歡喜傳媒集團有限公司*

HUANXI MEDIA GROUP LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 1003)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2017

The board of directors (the "Board") of Huanxi Media Group Limited (the "Company") announces the unaudited condensed consolidated results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2017 together with the comparative amounts for the corresponding period in 2016. The condensed consolidated interim financial statements of the Group have not been audited, but have been reviewed by the Company's auditor, Deloitte Touche Tomatsu and the Company's Audit Committee.

* *for identification purpose only*

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2017

		Six months ended 30 June	
		2017	2016
		HK$'000	*HK$'000*
	Notes	**(Unaudited)**	(Unaudited)
Revenue	3	**107**	10,641
Cost of sales and service rendered		**(37)**	(15,883)
Gross profit (loss)		**70**	(5,242)
Investment and other income	4	**3,306**	1,404
Other gains and losses, net	5	**2,602**	(2,359)
Selling and distribution costs		**(303)**	(147)
Administrative expenses		**(41,185)**	(48,209)
Share-based payments expense		**–**	(513,450)
Loss before tax		**(35,510)**	(568,003)
Income tax expense	6	**–**	–
Loss for the period	7	**(35,510)**	(568,003)
Other comprehensive income (expense) for the period			
Item that will not be reclassified to profit or loss:			
Exchange difference arising on translation of functional currency to presentation currency		**25,179**	–
Item that may be subsequently reclassified to profit or loss:			
Exchange differences arising on translation of foreign operations		**–**	(92)
Total comprehensive expense for the period		**(10,331)**	(568,095)
Loss for the period attributable to owners of the Company		**(35,510)**	(568,003)
Total comprehensive expense for the period attributable to owners of the Company		**(10,331)**	(568,095)
Loss per share			
– Basic (HK dollar)	9	**(0.01)**	(0.24)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2017

	Notes	30 June 2017 HK$'000 (Unaudited)	31 December 2016 HK$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**6,674**	4,942
Art work		**–**	20,000
Payment for developing internet broadcasting platform		**16,482**	–
Rental deposits		**5,407**	5,344
Prepayment for film and TV rights	10	**359,259**	220,814
Film and TV rights		**63,412**	–
Available-for-sale investment		**208**	208
		451,442	251,308
CURRENT ASSETS			
Film and TV rights		**275,384**	250,958
Trade and other receivables, deposits and prepayments	11	**46,042**	147,459
Investments held for trading	12	**–**	52,768
Bank balances and cash		**112,737**	309,062
		434,163	760,247
CURRENT LIABILITIES			
Trade and other payables	13	**46,294**	175,544
Amount due to a related party		**20,000**	–
Tax payable		**2,731**	9,100
		69,025	184,644
NET CURRENT ASSETS		**365,138**	575,603
NET ASSETS		**816,580**	826,911
CAPITAL AND RESERVES			
Share capital		**27,681**	27,681
Reserves		**788,899**	799,230
TOTAL EQUITY		**816,580**	826,911

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Change in functional currency during the year ended 31 December 2016

In prior interim period, the Company adopted Hong Kong dollars ("HK$") as its functional currency. As the Group changed its major business operation from provision of property agency and related services in Hong Kong and the People's Republic of China (the "PRC") to film and TV rights investments in the PRC during the year ended 31 December 2016, the Company and a majority of its operating subsidiaries conducted transactions mainly in Renminbi ("RMB"). As such, effective from 1 September 2016, the Company had changed its functional currency from HK$ to RMB. The condensed consolidated financial statements of the Group for the current interim period 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 effects of changes in foreign exchange rates". 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. PRINCIPAL ACCOUNTING POLICIES

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2017 are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2016.

The condensed consolidated financial statements have been prepared under the historical cost basis, except for certain financial instruments, which are measured at fair values, as appropriate.

In the current interim period, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA:

Amendments to HKAS 7	Disclosure initiative
Amendments to HKAS 12	Recognition of deferred tax assets for unrealised losses
Amendments to HKFRS 12	As part of the annual improvements to HKFRSs 2014 - 2016 cycle

Amendments to HKAS 7 "Disclosure initiative"

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities including both changes arising from cash flows and non-cash changes. Specifically, the amendments require the following changes in liabilities arising from financing activities to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

The application of the amendments will result in additional disclosures on the Group's financing activities, specifically reconciliation between the opening and closing balances in the consolidated statement of financial position for liabilities arising from financing activities will be provided on application.

