued on 14 December 2016 at HK$2.69 (being the fair value on the date of issuance, with a total value of HK$201,750,000). According to the Agreement 3, these shares were vested with the holder(s) of the shares once issued and the total fair values of the shares issued were recognised as share-based payments in the profit and loss during the year.

(iv) During the year, the Group entered into another agreement ("Agreement 4") with Mr. Zhang Xiaoling ("Mr. Zhang", also known as Zhang Yibai), whereby the Company issued 140,000,000 ordinary shares to Mr. Zhang, Mr. Zhang would provide exclusively to the Group within a period of 6 years proposals for at least 2 films to be directed by Mr. Zhang for the Group to invest (not less than 55% interest) in the production of such (i) proposed films and (ii) two seasons of internet drama series.

The Group would be granted a right to acquire an exclusive distribution right through new media platform for the proposed films at consideration to be further determined at fair market price. When the Group decides to invest in the proposed films, the Group is required to contribute its share of production cost (base on its respective percentage of investment on the films), of which such terms would be subject to another agreement to be further entered.

Furthermore, Mr. Zhang would provide exclusively to the Group within a period of 6 years proposals for internet drama series with two seasons to be directed or co-directed by Mr. Zhang for the Group to consider to invest in the production of such internet drama series, and an exclusive internet distribution through new media platform would be granted to the Group after investment is decided to be made by the Group in such internet drama series. When the Group decides to invest in the internet drama series, the Group is required to contribute fully the production cost, of which such terms would be subject to another agreement to be further entered.

The 140,000,000 ordinary shares were issued on 14 December 2016 at HK$2.69 (being the fair value on the date of issuance, with a total value of HK$376,600,000). According to the Agreement 4, these shares were vested with the holder(s) of the shares once issued and the total fair values of the shares issued were recognised as share-based payments in the profit and loss during the year.

18. LITIGATION

During the year ended 31 December 2014, the Group's subsidiary, Guangdong Sinofocus Media Limited (廣東中觀傳媒有限公司) ("Guangdong Sinofocus") initiated a legal proceeding against 遼寧廣播電視廣告有限公司 ("Liaoning Radio") for recovering a prepayment of advertisement of approximately RMB9,611,000 (equivalent to approximately HK$11,342,000), which the amount was paid by a third party, 上海龍韻廣告傳播有限公司 on behalf of Guangdong Sinofocus.

After seeking legal advice, the Group considered the amount of claim to be able to recover from Liaoning Radio is RMB6,687,000 (which amount is also guaranteed by Frontier Services Group Limited (being an independent third party) pursuant to the terms of sale and purchase of the interest in Sinofocus Media (Holdings) Limited, the intermediate holding company of Guangdong Sinofocus, by the Group). On November 2016, the decision was issued made by the court, Liaoning Radio need to pay back the Group an amount of RMB9,611,000 with interest plus the litigation fee of RMB79,000. The maximum receivable amount will be RMB10,875,000 (equivalent to approximately HK$12,089,000) (31 December 2015: RMB6,687,000 (equivalent to approximately HK$7,891,000)) which was recognised as other receivable as at 31 December 2016 and 31 December 2015. The amount of RMB10,875,000 was settled on January 2017.

19. EVENT AFTER THE REPORTING PERIOD

The Group signed a 5-year framework agreement with an independent third party ("Investor") in January 2017, pursuant to which the Investor has the rights to invest on film and TV rights under an agreed list of film and TV rights. The maximum amount of the investment portfolio is RMB1,000,000,000.

MANAGEMENT DISCUSSION AND ANALYSIS

Business and Operation Review

For the year ended 31 December 2016, the Group continued to tap the immensely high potential media and entertainment market of the People's Republic of China (the "PRC") and it has devoted considerable management resources into identifying suitable opportunities for high quality film and TV rights investment. It also worked hard at rallying and forming long-term strategic partnership with celebrated directors in Asia and around the world in order to enhance its competitiveness in the PRC media and entertainment market. During the year, the Group brought in four new director shareholders, namely Mr. Wong Kar Wai ("Mr. Wong"), Mr. Chan Ho Sun Peter ("Mr. Chan"), Mr. Gu Changwei ("Mr. Gu") and Mr. Zhang Xiaoling ("Mr. Zhang", also known as Zhang Yibai). Meanwhile, the Group signed cooperative agreements with a number of famous Chinese directors appreciated for their different directing styles and film types. Such moves have laid a solid foundation for the Group to build an extensive and diversified film and TV production content portfolio, and have also substantially boosted the Group's ability to develop and create film and TV content.

