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 2016

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 (the "Group") for the six months ended 30 June 2016. The 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 purposes only*

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2016

		Six months ended 30 June	
		2016	2015
	Notes	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)
Revenue	3	**10,641**	31,871
Cost of sales and service rendered		**(15,883)**	(25,515)
Gross (loss) profit		**(5,242)**	6,356
Investment and other income	4	**1,404**	5,025
Other gains and losses, net	5	**(2,359)**	–
Selling and distribution costs		**(147)**	(552)
Administrative expenses		**(48,209)**	(14,103)
Share-based payments	14(b)	**(513,450)**	–
Impairment loss on goodwill		**–**	(2,320)
Finance costs	6	**–**	(461)
Loss before tax		**(568,003)**	(6,055)
Income tax expense	7	**–**	(12)
Loss for the period	8	**(568,003)**	(6,067)
Other comprehensive income			
Item that may be reclassified subsequently to profit or loss			
Exchange differences arising on translation of foreign operations		**(92)**	75
Total comprehensive expense for the period		**(568,095)**	(5,992)
Loss per share			
– Basic (HK dollar)	10	**(0.24)**	(0.01)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2016

	Notes	**30 June 2016** *HK$'000* **(Unaudited)**	31 December 2015 *HK$'000* (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**2,881**	1,826
Art work		**20,000**	–
Prepayment for film and TV rights	11	**217,999**	–
		240,880	1,826
CURRENT ASSETS			
Film and TV rights		**34,973**	–
Film rights investment		**–**	13,925
Trade and other receivables, and prepayments	12	**153,232**	257,356
Investments held for trading		**53,391**	55,580
Bank balances and cash		**491,811**	726,598
		733,407	1,053,459
CURRENT LIABILITIES			
Trade and other payables	13	**29,019**	55,243
Tax payable		**9,797**	9,926
		38,816	65,169
NET CURRENT ASSETS		**694,591**	988,290
NET ASSETS		**935,471**	990,116
CAPITAL AND RESERVES			
Share capital	14	**25,531**	23,086
Reserves		**909,940**	967,030
TOTAL EQUITY		**935,471**	990,116

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

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.

2. PRINCIPAL ACCOUNTING POLICIES

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

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2016 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2015.

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 that are relevant for the preparation of the Group's condensed consolidated financial statements.

Amendments to HKFRS 11	Accounting for acquisitions of interests in joint operations
Amendments to HKAS 1	Disclosure initiative
Amendments to HKAS 16 and HKAS 38	Clarification of acceptable methods of depreciation and amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer plants
Amendments to HKFRS10, HKFRS12 and HKAS 28	Investment entities: Applying the consolidation exception
Amendments to HKFRSs	Annual improvements to HKFRSs 2012 – 2014 cycle

The application of the above 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.

In addition, the Group has applied the following accounting policy:

Film and TV rights

Film and TV rights represent films, television programmes and television drama series produced by the Group or acquired by the Group. Film and TV rights are stated at cost less any identified impairment loss. Costs of film and TV rights comprise fees paid and payable under agreements, direct costs/expenses incurred during the production of films and TVs, for the reproduction and/or distribution of films and TVs. The costs of film and TV rights are recognised as an expense in the consolidated statement of profit or loss and other comprehensive income based on the proportion of actual income earned from a film and TV during the year to the total estimated income from the distribution and/or broadcasting of film and TV rights for that film and TV.

Costs of film and TV in production include all direct costs associated with the production of films and TVs are transferred to film and TV rights upon completion.

At the end of each reporting period, both internal and external market information are considered to assess whether there is any indication that assets included in film and TV rights (including film and TV in production) are impaired. If any such indication exists, the carrying amount of such assets is assessed and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the consolidated statement of profit or loss.

Art work

Art work is shown at historical cost less any identified impairment loss.

