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**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 2019**

The board of directors (the “Board”) of Huanxi Media Group Limited (the “Company”) announces the consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2019, together with comparative figures for the year ended 31 December 2018, as follows:

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER  
COMPREHENSIVE INCOME**

*For the year ended 31 December 2019*

	<i>NOTE</i>	<b>2019</b> <i>HK\$'000</i>	<b>2018</b> <i>HK\$'000</i>
Revenue and film investment income	5	<b>814,425</b>	174,632
Cost of revenue	11	<b>(470,915)</b>	(85,317)
<b>Gross profit</b>		<b>343,510</b>	89,315
Other income	7	<b>21,371</b>	42
Other losses	8	<b>(2,306)</b>	(346)
Selling and distribution costs	11	<b>(43,274)</b>	(25,958)
Administrative expenses	11	<b>(132,983)</b>	(203,521)
Share-based payment for cooperation with a film director	22	<b>—</b>	(270,000)
<b>Operating profit/(loss)</b>		<b>186,318</b>	(410,468)

\* *For identification purposes only*

	<i>NOTE</i>	<b>2019</b> <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Finance income	9	<b>3,036</b>	701
Finance costs	9	<u><b>(3,170)</b></u>	<u>(16,497)</u>
Finance costs, net	9	<u><b>(134)</b></u>	<u>(15,796)</u>
<b>Profit/(loss) before tax</b>		<b>186,184</b>	(426,264)
Income tax expense	10	<u><b>(81,081)</b></u>	<u>(18,429)</u>
<b>Profit/(loss) for the year</b>		<u><b>105,103</b></u>	<u>(444,693)</u>
Profit/(loss) for the year attributable to owners of the Company		<u><b>105,103</b></u>	<u>(444,693)</u>
<b>Other comprehensive (loss)/income</b>			
<i>Item that will not be reclassified to profit or loss:</i>			
Exchange differences arising on translation of functional currency to presentation currency		<b>(7,195)</b>	5,028
<i>Item that may be reclassified to profit or loss:</i>			
Exchange differences on translation of foreign operations		<u><b>(22,776)</b></u>	<u>(49,202)</u>
		<u><b>(29,971)</b></u>	<u>(44,174)</u>
<b>Total comprehensive income/(loss) for the year</b>		<u><b>75,132</b></u>	<u>(488,867)</u>
Total comprehensive income/(loss) for the year attributable to owners of the Company		<u><b>75,132</b></u>	<u>(488,867)</u>
<b>Earnings/(loss) per share for profit/(loss) attributable to owners of the Company</b>			
Basic and diluted (HK dollar)	13	<u><b>0.03</b></u>	<u>(0.16)</u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*At 31 December 2019*

	<i>NOTE</i>	<b>2019</b> <i>HK\$'000</i>	2018 <i>HK\$'000</i>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		4,571	3,762
Right-of-use assets		36,097	–
Intangible assets		11,294	16,285
Deposits and prepayments	16	105,198	5,608
Prepayments for film and TV programmes rights	14	362,707	370,222
Film and TV programmes rights	15	118,438	18,077
		<u>638,305</u>	<u>413,954</u>
<b>CURRENT ASSETS</b>			
Film and TV programmes rights	15	803,514	744,542
Trade and other receivables, deposits and prepayments	16	155,120	371,305
Contract assets	17	2,364	5,220
Cash and cash equivalents		256,203	158,528
		<u>1,217,201</u>	<u>1,279,595</u>
<b>Total assets</b>		<u><u>1,855,506</u></u>	<u><u>1,693,549</u></u>
<b>EQUITY</b>			
Share capital		31,547	29,181
Reserves		1,098,683	629,487
<b>Total equity</b>		<u>1,130,230</u>	<u>658,668</u>
<b>NON-CURRENT LIABILITY</b>			
Lease liabilities		<u>20,997</u>	–
<b>CURRENT LIABILITIES</b>			
Trade and other payables	18	93,860	98,025
Film investment funds from investors	19	188,634	–
Contract liabilities	17	279,250	528,652
Amounts due to related parties	20	–	92,467
Borrowings	21	50,000	295,307
Lease liabilities		15,897	–
Tax payable		76,638	20,430
		<u>704,279</u>	<u>1,034,881</u>
<b>Total liabilities</b>		<u>725,276</u>	<u>1,034,881</u>
<b>Total equity and liabilities</b>		<u><u>1,855,506</u></u>	<u><u>1,693,549</u></u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2019*

## 1. GENERAL

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

The Company is an investment holding and film investment company and its subsidiaries are principally engaged in the media and entertainment related businesses which include development and investment in film and TV programmes rights and operation of streaming platform.

These consolidated financial statements of the Company and its subsidiaries are presented in Hong Kong dollars (“HK\$”), unless otherwise stated.

## 2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

### (a) Compliance with HKFRSs and HKCO

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) and requirements of the Hong Kong Companies Ordinance (“HKCO”) Cap. 622.

### (b) Historical cost convention

The consolidated financial statements have been prepared on a historical cost basis, except for certain financial assets and liabilities measured at fair value.

### (c) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2019:

Annual Improvement projects	Annual improvements 2015 – 2017 Cycle (Amendments)
HKAS 19 (Amendments)	Plan amendment, curtailment or settlement
HKAS 28 (Amendments)	Long-term interests in associates and joint ventures
HKFRS 9 (Amendments)	Prepayment features with negative compensation
HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over income tax treatments

The Group had to change its accounting policies but no retrospective adjustments were resulted following the adopting HKFRS 16. The impact of adoption is disclosed in Note 3. Most of the other amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current period.