The adoption will result in relevant disclosures in the Group's annual consolidated financial statements for the year ending 31 December 2017.

The application of the other amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in the condensed consolidated financial statements and/or disclosures set out in the condensed consolidated financial statements.

3. 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	–	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:

Segment revenue and results (unaudited)

	Film rights investments for the six months ended 30 June		Property agency for the six months ended 30 June		Securities trading and investments for the six months ended 30 June		Consolidated for the six months ended 30 June	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue								
– External sales	**–**	6,048	**107**	4,593	**–**	–	**107**	10,641
Segment (loss) profit	**(8,801)**	(530,985)	**(427)**	(1,017)	**4,182**	(2,798)	**(5,046)**	(534,800)
Unallocated corporate income and gains							**2,042**	543
Unallocated corporate expenses and losses							**(32,506)**	(33,746)
Consolidated loss before tax							**(35,510)**	(568,003)
Other information (included in measure of segment (loss) profit)								
Realised gain on disposal of investments held for trading	**–**	–	**–**	–	**3,747**	–	**3,747**	–
Loss on change in fair value of investments held for trading	**–**	–	**–**	–	**–**	(2,984)	**–**	(2,984)
Share-based payments expense	**–**	(513,450)	**–**	–	**–**	–	**–**	(513,450)
Staff costs	**(6,560)**	(2,090)	**(231)**	(1,508)	**–**	–	**(6,791)**	(3,598)
Operating lease payments for office premises	**(3,496)**	(1,250)	**(121)**	(997)	**–**	–	**(3,617)**	(2,247)
Investment and other income	**2,667**	95	**9**	9	**588**	804	**3,264**	908
Depreciation of property, plant and equipment	**(472)**	(2)	**(3)**	(84)	**–**	(244)	**(475)**	(330)
Reversal of impairment loss on trade receivables	**–**	–	**34**	268	**–**	–	**34**	268
Impairment loss on trade receivables	**–**	–	**–**	(30)	**–**	–	**–**	(30)
Loss on disposal of property, plant and equipment	**–**	–	**–**	–	**–**	(606)	**–**	(606)

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 is from external customers.

Segment (loss) profit represents the (loss) profit from each segment without allocation of unallocated corporate income (which mainly includes gain on disposal of art work, loan interest income and bank interest income) and unallocated corporate expenses (which mainly include exchange loss and administration expenses). This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

4. INVESTMENT AND OTHER INCOME

	Six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Government grant	**2,584**	–
Dividend income from investments held for trading	**588**	804
Interest on bank deposits	**125**	564
Interest on loan receivable	**–**	22
Sundry income	**9**	14
	3,306	1,404

5. OTHER GAINS AND LOSSES, NET

	Six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Gain on disposal of art work	**2,000**	–
Exchange (loss) gain	**(3,179)**	970
Reversal of impairment loss on trade receivables	**34**	268
Gain (loss) on change in fair value of investments held for trading	**3,747**	(2,984)
Loss on disposal of property, plant and equipment	**–**	(583)
Impairment loss on trade receivables	**–**	(30)
	2,602	(2,359)

6. INCOME TAX EXPENSE

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

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.

No provision for the income tax expenses since there are no assessable profits either in Hong Kong or in the PRC for the both periods.

7. LOSS FOR THE PERIOD

Loss for the period has been arrived at after charging (crediting):

	Six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Directors' remuneration, including retirement benefits scheme contribution	**6,077**	5,795
Other staff's salaries and welfare	**12,767**	9,903
Other staff's retirement benefits scheme contributions	**1,587**	223
Total staff costs	**20,431**	15,921
Operating lease payments for office premises	**7,406**	6,184
Depreciation of property, plant and equipment	**1,059**	330
Interest income	**(125)**	(586)
Reversal of impairment loss on trade receivables	**(34)**	(268)
Impairment loss on trade receivables	**–**	30

8. DIVIDENDS

Neither dividends were paid, declared or proposed for the six months ended 30 June 2017 and 2016, nor has any dividend been proposed since the end of both reporting periods.