Film Rights Investment

For the year ended 31 December 2016, the revenue and segmental loss from film rights investment was HK$5,073,000 (2015: HK$217,701,000) and HK$1,191,294,000 (2015: segment profit of HK$33,170,000) respectively. The revenue was mainly contributed by the Group's investment in "Mr. Nian" (年獸大作戰), a Chinese animation movie screened during 2016 Chinese New Year, whereas the segmental loss was mainly attributable to the non-cash expenses incurred in association with the allotment and issuance of new shares to the four new director shareholders and impairment loss on available-for-sale investment during the year.

Since Mr. Xu Zheng ("Mr. Xu") and Mr. Ning Hao ("Mr. Ning") became director shareholders in FY2015, the Group has been actively exploring opportunities for cooperating with internationally renowned directors, so as to strengthen the foundation of its film rights investment business. Four new director shareholders joined the Group during the year under review, and cooperative agreements were signed with Master China Films Limited ("Master China", a company owned by Mr. Wong), and with Mr. Chan, Mr. Gu and Mr. Zhang (the "Agreements"). Pursuant to the Agreements, Master China, Mr. Chan, Mr. Gu and Mr. Zhang have conditionally agreed to provide to the Group with certain services, investment rights and other rights in relation to film and media productions as set forth in the Agreements. And the Company allotted and issued 100,000,000 shares, 144,500,000 shares, 75,000,000 shares and 140,000,000 shares to Mr. Wong, Mr. Chan, Mr. Gu and Mr. Zhang respectively (collectively, the "Issuances"). The amount of HK$1,120,472,000 was recognised as an expense for the year under review in relation to the new shares issued pursuant to the Issuances.

The terms and structure of the Agreements signed with the four director shareholders (including the new shares issued pursuant to the Issuances), would enable the Group to benefit from the opportunities to cooperate with Mr. Wong, Mr. Chan, Mr. Gu and Mr. Zhang without any immediate cash outlay by the Group. This means the Group can retain more cash as general working capital and to fund development of the film rights investment business and future cash in other related investments (including investments in the productions of Mr. Wong, Mr. Chan, Mr. Gu and Mr. Zhang). In addition, these arrangements (including the Issuances) would broaden the Company's shareholder base and also facilitate the Group as well as Mr. Wong, Mr. Chan, Mr. Gu and Mr. Zhang to explore potential opportunities in the media, entertainment and related businesses.

Other than bringing in director shareholders, the Group also established strategic cooperative relationships with a number of famous directors in Asia during the year under review, including the signing of agreements with renowned Chinese directors, Mr. Li Yang, Mr. Liu Xingang, Mr. Chen Daming and Rui Zhi Workshop Company Limited (that Mr. Wong Man Chun is a director), in June, September and December 2016 respectively. Pursuant to those agreements, the abovementioned directors and company have conditionally agreed to provide to the Group with certain services, investment rights and other rights in relation to film and internet drama productions as set forth in their respective agreements. Such partnerships have bolstered the Group's foundation and the strength of its film rights investment business.

On 7 November 2016, the Group signed a platform development agreement with PCCW Media Limited ("PCCW"), in relation to a technical cooperation arrangement whereby PCCW would be a technical partner of the Group responsible for developing an online video platform (the "Online Video Platform") for the Group's online film and TV business. PCCW would design and develop the Online Video Platform under the agreement with a term of three years. Given the technical experience and expertise of PCCW, the Group believes that the platform development agreement is an important step in its plan to build the Online Video Platform for the provision of digital content to customers in the PRC.

On the same day, the Group entered into a series E preferred stock purchase agreement and other related transactions with MUBI, Inc. ("MUBI"), pursuant to which the Group subscribed series E preferred shares of MUBI at a consideration of US$2,000,000 (representing 2.03% of the issued share capital of MUBI as at 31 December 2016). In the meantime, MUBI would transfer or license to the Group the know-how, information and technology that can assist, support or enhance the Online Video Platform and provide to the Group support services and deliverables with respect to the Online Video Platform according to the Group's specifications and timeline. At the completion of the subscription, the investment in MUBI by the Group was classified as an available-for-sale investment. For the year ended 31 December 2016, the Group had an impairment of HK$15,333,000 on the available-for-sale investment and recognised the amount as an expense for the year under review.

Property Agency Business

For the year ended 31 December 2016, the Group's property agency operation recorded revenue of HK$11,039,000 (2015: HK$49,212,000) and segmental loss of HK$1,193,000 (2015: HK$9,690,000). The segmental contraction was mainly a result of the management allocated more resources to the media, entertainment and related businesses which believes will emerge as the Group's future growth drivers.