**(d) New standards and interpretations not yet adopted**

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

		<b>Effective for annual periods beginning on or after</b>
HKAS 1 and HKAS 8 (Amendments)	Definition of material	1 January 2020
HKFRS 3 (Amendments)	Definition of business	1 January 2020
Conceptual Framework for Financial Reporting 2018	Revised conceptual framework for financial reporting	1 January 2020
HKFRS 17	Insurance contracts	1 January 2021
HKFRS 10 and HKAS 28 (Amendments)	Sale or contribution of assets between an investor and its associate or joint venture	To be announced

**3. CHANGES IN ACCOUNTING POLICIES**

This note explains the impact of the adoption of HKFRS 16 Leases on the Group's consolidated financial statements.

As indicated in Note 2 above, the Group has adopted HKFRS 16 Leases retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening statement of financial position on 1 January 2019.

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of HKAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 3.82%.

**(a) Practical expedients applied**

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 January 2019

- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying HKAS 17 and Interpretation 4 Determining Whether an Arrangement Contains a Lease.

**(b) Measurement of lease liabilities**

	<i>HK\$'000</i>
Operating lease commitments disclosed as at 31 December 2018	35,577
Discounted using the lessee's incremental borrowing rate of at the date of initial application	(2,134)
Short-term leases not recognised as a liability	<u>(3,540)</u>
Lease liabilities recognised as at 1 January 2019	<u><u>29,903</u></u>
Of which are:	
– Current lease liabilities	8,899
– Non-current lease liabilities	<u>21,004</u>
	<u><u>29,903</u></u>

**(c) Measurement of right-of-use assets**

The associated right-of-use assets were measured at the amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

**(d) Adjustments recognised in the consolidated statement of financial position on 1 January 2019**

The change in accounting policy affected the following items in the consolidated statement of financial position on 1 January 2019:

- right-of-use assets – increase by approximately HK\$29,903,000; and
- lease liabilities – increase by approximately HK\$29,903,000

#### 4. 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 HKCO.

#### 5. REVENUE AND FILM INVESTMENT INCOME

An analysis of the Group's revenue and film investment income for the year, net of sales related tax, is as follows:

	<b>2019</b>	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue		
– Share of box office income	<b>787,256</b>	12,761
– Sub-licensing of film and TV programmes rights	<b>11,858</b>	22,978
– Other media related revenue	<b>7,842</b>	634
– Others	<b>–</b>	286
	<hr/>	<hr/>
	<b>806,956</b>	36,659
Film investment income	<b>7,469</b>	137,973
	<hr/>	<hr/>
	<b>814,425</b>	174,632
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#### 6. SEGMENT INFORMATION

The Chief Operating Decision Maker (“CODM”) has been identified as the executive directors who review the Group's internal reporting in order to assess performance and allocate resources. The CODM has determined the operating segments based on these reports.

The CODM assesses the performance based on a measure of profit/(loss) before income tax and considers all businesses to be included in a single operating segment.

The Group's operations are currently organised into one reportable segment which is investment in film and TV programmes rights. Other segments do not meet the reportable segment threshold and thus they are not separately included in the reports provided to the CODM. The results of these operations are included in the ‘others’ column.

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

	Investments in film and TV				Consolidated	
	programmes rights		Others		2019	2018
	2019	2018	2019	2018	2019	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Segment revenue</b>						
Revenue						
– Share of box office income	787,256	12,761	–	–	787,256	12,761
– Sub-licensing of film and TV programmes rights	11,858	22,978	–	–	11,858	22,978
– Other media related revenue	7,842	634	–	–	7,842	634
– Others	–	–	–	286	–	286
Film investment income	7,469	137,973	–	–	7,469	137,973
	<u>814,425</u>	<u>174,346</u>	<u>–</u>	<u>286</u>	<u>814,425</u>	<u>174,632</u>
Timing of revenue recognition						
At a point in time	<u>806,956</u>	<u>36,373</u>	<u>–</u>	<u>286</u>	<u>806,956</u>	<u>36,659</u>
Segment profit/(loss)	<u>279,417</u>	<u>(244,921)</u>	<u>(4)</u>	<u>(521)</u>	<u>279,413</u>	<u>(245,442)</u>
Unallocated corporate expenses					(93,095)	(165,026)
Finance costs, net					<u>(134)</u>	<u>(15,796)</u>
Profit/(loss) before tax					186,184	(426,264)
Income tax expense					<u>(81,081)</u>	<u>(18,429)</u>
Profit/(loss) for the year					<u>105,103</u>	<u>(444,693)</u>
<b>Other information (included in measure of segment profit/(loss))</b>						
Share-based payment for cooperation with a film director	–	(270,000)	–	–		
Other income	21,371	32	–	10		
Depreciation of property, plant and equipment	(1,120)	(1,164)	(1)	(1)		
Depreciation of right-of-use assets	(4,639)	–	–	–		
Amortisation of intangible assets	(4,837)	(5,027)	–	–		
Amortisation of film and TV programmes rights	(466,342)	(80,477)	–	–		
Loss on disposal of property, plant and equipment	–	(29)	–	–		
	<u>–</u>	<u>(29)</u>	<u>–</u>	<u>–</u>		



All of the segment revenue reported above was derived from external customers.

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment profit/(loss) represents the profit/(loss) from each segment without allocation of unallocated corporate expenses (which mainly include certain administrative expenses and net foreign exchange losses) and finance costs. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

#### 7. OTHER INCOME

	<b>2019</b>	2018
	<b>HK\$'000</b>	HK\$'000
Government grant ( <i>Note</i> )	<b>21,371</b>	–
Sundry income	–	42
	<u>21,371</u>	<u>42</u>
	<b><u>21,371</u></b>	<b><u>42</u></b>

*Note:* During the year, a government grant of approximately RMB18,464,000 (equivalent to approximately HK\$21,371,000) was received from the People's Republic of China (the "PRC") government. There are no unfulfilled conditions or other contingencies attaching to this grant.