9. LOSS PER SHARE

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

	Six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Loss for the period attributable to owners of the Company for the purpose of basic loss per share	**(35,510)**	(568,003)

	Number of ordinary shares Six months ended 30 June	
	2017	2016
	'000	*'000*
Weighted average number of ordinary shares for the purpose of basic loss per share	**2,768,055**	2,327,362

No diluted loss per share is presented in both periods, as there were no potential ordinary shares outstanding during the six months ended 30 June 2017 and 2016.

10. PREPAYMENT FOR FILM AND TV RIGHTS

	30 June 2017	31 December 2016
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Master China Films Limited ("Master China") *(Note a)*	**114,944**	111,161
Mr. Chan Ho Sun Peter ("Mr. Chan") *(Note b)*	**103,402**	100,000
Rui Zhi Workshop Company Limited ("Rui Zhi") *(Note c)*	**4,982**	9,653
Mr. Gu Changwei ("Mr. Gu") *(Note d)*	**22,287**	–
Mr. Zhang Xiaoling (also known as Zhang Yibai) ("Mr. Zhang") *(Note e)*	**57,471**	–
Mr. Chen Daming *(Note f)*	**13,793**	–
Dongchun Films Co., Limited ("Dongchun") *(Note g)*	**22,989**	–
Xstream Pictures (Beijing) Limited ("Xstream") *(Note h)*	**9,196**	–
Mr. Xu Zheng (" Mr. Xu") *(Note i)*	**10,195**	–
	359,259	220,814

(a) The Group prepaid 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 proposed internet drama series. In the current interim period, the Group agreed to invest in an internet drama series to be produced by Master China with an amount of RMB20,000,000 (equivalent to approximately HK$22,989,000) but the Group is awaiting the finalisation of the relevant investment agreement.

(b) The Group prepaid an amount of RMB89,960,000 (equivalent to approximately HK$100,000,000) during the year ended 31 December 2016 in relation to the production of the proposed films. As at 30 June 2017 and the date of this announcement, the Group is still negotiating with Mr. Chan for the film and TV rights investment plan and there is no any acceptance for any investment in film production.

(c) The Group prepaid an amount of RMB8,685,000 (equivalent to approximately HK$9,653,000) during the year ended 31 December 2016 in relation to the production of the proposed films. In the current interim period, the Group agreed to invest in a film to be produced by Rui Zhi, in which an amount of RMB4,350,000 (equivalent to approximately HK$5,000,000) was transferred to film and TV rights after the Group entered into the relevant film investment agreement.

(d) During the current interim period, the Group prepaid an amount of RMB40,000,000 (equivalent to approximately HK$45,977,000) in relation to the production of the proposed films and internet drama series. In the current interim period, an amount of RMB20,610,000 (equivalent to approximately HK$23,690,000) was transferred from prepayment to film and TV rights after the Group entered into the relevant film investment agreement.

(e) During the current interim period, the Group prepaid an amount of RMB50,000,000 (equivalent to approximately HK$57,471,000) in relation to the production of the proposed films and internet drama series. In the current interim period, the Group agreed to invest in certain internet drama series to be produced by Mr. Zhang with an amount of RMB3,384,000 (equivalent to approximately HK$3,890,000) but the Group is awaiting the finalisation of the relevant investment agreement.

(f) During the current interim period, the Group prepaid an amount of RMB12,000,000 (equivalent to approximately HK$13,793,000) in relation to the production of proposed films and internet drama series. As at 30 June 2017 and the date of this announcement, the Group is still negotiating with Mr. Chen Daming for the film and TV rights investment plan and there is no any acceptance for any investment in film and internet drama series production.

(g) The Group prepaid an amount of RMB20,000,000 (equivalent to approximately HK$22,989,000) during the current interim period in relation to the production of proposed internet drama series. In the current interim period, the Group agreed to invest in an internet drama series to be produced by Dongchun with an amount of RMB768,000 (equivalent to approximately HK$883,000) but the Group is awaiting the finalisation of the relevant investment agreement.

