歡喜傳媒集團有限公司
HUANXI MEDIA GROUP LIMITED
(Incorporated in Bermuda with limited liability)
(Stock Code: 1003)

ANNOUNCEMENT
SUPPLEMENTAL INFORMATION IN RELATION TO IMPAIRMENT OF CERTAIN ASSETS AS AT 31 DECEMBER 2016

Reference is made to Huanxi Media Group Limited's (the "**Company**", together with its subsidiaries, the "**Group**") annual report for the year ended 31 December 2016 published on 21 April 2017 (the "**Annual Report**").

The Annual Report mentions at note 20 to the financial statements of the Group for the year ended 31 December 2016, and on page 17 of the Annual Report, that the Company recorded an impairment loss on an available-for-sale investment of approximately HK$15,333,000 (the "**Impairment**"). The Impairment related to the Group's 2.03% interest held in MUBI, Inc. ("**MUBI**").

At the request of the Stock Exchange of Hong Kong Ltd., the Company is making this announcement to provide further information in relation to the Impairment.

Backdrop to the investment in, and relationship with, MUBI

MUBI operates a curated online video-on-demand platform available to subscribers on multiple devices and operating systems including from MUBI.com through PCs and Macs, as well as on Android and iOS mobile operating systems, Apple TV, PlayStation, Android TV, Amazon Fire TV and Chromecast. Established in 2007 and originally called "The Auteurs", the service currently focuses on international arthouse cinema. Headquartered in London, England, MUBI also has operations in San Francisco and New York, USA.

The Company and MUBI commenced discussions in the fourth quarter of 2015 in relation to possible opportunities for strategic cooperation. This culminated in the framework agreement of 13 January 2016 (the "**Framework Agreement**") and the Company's announcement of the same date. The Framework Agreement contemplated (1) a proposed US$10,000,000 strategic investment in new MUBI stock (which would have represented approximately 8% of the issued capital stock of MUBI), and (2) a proposed joint venture with MUBI in connection with the provision of online video services in the greater China market (the "**Proposed MUBI Joint Venture**"). The parties contemplated that the Group would contribute US$40,000,000 for 70% of the Proposed MUBI Joint Venture, and MUBI would provide certain technical and operational services to the joint venture.

As discussions progressed, however, the Board and MUBI realised that certain of MUBI's technology was not as readily transferrable to the Mainland China market as the parties had originally envisaged and, as announced by the Company on 17 June 2016, the Framework Agreement was terminated. As mentioned in that announcement, despite the termination of the Framework Agreement, the Group and MUBI were continuing discussions on other possible forms of cooperation.

Development of the Huanxi online video platform

In the period leading up to the termination of the Framework Agreement, the Board decided that the way forward was for the Group to develop its own online video platform for the Group's online movie business.

To achieve that, the Board recognized that it was in both the Group's and MUBI's interest to maintain a strategic and cooperative relationship with each other. Further, in the context of the Group's online video platform, the Group would benefit from MUBI's market experience as well as MUBI's business modelling experience with respect to MUBI's online video platform. The Board also recognized that, without the Proposed MUBI Joint Venture as contemplated in the Framework Agreement, the Group would need technical and operational advice and services from a third party.

This led to the transactions disclosed in the Company's announcement of 7 November 2016 which were:

1. The Group's US$2,000,000 strategic investment in MUBI by way of subscription for series E preferred stock (representing 2.03% of the issued capital stock of MUBI as at 31 December 2016) (the "**Subscription**"). In connection with this investment, MUBI also agreed to (i) transfer or license to the Group the know-how, information and technology that can assist, support or enhance the online video platform of the Group and (ii) provide to the Group support services and deliverables with respect to the online video platform according to the Group's specifications and timeline (the "**Services**"); and

2. The platform development agreement with PCCW for the development of the Group's online video platform. This arrangement with PCCW related to the technological aspects of the platform development program, whereas the arrangements with MUBI related to the business aspects, including business modelling, for online video platforms.

Valuation of the MUBI investment and relationship

The Company and its management are of the opinion that neither the Group's strategic relationship with MUBI nor any of its individual components, including the provision by MUBI of the Services, are readily quantifiable. The arrangements with MUBI, including the Group's US2,000,000 strategic investment in MUBI and the Services provided by MUBI, should be viewed against the backdrop of what is set out in the section above headed "*Development of the Huanxi online video platform*". For those reasons, and because of the relatively modest scale of the Subscription, no valuation report was sought or prepared at the time of the Subscription.

Reasons for the Impairment

The Group's investment in MUBI was measured at cost less impairment in the Group's 2016 audited financial statements. Hong Kong Accounting Standard 39.58 requires that, at the end of each reporting period (which in this case was 31 December, 2016), the Company must assess whether there is any objective evidence that a financial asset is impaired. If any such evidence exists, the Company should determine the amount of any impairment loss.

The Board and management's assessment during the audit process, in February and March 2017, that the MUBI investment should be impaired was based on two objective indicators:

- As it transpired, most of the Services had already been provided by MUBI by February/March 2017. This represented a change of circumstances that led the Directors and management to consider the appropriateness of continuing to book the Group's investment in MUBI at cost.

- The actual and anticipated near-term financial results available – namely MUBI's net loss for the year ended 31 December 2016 and Group management's belief that MUBI would not be in a position to distribute any dividend to the Company in the near term and possibly beyond the near term – were additional factors that the Board considered to be relevant.

Once the decision was reached that impairment was appropriate, the Directors' preferred approach was to take a conservative approach and, accordingly, the investment was written down to a carrying value representing the proportionate share of NAV of MUBI as of the 2016 fiscal year end. This was calculated as follows: 2.03% (being the Group's equity stake MUBI) was applied to the consolidated net asset value of MUBI as at 31 December 2016 (which was US$1,323,000), which resulted in HK$208,000. The impairment amount of approximately HK$15,333,000 represents the difference between the consideration of US$2 million and the "recoverable amount" of HK$208,000.

In this context, it is relevant to note that MUBI is a private entity incorporated in Delaware, the United States of America and, as there is no active market for trading in the stock of MUBI, there was no price range that could have been referenced to assess impairment. Further, given the Group' relatively small stake in MUBI (and consequently the practical difficulty in obtaining the information needed for the preparation of a valuation report) and the costs associated with an appraisal (which would have been disproportionate relative to the modest scale of the Group's investment in MUBI), the Board regarded an independent appraisal as not practical.

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

Hong Kong, 31 July 2017

As at the date of this announcement, the Board comprises Mr. Dong Ping 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.