Securities Trading and Investments Business

For the year ended 31 December 2016, the Group's securities trading and investments segment recorded a segment loss of HK$2,816,000 (2015: HK$1,832,000) which was mainly due to the loss from change in fair value of investments held for trading.

The Group signed a 5-year framework agreement with an independent third party ("Investor") in January 2017, pursuant to which the Investor has the rights to invest on film and TV rights under an agreed list of film and TV rights. The maximum amount of the investment portfolio is RMB1,000,000,000.

FINANCIAL REVIEW

Review of Results

For the year ended 31 December 2016, the Group recorded revenue of HK$16,112,000 (2015: HK$266,913,000) and net loss attributable to the owners of the Company of HK$1,253,745,000 (2015: HK$92,796,000). The loss was principally due to the one-off non-cash expenses of share-based payments of HK$1,120,472,000 for the Issuance, being the fair value of the Company's shares issued and impairment loss on available-for-sale investment of HK$15,333,000. Excluding the aforesaid one-off non-cash expenses and the impairment loss on available-for-sale investment, net loss attributable to the owners of the Company amounted to HK$117,940,000 for the year under review.

For the year ended 31 December 2016, selling and distribution costs were HK$12,112,000 as compared with HK$921,000 in 2015. The increase was mainly due to expenses incurred in relation to planning and promotion of the film rights investment business.

Administrative expenses were HK$110,938,000 for the year ended 31 December 2016 (31 December 2015: HK$47,361,000). The increase was primarily from the Group's expenses on expanding and developing the Online Video Platform and media related businesses.

For the year ended 31 December 2016, loss per share of the Group amounted to HK$0.51 (2015: HK$0.08) and net asset value per share attributable to the owners of the Company was HK$0.30 (2015: HK$0.43).

Liquidity and Financial Resources

The Group's capital expenditure, daily operations and investments are mainly funded by cash generated from its operations and equity financing. As at 31 December 2016, the Group maintained sufficient working capital in the amount of HK$575,603,000 (2015: HK$988,290,000), with bank balances and cash of HK$309,602,000 (2015: HK$726,598,000). As at 31 December 2016, the total equity of the Company amounted to HK$826,911,000 (2015: HK$990,116,000) with no borrowings (2015: nil). The Group's gearing ratio, expressed as the percentage of total borrowings over total capital, was zero (2015: nil) as at 31 December 2016. Total capital is calculated as total equity plus total borrowings.

Capital Structure

As at 31 December 2016, the Company had 2,768,055,408 ordinary shares of HK$0.01 each (the "Shares") in issue.

During the years ended 31 December 2015 and 2016, the movement in the issued share capital of the Company and the use of proceeds from fund raising activities are as follows:

a. On 14 April 2015 and 13 May 2015, the Company entered into a subscription agreement and an amendment agreement with Newwood Investments Limited, Numerous Joy Limited, Pacific Wits Limited, Tairong Holdings Limited, Wise Dragon International Limited, Gold Shine Investment Company Limited, Dayunmony Investment Corporation, Concept Best Limited and REORIENT Global Limited (collectively the "Subscribers"), pursuant to which the Company conditionally agreed to allot and issue, and Subscribers conditionally agreed to subscribe for, a total of 1,701,416,556 new Shares ("Subscription Shares") at an issue price of HK$0.40 per Share (the "Subscription") with the aggregate subscription price of approximately HK$680,567,000. The Company had also agreed to allot and issue 30,000,000 new Shares ("Fee Shares") to financial adviser for the settlement of the financial advisory service fee in respect of the Subscription. The Subscription Shares represented approximately 294.8% of the issued share capital of the Company as at 14 April 2015 and approximately 73.7% of the enlarged issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares and Fee Shares as at the date of the Subscription. The subscription price of HK$0.40 per Share represented a discount of approximately 79.17% to the closing price of HK$1.92 per Share as quoted on The Stock Exchange of Hong Kong Limited on 14 April 2015, being the date on which the terms of the Subscription were fixed. The net subscription price, after deducting the relevant expenses, was approximately HK$0.395 per Share and the aggregate nominal value of the Subscription Shares and Fee Shares issued were approximately HK$17,014,000 and HK$300,000 respectively. The net proceeds of approximately HK$672,622,000 (excluding the financial advisory fees in respect of the Subscription settled by Fee Shares) from the Subscription was intended to be used for (i) providing the Group an opportunity to leverage on the extensive experience, expertise and business connection of the Subscribers to develop existing and new business in the advertising, media and entertainment industry; and (ii) the Group's general working capital. As at 31 December 2016, approximately HK$579,284,000 was used for investments in films and TV rights, approximately HK$2,018,000 was used for investments in securities listed in Hong Kong, HK$1,000,000 was used for acquisition of a subsidiary, approximately HK$11,342,000 was used for the payments of the legal claim (details are set out in note 18 to the consolidated financial statements), HK$20,000,000 was used for the purchase of art work, and the remaining approximately HK$58,978,000 of the net proceeds was used for the Group's operating expenses.