(h) During the current interim period, the Group prepaid an amount of RMB13,000,000 (equivalent to approximately HK$14,943,000) in relation to the production of proposed films and the Group agreed to invest in a film to be produced by Xstream. In the current interim period, an amount of RMB5,000,000 (equivalent to approximately HK$5,747,000) was transferred from prepayment to film and TV rights after the Group entered into the relevant film investment agreement.

(i) During the period ended 30 June 2017, the Group agreed to invest in a film to be directed by Mr. Xu, a non-executive director of the Company, and the Group made a prepayment of RMB8,870,000 (equivalent to approximately HK$10,195,000). The prepayment will form part of the director's fee for the production of the proposed film and other terms of the film production will be further agreed between the Group and respective parties.

11. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	30 June 2017	31 December 2016
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade receivables	**2,404**	8,477
Less: allowance for doubtful debts	**(2,223)**	(2,278)
	181	6,199
Prepayments	**2,809**	14,981
Prepayment on film script fee	**2,801**	2,440
Other deposits paid	**534**	500
Other receivables	**476**	12,178
Receivable from disposal of film and TV rights	**17,241**	–
Receivable from disposal of art work	**22,000**	–
Secured deposit	**–**	111,161
	46,042	147,459

Trade receivables from film and TV rights 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, 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.

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

	30 June 2017	31 December 2016
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade receivables		
0 – 30 days	**34**	76
31 – 60 days	**7**	29
61 – 90 days	**3**	60
91 – 180 days	**6**	3,805
Over 180 days	**131**	2,229
	181	6,199

12. INVESTMENTS HELD FOR TRADING

Investments held for trading at the end of the reporting period included:

	30 June 2017	31 December 2016
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Listed securities:		
Equity securities listed in Hong Kong	**–**	52,768

The fair value was based on the quoted prices of the respective securities in active markets.

13. TRADE AND OTHER PAYABLES

As at 30 June 2017, trade payables of HK$34,482,000 (31 December 2016: HK$33,349,000), aged over 180 days (31 December 2016: aged over 180 days), represented the internet income rights payable to an independent third party for a film directed by Mr. Lu Yang. And the remaining HK$2,195,000 (31 December 2016: HK$8,112,000) 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. The amount was settled by the Group subsequent to the end of the reporting period.

As at 30 June 2017 and 31 December 2016, other payables mainly comprised of receipts in advance, service fee for developing an online video platform, accrued staff costs and other sundry creditors.

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

MANAGEMENT DISCUSSION AND ANALYSIS

Business and Operation Review

After signing into long term service contracts of a team of top-tier film directors, Huanxi Media Group Limited (the "Group") has laid a solid foundation upon which to execute its plans to build a film and TV content powerhouse and a unique online distribution platform in China. Central to such plans will be its focus on creating, coordinating and producing quality film and TV productions that will be reaching audiences by the second half of this financial year and beyond. Currently, the Group's outstanding directorial team includes six famed international director shareholders, namely Mr. Xu Zheng, Mr. Ning Hao, Mr. Wong Kar Wai, Mr. Chan Ho Sun Peter, Mr. Gu Changwei and Mr. Zhang Xiaoling (also known as Mr. Zhang Yibai). In addition, cooperative agreements have been signed with a number of renowned Chinese and Asian directors, including Mr. Jia Zhangke, Mr. Wang Xiaoshuai, Mr. Li Yang, Mr. Liu Xingang, Mr. Manfred Wong and Mr. Chen Daming, all are acknowledged for their distinctive filmmaking techniques and expertise in their respective genres. With all these celebrated Chinese directors on board, the Group is among the elite few listed entertainment companies that is truly capable of producing a wide spectrum of film and TV content at a consistently high standard and for an ongoing period of time.

To also reach audiences in the internet ecosystem, the Group has made further progress with its online video platform business. Specifically, the "huanxi.com" (歡喜首映) platform, which was developed by the Group capitalizing on the expertise of strategic partner MUBI, Inc. ("MUBI") and in cooperation with PCCW Media Limited ("PCCW"), commenced trial operation during the period under review, and is expected to be officially launched towards the end of 2017 or early 2018. To further advance the online business, the Group has continued examining opportunities for investing in film and TV rights, both local and overseas, in order to deliver more diverse and rich online content. Likewise, it has been actively exploring opportunities to forge strategic alliances with more world-renowned directors, with the objective of establishing a new online business empire of which film and TV content serve as key support pillars.