#### 8. OTHER LOSSES

	<b>2019</b>	2018
	<b>HK\$'000</b>	HK\$'000
Net foreign exchange losses	<b>(2,311)</b>	(505)
Gain/(loss) on disposal of property, plant and equipment	<b>5</b>	(29)
Gain from bargain purchase	–	188
	<u>(2,306)</u>	<u>(346)</u>
	<b><u>(2,306)</u></b>	<b><u>(346)</u></b>

## 9. FINANCE COSTS, NET

	<b>2019</b> <i>HK\$'000</i>	2018 <i>HK\$'000</i>
<b>Finance income</b>		
Bank interest income	<u>3,036</u>	<u>701</u>
<b>Finance costs</b>		
Interest on borrowings	(2,339)	(6,612)
Net foreign exchange gains/(losses) on foreign currency denominated borrowings	761	(9,885)
Financial charges for lease liabilities	<u>(1,592)</u>	<u>–</u>
	<u>(3,170)</u>	<u>(16,497)</u>
Finance costs, net	<u><u>(134)</u></u>	<u><u>(15,796)</u></u>

## 10. INCOME TAX EXPENSE

Under the Law of the PRC on Corporate Income Tax (the “CIT Law”) and Implementation Regulation of the CIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years. No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the relevant group entities have sufficient tax losses brought forward from prior years to set off the assessable profit for the year (2018: as the relevant group entities have incurred tax losses). No overseas profits tax has been calculated for subsidiaries of the Group that are incorporated in the British Virgin Islands or Bermuda as they are exempted from tax (2018: same).

Income tax expense charged to the profit or loss represents:

	<b>2019</b> <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Current tax	81,145	18,429
Over-provision in prior year	<u>(64)</u>	<u>–</u>
	<u><u>81,081</u></u>	<u><u>18,429</u></u>

## 11. EXPENSES BY NATURE

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Employee benefit expenses (excluding directors' remuneration and share-based compensation)	46,110	38,045
Directors' remuneration (excluding share-based compensation)	25,199	21,056
Share-based compensation		
– Directors	–	28,129
– Employees	6,430	57,239
Depreciation		
– Property, plant and equipment	2,244	2,361
– Right-of-use assets	14,091	–
Legal and professional expenses	8,615	12,692
Travelling and entertainment expenses	9,351	10,476
Advertising and marketing expenses	43,274	25,245
Amortisation of intangible assets	4,837	5,027
Amortisation of film and TV programmes rights	466,342	80,477
Operating lease payments in respect of office premises and photocopying machines	–	15,481
Short-term lease expense	2,754	–
Auditors' remuneration		
– Audit services	3,150	2,670
– Non-audit services	365	30
Other expenses	14,410	15,868
	<hr/>	<hr/>
Total cost of revenue, selling and distribution costs and administrative expenses	<b>647,172</b>	<b>314,796</b>
	<hr/> <hr/>	<hr/> <hr/>

## 12. DIVIDENDS

Neither dividends were paid, declared or proposed for the year, nor has any dividend been proposed since the end of reporting period (2018: same).

### 13. EARNINGS/(LOSS) PER SHARE

#### (a) Basic

Basic earnings/(loss) per share is calculated by dividing the profit/(loss) attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares by the weighted average number of ordinary shares outstanding during the financial year.

	2019	2018
Profit/(loss) attributable to owners of the Company (in HK\$'000)	105,103	(444,693)
Weighted average number of ordinary shares for the purpose of basic and diluted earnings/(loss) per share (in thousands)	3,104,743	2,812,850
Basic earnings/(loss) per share (HK\$ per share)	<u>0.03</u>	<u>(0.16)</u>

#### (b) Diluted

Diluted earnings/(loss) per share is the same as basic earnings/(loss) per share as there were no potential dilutive ordinary shares outstanding during the year (2018: same).

### 14. PREPAYMENTS FOR FILM AND TV PROGRAMMES RIGHTS

	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Prepayments for film and TV programmes rights ( <i>Note</i> )	350,976	358,248
Prepayment for film director's fee	<u>11,731</u>	<u>11,974</u>
	<u>362,707</u>	<u>370,222</u>

*Note:* The prepayments for film and TV programmes rights represented the prepayments made by the Group to respective parties in relation to the film and TV programmes rights. The prepayments will form part of the contribution by the Group for the investments in the proposed film and TV programmes rights. The related terms will be further agreed between the respective parties upon the signing of the agreements.

## 15. FILM AND TV PROGRAMMES RIGHTS

	2019 HK\$'000	2018 HK\$'000
Film and TV programmes rights completed ( <i>Note a</i> )	542,788	10,246
Film and TV programmes rights under production ( <i>Note a</i> )	259,633	734,296
Film rights investments ( <i>Note b</i> )	99,897	–
Licensed film and TV programmes rights ( <i>Note c</i> )	19,634	18,077
	<u>921,952</u>	<u>762,619</u>
Less: Current portion	<u>(803,514)</u>	<u>(744,542)</u>
	<u><u>118,438</u></u>	<u><u>18,077</u></u>

### Notes:

- (a) As at 31 December 2019, the film and TV programmes rights completed included a film right of approximately HK\$349,907,000 in respect of a film *Lost in Russia* (囧媽). On 26 February 2019, the Group entered into i) a film production agreement with Beijing Joy Leader Culture Communication Co. Ltd. (北京真樂道文化傳播有限公司) (“Beijing Joy Leader”), a company which is owned as to 51% by Mr. Xu Zheng (“Mr. Xu”), the non-executive director of the Company, as the production house of the aforementioned film at a consideration of RMB30,000,000 and ii) a film director agreement, a producer agreement, a screenwriter agreement and an actor agreement with Mr. Xu, the non-executive director of the Company, at a consideration of RMB27,000,000, RMB10,000,000, RMB10,000,000 and RMB40,000,000 respectively. Such costs have been capitalised as the film and TV programmes rights.