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 in Hong Kong and the People's Republic of China (the "PRC")	–	Provision of property agency and related services in Hong Kong and the PRC
Securities trading and investments	–	Securities trading and investments

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

Segment revenue and results

For the six months ended 30 June 2016 (Unaudited)

	Film rights investment *HK$'000*	Property agency in Hong Kong and the PRC *HK$'000*	Securities trading and investments *HK$'000*	Consolidated *HK$'000*
Segment revenue				
– External sales	**6,048**	**4,593**	**–**	**10,641**
Segment loss	**(530,985)**	**(1,017)**	**(2,798)**	**(534,800)**
Unallocated corporate income				**543**
Unallocated corporate expenses				**(33,746)**
Consolidated loss before tax				**(568,003)**
Other information (included in measure of segment loss)				
Fair value change on investments held for trading	**–**	**–**	**2,984**	**2,984**
Investment and other income	**95**	**9**	**804**	**908**
Depreciation of property, plant and equipment	**2**	**84**	**244**	**330**
Reversal of impairment loss on trade receivables	**–**	**268**	**–**	**268**
Impairment loss on trade receivables	**–**	**30**	**–**	**30**

For the six months ended 30 June 2015 (Unaudited)

	Film rights investment *HK$'000*	Property agency in Hong Kong and the PRC *HK$'000*	Securities trading and investments *HK$'000*	Consolidated *HK$'000*
Segment revenue				
– External sales	–	31,871	–	31,871
Segment profit (loss)	801	(6,598)	–	(5,797)
Unallocated corporate income				3,180
Unallocated corporate expenses				(2,977)
Finance costs				(461)
Consolidated loss before tax				(6,055)
Other information (included in measure of segment profit (loss))				
Investment and other income	1,789	52	4	1,845
Depreciation of property, plant and equipment	4	327	1	332
Impairment loss on goodwill	–	2,320	–	2,320

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

Segment (loss) profit represents the (loss) profit from each segment without allocation of unallocated corporate income (which mainly includes loan interest income and bank interest income), unallocated corporate expenses (which mainly include administration expenses) and finance costs. 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 2016 HK$'000 (Unaudited)	2015 HK$'000 (Unaudited)
Dividend income	**804**	–
Interest on bank deposits	**564**	1,550
Interest on loan receivable	**22**	3,174
Sundry income	**14**	301
	1,404	5,025

5. OTHER GAINS AND LOSSES, NET

	Six months ended 30 June 2016 HK$'000 (Unaudited)	2015 HK$'000 (Unaudited)
Loss on disposal of property, plant and equipment	**(583)**	–
Exchange gain	**970**	–
Impairment loss on trade receivables	**(30)**	–
Reversal of impairment loss on trade receivables	**268**	–
Fair value change on investments held for trading	**(2,984)**	–
	(2,359)	–

6. FINANCE COSTS

	Six months ended 30 June 2016 HK$'000 (Unaudited)	2015 HK$'000 (Unaudited)
Interest expense on loan payables	**–**	461

7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2016	2015
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
The tax charge comprises:		
Provision of Hong Kong Profits Tax for the period	**–**	12

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.

8. LOSS FOR THE PERIOD

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

	Six months ended 30 June	
	2016	2015
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Depreciation of property, plant and equipment	**330**	332
Impairment loss on trade receivables	**30**	–
Interest income	**(586)**	(4,724)
Reversal of impairment loss on trade receivables	**(268)**	–

9. DIVIDENDS

No dividends were paid, declared or proposed for the six months ended 30 June 2016 and 2015, nor has any dividend been proposed since the end of both reporting periods.

10. 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	
	2016	2015
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Loss for the period attributable to owners of the Company for the purposes of basic loss per share	**(568,003)**	(6,067)

	Number of ordinary shares Six months ended 30 June	
	2016	2015
	'000	*'000*
Weighted average number of ordinary shares for the purposes of basic loss per share	**2,327,362**	577,138

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 2016 and 2015.