Film Rights Investment

The Group's revenue segment allocation showed that the film rights investment business did not generate revenue for the six months ended 30 June 2017 (30 June 2016: HK$6,048,000) incurring a segmental loss of HK$8,801,000 (30 June 2016: HK$530,985,000). The decline in revenue was principally due to the ongoing production of certain films and TV content in the first half of 2017. These productions are expected to be distributed upon completion.

Property Agency

For the six months ended 30 June 2017, the Group's property agency business recorded revenue of HK$107,000 (30 June 2016: HK$4,593,000) and segmental loss of HK$427,000 (30 June 2016: HK$1,017,000). The segment shrank mainly because the management has elected to allocate greater resources to media, entertainment and related businesses, which represent the Group's major future growth drivers.

Securities Trading and Investments

For the six months ended 30 June 2017, the Group's securities trading and investments business recorded a segmental profit of HK$4,182,000 (30 June 2016: segmental loss of HK$2,798,000) which was generated from the gain on disposal of securities and investments.

Financial Review

Review of Results

During the review period, the Group recorded revenue of HK$ 107,000 (30 June 2016: HK$10,641,000) and net loss attributable to the owners of the Company of HK$35,510,000 (30 June 2016: HK$568,003,000). The loss was mainly caused by the absence of notable revenue from the Group's film rights investment business as certain films were still being prepared or reaching the post-production stage in the first half year.

For the six months ended 30 June 2017, loss per share of the Group amounted to HK$0.01 (30 June 2016: HK$0.24) and net asset value per share attributable to the owners of the Company was HK$0.30 (31 December 2016: HK$0.30).

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 30 June 2017, the Group maintained sufficient working capital amounting to HK$365,138,000 (31 December 2016: HK$575,603,000) with bank balances and cash of HK$112,737,000 (31 December 2016: HK$309,062,000). As at 30 June 2017, the total equity of the Company amounted to HK$ 816,580,000 (31 December 2016: HK$826,911,000), with no borrowings (31 December 2016: nil). The Group's gearing ratio, expressed as the percentage of total borrowings over total capital, was zero as at 30 June 2017 (2016: nil). Total capital is calculated as total equity plus total borrowings.

Capital Structure

As at 30 June 2017, the Company had 2,768,055,408 ordinary shares of HK$0.01 each in issue.

Charges on Assets

As at 30 June 2017, the Group did not have any charge of assets (31 December 2016: the Group's short-term payable of HK$111,161,000 was secured by a deposit of HK$111,161,000).

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 it will closely monitor the changes of the Renminbi exchange rate and will strive to mitigate the impact of currency fluctuation on the Group's financial position as well as seek to minimise any adverse impact on financial risk.

Risk Management

During the period, the Group regularly reviewed the risk and credit control systems of its profit centers in order to improve the overall controlling system and mitigate credit risk. This also ensures that the Group is capable of effectively conducting business operations and facilitates further development. There have been no significant changes in the Group's risk management policy since 31 December 2016.

Contingent Liabilities

As at 30 June 2017, the Group had no significant contingent liabilities (31 December 2016: nil).

Employees and Remuneration Policies

As at 30 June 2017, the Group had 62 (30 June 2016: 64) employees and agents. Employees are remunerated based on their positions, capability and work performance as well as industry trends. The Group evaluates the performance of employees regularly, and employees' remunerations and promotions are based on the evaluation results.

Prospects

The macro economy in the People's Republic of China (the "PRC") has continued its steady and positive growth trend since the second half of last year as confirmed by better-than-expected key economic indicators. As for the film and TV industry, with the Film Industry Promotion Law taking effect on 1 March 2017, a window has opened for taking Chinese films overseas in the future, and that is expected to present enormous new opportunities to the industry. Furthermore, according to preliminary statistics released by the Film Bureau of the State Administration of Radio, Film and Television for the period ended 30 June 2017, the PRC generated total box office receipts of RMB27.175 billion in the first half year, up by 10.49% from RMB24.594 billion recorded for the corresponding period last year. These numbers indicate that the overall film market in the PRC is climbing steadily.