As at 31 December 2018, the film and TV programmes rights under production included a film right of approximately HK\$428,074,000 in respect of a film *Crazy Alien* (瘋狂的外星人), which has been released in 2019.

- (b) The balance represented the Group’s investments in film productions which entitled the Group to predetermined percentage of income to be generated from the films based on the Group’s investment portion as specified in respective film right investment agreements.
- (c) The balance represented the Group’s investments in film and TV programmes right licenses. The Group acquired license rights from independent third parties for broadcasting licensed films or TV programmes series on its streaming platform or sub-licensing the license rights to other independent third parties.

## 16. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	<b>2019</b> <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Trade receivables		
– Sub-licensing of film and TV programmes rights	<b>2,816</b>	2,946
– Film rights investments	<b>106,316</b>	136,225
– Others	<b>349</b>	349
	<u>109,481</u>	<u>139,520</u>
Loss allowance	<u>(257)</u>	<u>(257)</u>
	<b>109,224</b>	139,263
Deposits	<b>6,287</b>	6,219
Prepayments	<b>124,874</b>	1,575
Other receivables	<b>19,933</b>	229,856
	<u>260,318</u>	<u>376,913</u>
Less: Amounts due within one year shown under current assets	<u>(155,120)</u>	<u>(371,305)</u>
Non-current portion	<u><b>105,198</b></u>	<u>5,608</u>

The credit period is generally within 30 days as stipulated in the respective agreements.

At 31 December, the ageing analysis of the trade receivables, net of loss allowance, presented based on invoice date or date of settlement statement are as follows:

	<b>2019</b> <i>HK\$'000</i>	2018 <i>HK\$'000</i>
0 – 30 days	<b>3,976</b>	139,170
91 – 180 days	–	93
181 – 365 days	<b>11,364</b>	–
Over 365 days	<b>93,884</b>	–
	<u>109,224</u>	<u>139,263</u>
	<u><b>109,224</b></u>	<u>139,263</u>

## 17. CONTRACT ASSETS AND LIABILITIES

The Group has recognised the following assets and liabilities related to contracts with customers:

	<b>2019</b> <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Current contract assets	<b>2,364</b>	5,220
Loss allowance	–	–
	<hr/>	<hr/>
Total contract assets	<b>2,364</b>	5,220
	<hr/> <hr/>	<hr/> <hr/>
Contract liabilities	<b>279,250</b>	528,652
	<hr/> <hr/>	<hr/> <hr/>

As at 31 December 2019, contract assets represented unbilled revenue arisen from the sub-licensing of film and TV programmes rights in accordance with the payment terms as stipulated in the respective contracts (2018: same).

As at 31 December 2019, contract liabilities mainly represented the receipt of RMB250,000,000 (2018: RMB464,000,000), equivalent to approximately HK\$278,831,000 (2018: HK\$528,233,000), in respect of a guaranteed minimum distribution income totalling RMB600,000,000 (2018: RMB700,000,000) from distribution of a film. This contract liability has been released and repaid subsequent to year end (2018: recognised as revenue subsequent to year end) (please refer to Note 24(a)). The amount disclosed above does not include variable consideration which is constrained.

## 18. TRADE AND OTHER PAYABLES

	<b>2019</b> <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Trade payables	<b>67,851</b>	64,377
Other payables	<b>10,314</b>	15,208
Accruals	<b>15,695</b>	18,440
	<hr/>	<hr/>
	<b>93,860</b>	98,025
	<hr/> <hr/>	<hr/> <hr/>

The carrying amounts of trade and other payables approximated their fair values.

At 31 December, the ageing analysis of the trade payables based on invoice date are as follows:

	<b>2019</b> <i>HK\$'000</i>	2018 <i>HK\$'000</i>
0 – 30 days	<b>23,483</b>	28,111
91 – 180 days	–	17,685
181 – 365 days	<b>3,246</b>	5,630
Over 365 days	<b>41,122</b>	12,951
	<hr/>	<hr/>
	<b>67,851</b>	64,377
	<hr/> <hr/>	<hr/> <hr/>

## 19. FILM INVESTMENT FUNDS FROM INVESTORS

The amounts represent investments made by certain investors in respect of film rights held by the Group. In accordance with the terms of the respective investment agreements, the investors are entitled to the rights to recoup their investment amounts as appropriate by the predetermined percentage of income to be generated from the films. These financial liabilities were carried at amortised cost.