11. PREPAYMENT FOR FILM AND TV RIGHTS

	30 June	31 December
	2016	2015
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Master China Films Limited ("Master China") *(Note a)*	**117,999**	–
Mr. Chan Ho Sun Peter ("Mr. Chan") *(Note b)*	**100,000**	–
	217,999	–

(a) The prepayment was paid to Master China, a company owned by Mr. Wong Kar Wai ("Mr. Wong"), for the production of the proposed internet drama series pursuant to the agreement entered, details of which are set out in note 14b(i). The prepayment will form part of the contribution by the Group for the production cost of the proposed internet drama series (which is subject to acceptance by the Group before investment), of which the budget production cost will be provided to the Group and the related payment terms of such production cost will be further agreed between the respective parties. Upon commencement of the production of the internet drama series, the amount will be transferred to film and TV rights.

(b) The prepayment was paid to Mr. Chan for the production of the proposed films pursuant to the agreement entered, details of which are set out in note 14b(ii). The prepayment will form part of the contribution by the Group for the production cost of the proposed films (which is subject to acceptance by the Group before investment), of which the budget production cost will be provided to the Group and the related payment terms of such production cost will be further agreed between the respective parties. Upon commencement of the production of the films, the amount will be transferred to film and TV rights.

12. TRADE AND OTHER RECEIVABLES, AND PREPAYMENTS

	30 June 2016 *HK$'000* **(Unaudited)**	31 December 2015 *HK$'000* (Audited)
Trade receivables	**96,164**	245,647
Less: Allowance for doubtful debts	**(6,890)**	(7,557)
	89,274	238,090
Prepayments	**47,505**	1,676
Prepayment on film script fee	**–**	73
Other deposit paid	**8,540**	9,365
Other receivables	**7,913**	8,152
	153,232	257,356

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.

As at 30 June 2016, trade and other receivables included trade receivables of approximately HK$89,274,000 (31 December 2015: HK$238,090,000) and an 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 2016	31 December 2015
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade receivables		
0 – 30 days	**360**	1,402
31 – 60 days	**6,694**	221,794
61 – 90 days	**132**	2,282
91 – 180 days	**865**	3,684
Over 180 days	**81,223**	8,928
	89,274	238,090

As at 30 June 2016, trade receivables included an amount of HK$6,311,000 from 東陽映月影視文化傳播有限公司("東陽映月"), which is wholly-owned by Mr. Ning Hao ("Mr. Ning"), a non-executive director of the Company.

As at 30 June 2016, trade receivables included an amount of HK$79,474,000 (31 December 2015: HK$222,059,000) from 北京真樂道文化傳播有限公司, which is wholly-owned by Mr. Xu Zheng ("Mr. Xu"), a non-executive director of the Company. The directors of the Company assess whether allowance on these receivables is necessary on a regular basis after considering (i) industry practice in settlement and (ii) subsequent settlements.

As at 30 June 2016, prepayments mainly represented the consideration of HK$35,775,000 to an independent third party for the preparation work of the film during the period. The film was solely invested by the Group and directed by Mr. Ning. The production of the film has been commenced afterwards. Accordingly, the prepayment was classified as current asset. Also, a prepayment of RMB6,000,000 (equivalent to approximately HK$7,180,000) was paid to an independent third party for service fee to develop an online platform for the Group, which is refundable if the transaction is terminated.

As at 30 June 2016, other receivables included legal claim receivable of approximately RMB6,687,000 (equivalent to approximately HK7,795,000) (31 December 2015: RMB6,687,000, equivalent to approximately HK$7,891,000) as set out in note 15.

13. TRADE AND OTHER PAYABLES

As at 30 June 2016, trade and other payables included commissions payables of approximately HK$4,795,000 (31 December 2015: HK$17,394,000) to property consultants and cooperative estate agents, which are due for payment only upon the receipt of corresponding agency fees from customers.