As noted in the "China Film Art Report 2017" compiled by the China Film Association, the PRC film industry has been transforming over the past year; shifting from a market-oriented to content-driven model. "Content" is king and "improvement in quality and efficiency" are essential for developing the national film industry. In particular, content quality is the top priority, as it is the main catalyst for attracting audiences, gaining word-of-mouth and capturing market share. While the PRC film industry is moving away from its reliance on opportunities brought by market reformation to taking advantage of the power of the internet, quality content will remain the true determinant of its success.

During the period under review, a number of films that the Group invested in completed filming and production, while several other film and TV productions were either being planned or have commenced filming. One such movie that was released on 19 July 2017 via the country's main circuits was *Brotherhood of Blades II: The Infernal Battlefield* (繡春刀II•修羅戰場), directed by Mr. Lu Yang and produced by Mr. Ning Hao. Apart from possessing its overseas distribution rights, the Group also owns exclusive broadcasting right of the film via new media and is expected to be released on huanxi.com (歡喜首映) in the third quarter. *The Passage of Time* (時間去哪兒了), directed by Mr. Jia Zhangke, has completed shooting and is scheduled for release and distribution in the PRC in October 2017. The Group believes these quality films will bring impressive revenue contributions after their debut.

It is worth noting that *Crazy Alien* (瘋狂的外星人), one of the key film productions that the Group invested in this year, commenced filming in Qingdao on 26 July 2017. The film marks the first project by director Mr. Ning Hao since working on *Breakup Buddies* (心花路放) in 2014, and represents the first new addition to his "Crazy" (瘋狂) film series in eight years. It features top talent, both local and overseas, including Mr. Huang Bo and Mr. Shen Teng, hence a movie that is definitely worth waiting for. Preparations are also underway for *Mr. Pig* (豬先生), a movie to be directed by Mr. Xu Zheng, with shooting expected to begin in 2018. Meanwhile, a movie that has completed filming is *Drug Dealer* (中國藥神), which is co-produced by Mr. Ning Hao and Mr. Xu Zheng, and is in post-production and expected for release in 2018.

Preliminary work on the first internet TV drama series (two seasons with a total of 18 episodes), to be produced and co-directed by the Group's shareholder director, Mr. Wong Kar Wai, is progressing well. Production of the first season is expected to commence in 2017. Once production of the series is completed, the Group will have the exclusive broadcasting rights and resell rights of the internet TV drama series via new media platforms worldwide for a period of 10 years.

The filming of *Flying Fire Meteor* (飛火流星), directed by Mr. Gu Changwei, began shooting in Guangzhou in May 2017. The film is expected to be released in the PRC in 2018. Meanwhile, Mr. Zhang Yibai is preparing two productions, one of which is a love story adapted from an original fiction of the best-selling writer Mr. Zhang Jiajia. In addition, *Wizards in the Royal Palace* (精靈.格格), which is produced by Manfred Wong, is in preparation with shooting expected to begin in the third quarter this year. Several other director partners of the Group are also starting preparatory work on different film or TV productions.

The online video platform "huanxi.com" (歡喜首映) jointly designed and developed by the Group and PCCW, which debut at the Shanghai International Film Festival in mid-June 2017, has made satisfactory progress. Currently, the public can download the pilot app to their smart phones and, during the trial period, enjoy over 30 classic movies via "huanxi.com" (歡喜首映), including a number of works by famous directors. The Group is working closely with PCCW and its strategic partner MUBI on ways to improve and strengthen the interface and interactive features of "huanxi.com" (歡喜首映), with the goal of officially launching the platform in late 2017 or first half of 2018. By that time, all movies and films the Group has invested in, including third-party authorised movies and those produced by directors under contract with the Group and its shareholder directors, will be distributed or broadcasted on "huanxi.com" (歡喜首映). In the future, the film and TV content on "huanxi.com" (歡喜首映) will be updated regularly. The ultimate objective is to upload the latest content on a daily basis so that end-users will have direct access to the Group's film and TV productions, which will allow the Group to realise its goal of covering the most important segments of the industrial chain.