## 20. RELATED PARTY DISCLOSURES

	<b>2019</b>	2018
	<b>HK\$'000</b>	<b>HK\$'000</b>
Amount due to a shareholder		
– Mr. Dong Ping ( <i>Note i</i> )	–	1,393
Amounts due to related companies		
– Beijing Dirty Monkey Cultural Development Company Limited* ( <i>Note ii</i> )	–	45,537
– Khorgas Dirty Monkey Media Culture Company Limited* ( <i>Note ii</i> )	–	45,537
	<u>–</u>	<u>92,467</u>
Trade payables		
– Mr. Xu ( <i>Note iii</i> )	<b>2,063</b>	–
– Beijing Joy Leader Culture Communication Co. Ltd.* ( <i>Note iii</i> )	<b>3,346</b>	–
	<u><b>5,409</b></u>	<u>–</u>
Trade receivable		
– Khorgas Dirty Monkey Media Culture Company Limited* ( <i>Note iv</i> )	<b>76,754</b>	–
Prepayment for film and TV programmes rights		
– Mr. Xu ( <i>Note v</i> )	<b>11,731</b>	11,974
	<u><b>11,731</b></u>	<u>11,974</u>



*Note i:* The balance was denominated in HK\$, non-trade in nature, unsecured, interest-free and repayable on demand.

*Note ii:* The balances were denominated in RMB, non-trade in nature, unsecured, interest-free and repayable within one year.

*Note iii:* The balances are denominated in RMB, trade in nature, unsecured, interest-free and repayable within one year.

*Note iv:* The balance is denominated in RMB, trade in nature, unsecured, interest-free and receivable within one year.

*Note v:* The balance represents the payment prepaid to Mr. Xu in relation to the development of the proposed film.

The carrying amounts of amount due to a shareholder and amounts due to related companies approximate their fair values.

\* *The English name is for identification purpose only*

## 21. BORROWINGS

	<b>2019</b>	2018
	<b>HK\$'000</b>	HK\$'000
<b>Other borrowings</b>		
Secured	–	220,364
Unsecured	<b>50,000</b>	74,943
	<hr/>	<hr/>
Total borrowings	<b>50,000</b>	295,307
	<hr/> <hr/>	<hr/> <hr/>

As at 31 December 2019, the borrowing was interest-free and repayable within one year.

As at 31 December 2018, all borrowings were interest-bearing ranged from 0% to 12% per annum and repayable within one year. The secured borrowings were secured by other receivables accounting to approximately HK\$223,133,000.

The fair values of the borrowings are not materially different to their carrying amounts, since the interest payable on those borrowings is either close to current market rates or the borrowings are of a short-term nature.

## 22. SHARE-BASED PAYMENTS

	2019 HK\$'000	2018 HK\$'000
Share-based payment for cooperation with a film director	–	270,000
Share-based compensation		
– Directors	–	28,129
– Employees	<u>6,430</u>	<u>57,239</u>
	<u>6,430</u>	<u>355,368</u>

## 23. LITIGATIONS

- (i) A court action was commenced in the Chengdu Intermediate People's Court on 29 April 2018 by Chengdu Watson Media Co., Ltd. (the "Chengdu Plaintiff"), an independent third party, against Beijing Huanxi Shou Ying Culture Company Limited ("Shou Ying"), an indirect wholly-owned company through contractual arrangements, and other 17 investors of the film *Us and Them* (後來的我們) (the "18 Defendants").

By the above action, the Chengdu Plaintiff alleged that the 18 Defendants through unfair competition adversely affected the box office receipts of the Chengdu Plaintiff's film during the release period of the film *Us and Them* (後來的我們). The Chengdu Plaintiff mainly requested the 18 Defendants to compensate a total sum of RMB10,000,000 and bear the relevant legal fee and reasonable expenses arising from their legal rights protection.

Subsequent to the year end, the court action was withdrawn by the Chengdu Plaintiff. The Group was not liable to any compensation.

- (ii) A court action was commenced in the Wuhan Intermediate People's Court on 29 November 2018 by Wuhan Guangya Culture and Art Development Co., Ltd. and Huang Gansheng (the "Wuhan Plaintiff"), independent third parties, against 17 investors of the film *Us and Them* (後來的我們), including Shou Ying (the "17 Defendants").

By the above lawsuit, the Wuhan Plaintiff alleged that the 17 Defendants infringe of the right of adapt and film the script of the film *Us and Them* (後來的我們) and damage the interests of market through filming *Us and Them* (後來的我們). The Wuhan Plaintiff mainly requested the 17 Defendants to stop the reproduction, distribution and dissemination of the film, compensate a total sum of RMB70,000,000 and bear the case acceptance fee and other legal fees.

During the year, the lawsuit was settled and the Group was not liable to any compensation.

## 24. EVENTS AFTER THE REPORTING PERIOD

Following the outbreak of Coronavirus Disease 2019 (“the COVID-19 outbreak”) since January 2020, management has conducted an assessment of the impact of the COVID-19 outbreak to the financial performance of the Group and has identified the following:

- (a) The distributor of *Lost in Russia* (囧媽) has withdrawn the theatrical release on 23 January 2020. The Group decided to terminate the minimum guaranteed distribution agreement in accordance with its terms and conditions as the film has not been premiered on the first day of Chinese New Year in 2020 as agreed therein. The Group has repaid the receipt in respect of minimum guaranteed distribution amounted to RMB250,000,000 (equivalent to approximately HK\$278,831,000) in February 2020 (please refer to Note 17).
- (b) On 23 January 2020, the Group has entered into a cooperation agreement with Beijing ByteDance Network Technology Limited\*(北京字節跳動網絡技術有限公司)(“ByteDance”), pursuant to which, the Group and ByteDance will cooperate in several fields in relation to online videos and ByteDance shall pay the Group at least RMB630,000,000 as consideration. As part of the cooperation, following the withdrawal of theatrical release of *Lost in Russia* (囧媽), the Group has licensed this film to ByteDance and its related parties for the release through online platforms since 25 January 2020.
- (c) On 31 March 2020, the Group has entered into an agreement to terminate a film investment agreement with an investor. Pursuant to the agreement, the prepaid amount of RMB150,000,000 (equivalent to approximately HK\$167,299,000), which has been recognised as financial liability as of 31 December 2019, will be fully repaid to the counterparty.
- (d) The COVID-19 outbreak may also impact the production and distribution plan of the Group’s film and TV programmes rights. If the COVID-19 outbreak persists for a longer period subsequently, the financial performance of the Group for the year ending 31 December 2020 may be affected but the financial effect of which cannot be reasonably estimated at this stage.