b. On 17 June 2016, the Company allotted and issued 100,000,000 Shares and 144,500,000 Shares to Mr. Wong and Mr. Chan respectively pursuant to the Agreements on 1 June 2016. These Shares issued to Mr. Wong and Mr. Chan pursuant to the Agreements represented approximately 3.92% and 5.66% respectively of the issued share capital of the Company as enlarged by such issuances.

c. On 14 December 2016, the Company allotted and issued 75,000,000 Shares and 140,000,000 Shares to Mr. Gu and Mr. Zhang respectively pursuant to the Agreements on 6 December 2016. These Shares issued to Mr. Gu and Mr. Zhang pursuant to the Agreements represented approximately 2.71% and 5.06% respectively of the issued share capital of the Company as enlarged by such issuances.

Charges on Assets

As at 31 December 2016, the Group's short-term payable of HK$111,161,000 was secured by a deposit of HK$111,161,000 (2015: nil).

Exposure to Exchange Rate

The Group's cash flow from operation, cash on hand and assets are denominated mainly in Hong Kong dollars, US dollars and Renminbi. Presently, the Group does not have any currency hedging policy but will closely monitor the Renminbi exchange rate and take appropriate measures to minimize any adverse impact that may be caused by its fluctuation.

Risk Management

During the year, the Group regularly reviewed the risk and credit control systems of its profit centers to improve the overall control system and mitigate credit risk. There has been no major changes in the Group's risk management policy since 31 December 2015.

Contingent Liabilities

As at 31 December 2016, the Group had no significant contingent liabilities (31 December 2015: nil) with the exception of matters related to a litigation as described in note 18 to the consolidated financial statement.

Litigation

Details of the litigation are set out in note 18 to the consolidated financial statement.

Employees and Remuneration Policies

The Group firmly believes that high-caliber people are the most valuable asset of a corporation. The Group thus places great attention on attracting talents and nurturing its people. It has kept optimizing its staff structure according to its development strategy and business needs. As at 31 December 2016, the Group had 55 (2015: 32) employees and 3 (2015: 167) agents. The Group hired more employees during the year to support the development of its media, entertainment and related businesses, and the number of agents decreased due to the downsizing of the property agency business, as well as the Group's shift in focus towards the high-growth media and entertainment industry. The Group has developed comprehensive remuneration management and incentive mechanisms, with employees remunerated based on their positions and work performance as well as industry trends.

Business Strategies and Prospects

The year 2016 marked the beginning of China's 13th Five-Year Plan, while the movie, TV and entertainment industry in the country, as an important means to satisfy the spiritual and cultural demands of the citizens in China, is in its golden era. To seize a favorable position in the burgeoning industry, the Group increased related investments and allocated considerable resources to develop media, entertainment and related businesses during the year, with the aim of becoming a leading, all-round media and entertainment group in Greater China.

The cultural and entertainment industry in China is in the period of rapid development. The Group strongly believes the film-related entertainment business will continue to grow and become a pillar industry in the Chinese economy in the future. It also sees quality film and TV content as crucial to the success of the business, which is why it intends to enhance its capability in film and TV content creation in the coming year. It will capitalise on the close relationships with the six director shareholders, namely Mr. Xu, Mr. Ning, Mr. Wong, Mr. Chan, Mr. Gu and Mr. Zhang, and its long-term partnerships with renowned directors including Mr. Li Yang, Mr. Liu Xingang, Mr. Wong Man Chun and Mr. Chen Daming, plus two more respected directors, namely, Mr. Jia Zhangke and Mr. Wang Xiaoshuai, who signed cooperation agreements with the Group subsequent to the financial year, to bring more diverse, creative and quality productions to audiences in Greater China.