The development trend that the PRC film industry is pursuing aligns with the Group's own development direction of placing first and foremost emphasis on quality content, which it will seek to advance by strengthening the Group's content creation capability. At the same time, having established strategic ties with 12 famous directors, the Group has accumulated considerable and wide breadth of quality film and TV content, giving it a competitive edge that it will leverage in bolstering its position in the local film industry. The Group will nonetheless continue exploring opportunities to work with world-renowned directors to strengthen the foundation of its film and TV rights investment business. Currently, it is preparing to pursue a number of film rights investment opportunities, with efforts progressing smoothly. The management is confident in the Group's ability to continue delivering high-quality film and TV productions to audiences.

Apart from developing film and TV content, the Group is also working on its "huanxi.com" (歡喜首映) online video platform. Its successful trial run represents an important first victory for the Group in the new media platform battleground. The strategic layout that will underpin development and operation of the Group's entire industrial chain from creation of film and TV content, shooting and production to distribution and promotion is gradually taking shape. According to "The Global Entertainment and Media Outlook

2017–2021" published by PricewaterhouseCoopers, the film and entertainment and online video industries in the PRC will have strong impetus for future growth, which in turn will boost the total income of the nation's entertainment and media industry, with CAGR nearly doubling that of average peer markets in the world. Furthermore, total spending on online videos in the PRC is expected to reach close to US$4.5 billion by 2021. On the video content front, the PRC market will experience a critical change from free broadcast to transactional video on demand (TVOD) in the next five years. As such, the ability to provide quality domestic and foreign film and TV content will be crucial in gaining the largest share of the TVOD market. The Group will therefore persist in enhancing the viewer experience on "huanxi.com" (歡喜首映) with the purpose of building a new media platform that integrates business and art and boasts rich video contents, resulting in the most impeccable online viewing experience for audiences.

Aside from the aforementioned efforts, the Group will review its business structure regularly and explore different market opportunities for developing its business. Moreover, it will remain receptive to potential new strategic partnerships that enhance its core competitiveness in the film and TV industry, advance its core businesses and create long-term high-value returns for shareholders.

CORPORATE GOVERNANCE

Corporate Governance Code and Corporate Governance Report

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") contained in Appendix 14 to the Rules Governing The Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") throughout the six months ended 30 June 2017, except for the following deviations:

a. Pursuant to Code A.6.7 of the CG Code, independent non-executive Directors and non-executive Directors should attend general meetings of the Company. Mr. Ning Hao, Mr. Xu Zheng and Mr. Gao Zhikai (non-executive Directors) and Mr. Li Xiaolong and Mr. Su Tuong Sing, David (independent non-executive Directors), were unable to attend the annual general meeting of the Company held on 2 June 2017 due to their respective engagement.

b. Pursuant to Code E.1.2 of the CG Code, the chairman of the board should attend the annual general meeting. The Chairman of the Board, Mr. Dong Ping, was unable to attend the annual general meeting of the Company held on 2 June 2017 due to his other engagement. However, the Chief Executive Officer and executive director of the Company, Mr. Xiang Shaokun Steven, was present at the annual general meeting and took the chair of the meeting. The chairman of the audit committee of the Company was also present at the annual general meeting.

Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding the Directors' securities transactions. Having made specific enquiries, all Directors confirmed that they have fully complied with the Model Code throughout the review period.

Board Composition

As at the date of this report, the Board comprises eight Directors, with two executive Directors, three non-executive Directors and three independent non-executive Directors. All the Directors are high caliber executives with diversified industry expertise and bring a wide range of skills and experience to the Group.

Change in Information of Director

There is no change in Directors' information since 1 January 2017, which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules

OTHER INFORMATION

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

During the six months ended 30 June 2017, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

Review of Interim Results

The Audit Committee of the Company has reviewed with the management of the Company the accounting principles and practices adopted by the Group and the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2017.

By Order of the Board
Huanxi Media Group Limited
Dong Ping
Chairman

Hong Kong, 28 August 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.