The Group will pay close attention to the development of the COVID-19 outbreak and its impact on the media market, and will continue to perform relevant assessments and take proactive measures to minimise its impact towards the Group’s business operations and financial results.

\* For identification purposes only

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business and Operation Review

In 2019, *Crazy Alien* (瘋狂的外星人) and *My People, My Country* (我和我的祖國), which were invested in and produced by the Group, hit cinema screens during the Chinese New Year holiday and the National Day holiday respectively. The two films received satisfactory critical acclaim and generated good box office receipts. Meanwhile, the Group produced a number of excellent film and TV productions, planning to present them to audiences in the year ahead, paving the way for the steady development of the Group's film and TV business. In addition, the Group commenced several strategic cooperation initiatives with its partners, such as Beijing ByteDance Network Technology Limited\* (北京字節跳動網絡技術有限公司) ("ByteDance") and Maoyan Entertainment, thereby leading to the pooling of complementary strengths and resources-sharing outcomes and facilitating rapid development of the Group's streaming platform "huanxi.com" (歡喜首映).

### Investments in Film and TV Programmes Rights Business

For the year ended 31 December 2019, revenue from the investments in film and TV programmes rights business amounted to HK\$814,425,000 (2018: HK\$174,346,000), mainly attributable to *Crazy Alien* (瘋狂的外星人), which was solely invested by the Group and directed by Ning Hao. The film debuted during the Chinese New Year holiday in 2019, with box office receipts exceeding RMB400 million on its debut and total box office receipts reaching RMB2.2 billion and *My People, My Country* (我和我的祖國), a film co-produced by the Group and paying tribute to the nation, with its box office receipts reaching RMB3.2 billion. In addition, the revenue derived from the Group's streaming platform "huanxi.com" also increased. All these initiatives contributed significant revenue to the Group during the year. This segment profit rose notably to HK\$279,417,000 from last year (2018: segment loss of HK\$244,921,000).

As for the film investments, during the year, the Group signed a minimum guaranteed distribution agreement in relation to the film *Lost in Russia* (囧媽), which was written and directed by and starring Xu Zheng and was originally scheduled to be released in the cinemas during the Chinese New Year holiday in 2020. However, affected by the outbreak of Coronavirus Disease 2019 ("COVID-19"), *Lost in Russia* (囧媽) was unable to hit the screens in accordance with the terms of the signed minimum guaranteed distribution agreement. Hence, the Group changed its strategy to cooperate with ByteDance and to broadcast *Lost in Russia* (囧媽) on internet platforms during the Chinese New Year holiday. Through this move, the Group received the license fees paid by ByteDance and shared the income related to this broadcast, gaining considerable acclaims while attracting users of streaming platform for the Group.

\* For identification purposes only

During the year, the Group continued to invest and produce several major film productions, including *Leap* (奪冠) (previously known as *Leap* (中國女排)) and *Li Na* (獨自•上場) (previously known as *Li Na* (李娜)), both directed by Chan Ho Sun Peter; *Miss Mom* (尋漢計) (previously known as *Miss Mom* (生不由己)), directed by Tang Danian and starring Ren Suxi; *Tropical Memories* (熱帶往事), produced by Ning Hao and directed by the young director Wen Shiwei; *Leaping Over The Dragon Gate* (龍門相) (previously known as *The Advanced Animals* (高級動物)), produced by Gao Qunshu; *Warm Hug* (溫暖的抱抱), directed by Chang Yuan and starring Chang Yuan, Shen Teng and Li Qin; *The Mountain* (上山), produced by Wang Xiaoshuai; and *One Second* (一秒鐘), directed by Zhang Yimou. These movies have entered the post-production or completion stages, and are expected to be released in 2020.

As for the internet drama investments, *Run For Young* (風犬少年的天空), a 16-episode internet drama series directed by Zhang Yibai, has entered the post-production stage and is expected to be released in 2020. *Paradise Guesthouse* (天堂旅館), a 12-episode internet drama series produced and co-directed by Wong Kar Wai, is preparing its pre-production.

As for the streaming platform, the Group has signed a strategic cooperation agreement with Tianjin Maoyan Weying Cultural Media Co., Ltd.\* (“Maoyan Weying”) during the year. Maoyan Weying carries out marketing and promotion of “huanxi.com” on its website and APP and plans for joint investment projects including films, TV drama series and internet drama series. Besides, the Group also collaborated with 1905.com of CCTV6, a film satellite channel under the Publicity Department of the Central Committee of the Communist Party of China, to establish a joint operation zone for “huanxi.com” on the website, mobile phone and PAD customer terminals of 1905.com. Together with the linking of BesTV terminal and “huanxi.com” via cooperation with BesTV, the Group’s channel coverage has been maximised to provide selected content services for audiences.