Regarding online video consumption, its popularity is growing fast and such pay-to-view has become a new consumption norm. To fully realise its strategic goal of achieving holistic development of its media, entertainment and related businesses, from content to platform and in all different dimensions, the Group has devoted major efforts to developing an online video platform that can keep pace with time. With an experienced management team that can accurately grasp trends in the media and entertainment industry as well as processes an acute sense of the preferences of Mainland China audiences, and at the backing of strong technical partners, PCCW and MUBI, the Group has been exploring the development in the new media industry and striving to become an integrated film and TV entertainment media group that operates high growth potential offline and online entertainment and media businesses.

Conclusion

Although the Chinese economy grew slower in the past year, according to the forecast in "The Global Entertainment and Media Outlook 2016–2020" published by Pricewaterhouse Coopers (PwC), the film and entertainment industry in China will grow at a CAGR of 19.1% in the coming five years up to 2020, which is notably higher than that of the world at large for the same period. Furthermore, with the Central Government implementing favourable policies such as China's Film Industry Promotion Law, the Group has utmost confidence in the future of the industry. Leveraging the experience of the renowned directors who have signed contracts with the Group and their prominent standing in the film industry in China and the world, the Group will forcefully amass film and TV resources and target to invest in the development of or participate in more quality film and TV productions. It will also actively increase its holding of intellectual property rights in Asia and overseas, plus reinforce its core advantages in investment, management and operation of film, TV and new media businesses so as to bring lucrative returns to shareholders.

OTHER INFORMATION

Corporate Governance Practices

Throughout the year ended 31 December 2016, the Company has applied the principles and complied with the code provisions set out in the Corporate Governance Code and Corporate Governance Report (the "CG Code") as listed out in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited except for the following deviations:

Pursuant to provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Prior to 2 September 2015, the chairman of the Board (the "Chairman") was Mr. Lei Hong Wai. After the resignation of Mr. Lei Hong Wai as an executive Director and the Chairman of the Board on 2 September 2015, there is no specific designation of Chairman of the Board from 2 September 2015 until Mr. Dong Ping was redesignated as the Chairman of the Board on 15 January 2016.

On 18 September 2015, Mr. Xiang Shaokun, Steven, an executive Director (appointed as an executive Director on 2 September 2015), was appointed as the chief executive officer of the Group. Mr. Dong Ping focuses on the leadership role in the Board to ensure that the Board works effectively in discharging its responsibilities whilst Mr. Xiang Shaokun, Steven focuses on day-to-day corporate management matters of the Group. The Board considers that the segregation of responsibilities among the Board members meets the requirements under the CG Code. Since 15 January 2016, Mr. Dong Ping was redesignated as the Chairman of the Board and therefore Code provision A.2.1 of the CG Code has been complied with since then and the roles of the Chairman (by Mr. Dong Ping) and chief executive officer (by Mr. Xiang Shaokun, Steven) are therefore separate and exercised by different individuals.

Under the CG Code provision A.6.7, non-executive Directors and independent non-executive Directors should attend general meetings. During the year due to Directors' other commitments, not all of the non-executive Directors and independent non-executive Directors of the Company attended the annual general meeting held on 1 June 2016.

Under CG Code provision A.2.7, the chairman should at least annually hold meetings with the non-executive directors, including independent non-executive directors, without the executive directors present. In 2016, the Chairman did not hold meetings with the non-executive Directors (including independent non-executive Directors) without the executive Director present, which deviates from Code provision A.2.7. However, in each Board meeting, the chairman of the meetings would ensure that all Directors were able to make a full and active contribution to the Board's affairs and encourage all Directors with different views to voice their concerns, allow sufficient time for discussion of issues and ensure that the Board decisions fairly reflect Board consensus.

Purchase, Sale or Redemption of the Company's Listed Securities

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

Review of the Results

The audit committee of the Company has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including the consolidated financial statements for the year ended 31 December 2016.

Scope of Work of Messrs. Deloitte Touche Tohmatsu

The figures in respect of the Group's consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position and the related notes thereto for the year ended 31 December 2016 as set out in the preliminary announcement have been audited by the Group's auditor, Messrs. Deloitte Touche Tohmatsu. No assurance work has been performed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

By order of the Board
Huanxi Media Group Limited
Xiang Shaokun, Steven
Executive Director and Chief Executive Officer

Hong Kong, 27 March 2017

As at the date of this announcement, the Board comprises Mr. Dong Ping (Chairman) and Mr. Xiang Shaokun Steven (Chief Executive Officer) as executive Directors, Mr. Ning Hao, Mr. Xu Zheng and Mr. Gao Zhikai as non-executive Directors, and Mr. Su Tuong Sing, David, Mr. Li Xiaolong and Mr. Wong Tak Chuen as independent non-executive Directors.