After the year under review, in January 2020, the Group signed a cooperation agreement with ByteDance, a leading internet company in China, pursuant to which, the parties shall carry out strategic cooperation in various fields related to online videos, and ByteDance shall pay the Group a minimum of RMB630,000,000 as consideration. The cooperation will be carried out in two phases:

The term of first-phase cooperation shall be six months, mainly involving (i) the Group’s certain new films and internet drama series will be broadcast simultaneously on “huanxi.com” and popular online platforms of ByteDance, such as “Toutiao” (今日頭條) and “Xigua” (西瓜視頻); (ii) ByteDance shall set dedicated gateways and zones on platforms such as “Toutiao” and “Xigua” for directing traffic to “huanxi.com”; (iii) platforms including “Toutiao” and “Xigua” shall support the promotion and marketing of the Group’s film and TV projects; (iv) the Group shall provide ByteDance with resources for advertising placement, joint marketing and cross-industry cooperation; and (v) provide ByteDance with the rights of authorship as co-producer(s) for films of which the Group is the lead producer.

\* For identification purposes only

It is expected that the second phase will be commenced subsequent to the first phase. The parties shall make joint capital contributions to purchase new media rights of film and TV contents, jointly establish a cinema channel, in a collective effort to build the “huanxi.com” streaming media platform, as well as to build a leading long video platform in China, which is expected to inject new impetus to the development of the streaming platform of the Group.

Currently, “huanxi.com” (歡喜首映), being the Group’s streaming platform, has accumulated over two million (2,000,000) fee-paying subscribers, while downloads for the mobile application of “huanxi.com” went over eleven million (11,000,000) in total. In the future, the Group will continue to optimise and update the contents of the platform and bring more extensive user groups to “huanxi.com” through forming partnerships, with the aim of stepping up efforts to facilitate the operation and expansion of its streaming platform.

### **Other Businesses**

The Group’s other businesses include property agency business and securities trading and investments business. For the year ended 31 December 2019, the Group’s other businesses did not record any revenue (2018: HK\$286,000) and recorded segmental loss of HK\$4,000 (2018: HK\$521,000). The property agency business and securities trading and investments business have remained inactive during the year.

## **FINANCIAL REVIEW**

### **Review of Results**

For the year ended 31 December 2019, the Group recorded revenue and film investment income of HK\$814,425,000 (2018: HK\$174,632,000), representing 3.7 times increase in revenue and film investment income compared with corresponding period of last year. The gross profit was HK\$343,510,000 (2018: HK\$89,315,000), representing a sharp increase in gross profit compared with corresponding period of last year. The profit attributable to owners of the Company of HK\$105,103,000 (2018: loss of HK\$444,693,000). The significant improvement of revenue, gross profit and profit attributable to owners of the Company were mainly caused by (i) the substantial increase in revenue from the Group’s principal business, namely investments in film and TV programmes rights, as well as the streaming platform “huanxi.com”; and (ii) the significant decrease in the recognition of share-based payments to HK\$6,430,000 (2018: HK\$355,368,000).

During the year, on 15 June 2019, the Group has entered into a film investment agreement (電影投資份額轉讓合同) with an investor, an independent third party, pursuant to which the investor is entitled to a film’s part of income rights for the box office in cinema circuits and cinemas in the PRC at a consideration of RMB210,000,000 (equivalent to approximately HK\$243,056,000). After considering the film market condition and the Group’s film distribution plan, the Group recognised the film investment fund received from the investor of RMB150,000,000 (equivalent to approximately HK\$167,299,000) as a financial liability as at 31 December 2019 and the aforementioned consideration of RMB210,000,000 was not recognised as a revenue for the year 2019. On 31 March 2020, the Group terminated the film investment agreement with the investor due to the fact that the film was unable to put on screens on the date agreed.

For the year ended 31 December 2019, earnings per share of the Group amounted to HK\$0.03 (2018: loss per share of HK\$0.16) and net asset value per share attributable to owners of the Company was HK\$0.36 (2018: HK\$0.23).

### **Liquidity and Financial Resources**

The Group's capital expenditure, daily operations and investments are mainly funded by cash generated from its operations, equity fund raising and borrowings. As at 31 December 2019, the Group had net current assets of HK\$512,922,000 (2018: HK\$244,714,000), with cash and cash equivalents of HK\$256,203,000 (2018: HK\$158,528,000). As at 31 December 2019, the total equity of the Company amounted to HK\$1,130,230,000 (2018: HK\$658,668,000) with total borrowings of HK\$50,000,000 (2018: HK\$387,774,000). The Group's gearing ratio, expressed as the percentage of total borrowings over total capital, was 0.04 (2018: 0.37) as at 31 December 2019. Total capital is calculated as total equity plus total borrowings.

### **Capital Structure**

As at 31 December 2019, the Company had 3,154,655,408 ordinary shares (2018: 2,918,055,408) of HK\$0.01 each in issue (the "Share" or "Shares").

During the year ended 31 December 2019, the movement in the issued Shares of the Company are as follows:

On 12 March 2019, the Company entered into the subscription agreement ("Subscription Agreement") with Maoyan Entertainment, pursuant to which the Company has allotted and issued to Maoyan Entertainment 236,600,000 ordinary Shares ("Subscription Shares") of aggregate nominal value of HK\$2,366,000 at the subscription price of HK\$1.6507 per Subscription Share (the "Subscription"). The net price received by the Company was approximately HK\$1.6484 per Subscription Share. The closing price of the Shares on the date of entering into the Subscription Agreement was HK\$1.560 per Share as quoted on the Stock Exchange.

### **Charges on Assets**

As at 31 December 2019, the Group did not have any charge of assets (2018: the Group's secured borrowings of HK\$220,364,000 were secured by other receivables amounting to approximately HK\$223,133,000).

### **Foreign Exchange Exposure**

The Group's cash flow from operations, cash on hand and assets are denominated mainly in Hong Kong dollars, US dollars and Renminbi. Although most of the production costs and management fees are denominated in Renminbi, foreign currencies are needed for many investment opportunities and cooperation plans with mainland China and overseas film companies. The Group will continue to monitor its capital needs closely and take appropriate measures to minimise any adverse impact of exchange rate fluctuation on its overall financial status and lower the Group's financial risks.

## **Risk Management**

During the year under review, the Group regularly reviewed the risk and credit control systems of its profit centers to improve those systems overall and mitigate credit risk. There have been no significant changes in the Group's risk management policy since the year-end date last year.

## **Contingent Liabilities**

As at 31 December 2019, save as disclosed in Note 23 "Litigations" to the consolidated financial statements, the Group had no significant contingent liabilities (2018: same).

## **Dividends**

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2019 (2018: nil).

## **Employees and Remuneration Policies**

The Group firmly believes high-caliber people are the most valuable asset of a corporation. The Group thus places great attention on attracting and nurturing talent. It has kept optimising its staff structure to match its development strategy and business needs. As at 31 December 2019, the Group had 97 employees (2018: 84). It hired more employees during the year under review to support the expanding of its media and entertainment related businesses. The Group has in place well-designed remuneration management and incentive mechanisms, with employees remunerated based on their positions and work performance, along with industry trends.

## **Events After the Reporting Period**

On 23 January 2020, the Group signed a cooperation agreement with ByteDance to carry out cooperation in various fields related to online videos, and ByteDance shall pay the Group a minimum of RMB630,000,000 as consideration. The cooperation will be carried out in two phases:

The term of first-phase cooperation shall be six months, mainly involving (i) the Group's certain new films and internet drama series will be broadcast simultaneously on "huanxi.com" and online platforms of ByteDance, such as "Toutiao" (今日頭條) and "Xigua" (西瓜視頻); (ii) ByteDance shall set dedicated gateways and zones on platforms such as "Toutiao" and "Xigua" for directing traffic to "huanxi.com"; (iii) platforms including "Toutiao" and "Xigua" shall support the promotion and marketing of the Group's film and TV projects; (iv) the Group shall provide ByteDance with resources for advertising placement, joint marketing and cross-industry cooperation; and (v) provide ByteDance with the rights of authorship as co-producer(s) for films of which the Group is the lead producer.



It is expected that the second phase will be commenced subsequent to the first phase. The parties shall make joint capital contributions to purchase new media rights of film and TV contents, jointly establish a cinema channel, in a collective effort to build the “huanxi.com” streaming media platform.

Please refer to the Company’s announcement dated 23 January 2020 for details of the cooperation agreement between the Group and ByteDance.

Details regarding other events after the reporting period are set out in Note 24 “Events After the Reporting Period” to the consolidated financial statements.

### **Business Strategies and Prospects**

Looking into 2020, we believe that the film industry in China will continuously develop. Cultural-related consumption demand and the preferences of audiences will become more sophisticated, which will bring us to the harvest time for the development of the local film industry, when quality films and TV programmes will certainly stand out.

Despite the effects of COVID-19 outbreak on film industry at the beginning of 2020, the Group believes its negative influence will be short-lived. Film is a key part in the social culture, well-loved by audiences, and watching movies has become a popular leisure activity. As the epidemic recedes, we believe the reopened cinemas will benefit from strong spending from pent-up demand over a long period, which will contribute to the recovery of the entire film industry.

The Group firmly believes that content is critical to the success of the film and TV industry, while outstanding directors and creative teams are the key factors that determine the artistic merit and commercial value of films. The Group will continue to leverage its unique shareholding structure model and build up close cooperative relationship with world-known directors, and cooperate with top Chinese directors, including Ning Hao, Xu Zheng, Chan Ho Sun Peter, Wong Kar Wai, Zhang Yibai, Gu Changwei, Zhang Yimou, Jia Zhangke and Wang Xiaoshuai to ensure its access to original contents sources in China’s market of films and TV dramas. This, in turn, will secure for us a stable supply of quality film and TV productions, thereby satisfying the needs of an extensive audience, sparking cultural spending and further consolidating our leading presence in the film and TV industry of China.

At the same time, seeing the huge business opportunities and long-term prospects of streaming platforms, the Group will maintain in-depth cooperations with leading internet and entertainment companies including ByteDance and Maoyan Entertainment. This is aimed at providing more quality film and TV contents to “huanxi.com”, transforming it into a premium streaming platform with tremendous user traffic, thus injecting strong growth momentum into the Group.

## **Conclusion**

In conclusion, the Group will continue to prioritise investment in and production of quality original film and TV contents by extending its cooperation with top Chinese directors, while furthering that with potential acclaimed new directors. The Group will also continue to map out its dynamic development, seize the enormous opportunities in the Chinese market, and embrace the harvest time for ongoing industrialization of the Chinese film sector.

At the same time, the Group will continue to further its cooperation with leading companies in the Internet and Entertainment sector in China including ByteDance and Maoyan Entertainment, which aims to provide momentum for the Group's streaming platform to capture opportunities brought by paid online viewing, so as to further strengthen and extend our competitive edge and continuously create promising returns to our shareholders.

## **OTHER INFORMATION**

### **Corporate Governance Practices**

Throughout the year ended 31 December 2019, the Company has applied the principles and complied with the code provisions set out in the Corporate Governance Code and Corporate Governance Report as listed out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange.

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

During 2019, 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 2019.

### **Scope of Work of PricewaterhouseCoopers**

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 2019 as set out in the preliminary announcement have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

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

Hong Kong, 31 March 2020

*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 and Mr. Xu Zheng as non-executive Directors, and Mr. Wong Tak Chuen, Mr. Li Xiaolong and Mr. Wang Hong as independent non-executive Directors.*