As at 31 December 2015, trade and other payables included provision for litigation claim initiated by a third party namely 上海龍韻廣告傳播股份有限公司 (Shanghai Longyun Advertising & Media Co., Ltd.) ("Shanghai Longyun") of approximately RMB9,611,000 (equivalent to approximately HK$11,342,000). Details of the litigation are set out in note 15.

14. SHARE CAPITAL

	Number of shares	Share capital *HK$'000*
Authorised:		
Ordinary shares		
At 1 January 2015, 31 December 2015 and **30 June 2016**, at HK$0.01 each	**50,000,000,000**	**500,000**
Issued and fully paid:		
At 1 January 2015	577,138,852	5,771
Issue of shares upon subscription of shares *(Note a)*	1,701,416,556	17,015
Issue of shares to a financial adviser *(Note a)*	30,000,000	300
At 31 December 2015	2,308,555,408	23,086
Issue of shares to two film directors *(Note b(i) & (ii))*	**244,500,000**	**2,445**
At 30 June 2016	**2,553,055,408**	**25,531**

Notes:

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

b(i). During the period, the Group entered into an agreement ("Agreement 1") with Master China, whereby the Company issued 100,000,000 ordinary shares to Mr. Wong, Mr. Wong would provide exclusively to the Group within a period of 6 years proposals for internet drama series with two seasons to be produced by Master China as well as partially directed by Mr. Wong for the Group to consider to invest in the production of such internet drama series, and an exclusive internet distribution through new media platform would be granted to the Group after investment is decided to be made by the Group in such internet drama series. When the Group decided to invest in the internet drama series, the Group is required to contribute fully the production cost, of which such terms would be subject to another agreement to be further entered. A prepayment of RMB100,000,000 (equivalent to approximately HK$117,999,000) in relation to the development of the production was required to be paid by the Group to Master China, details of which are set out in note 11(a). The 100,000,000 ordinary shares were issued on 17 June 2016 at HK$2.10 (being the fair value on the date of issuance, with a total value of HK$210,000,000). According to the Agreement 1, these shares once issued were vested with the holder(s) of the shares and the total fair value of the shares issued were recognised as share-based payments and recognised in the profit and loss during the period.

b(ii). During the period, the Group entered into another agreement ("Agreement 2") with Mr. Chan, whereby the Company issued 144,500,000 ordinary shares to Mr. Chan, Mr. Chan would provide exclusively to the Group within a period of 6 years proposals for at least 2 films to be directed or co-directed by Mr. Chan for the Group to invest (not more than 60% interest) in the production of such proposed films, and the Company would be granted a right to acquire an exclusive distribution right through new media platform for the proposed films at consideration to be further determined at fair market price. When the Group decided to invest in the proposed films, the Group is required to contribute its share of production cost (base on its respective percentage of investment on the films), of which such terms would be subject to another agreement to be further entered. A prepayment of HK$100,000,000 in relation to the development for the production was required to be paid by the Group to Mr. Chan, details of which are set out in note 11(b). The 144,500,000 ordinary shares were issued on 17 June 2016 at HK$2.10 (being the fair value on the date of issuance, with a total value of HK$303,450,000). According to the Agreement 2, these shares once issued were vested with the holder(s) of the shares and the total fair value of the shares issued were recognised as share-based payments and recognised in the profit and loss during the period.

15. LITIGATION

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

After seeking legal advice, the Group considered the amount of claim to be able to recover from Liaoning Radio is RMB6,687,000 (which amount is also guaranteed by Frontier Services Group Limited (being an independent third party) pursuant to the terms of sale and purchase of the interest in Sinofocus Media (Holdings) Limited, the intermediate holding company of Guangdong Sinofocus, by the Group). Accordingly, the amount of RMB6,687,000 (equivalent to approximately HK$7,795,000) (31 December 2015: equivalent to approximately HK$7,891,000) was recognised as other receivable as at 30 June 2016 and 31 December 2015.

As the Prepayment was paid by Shanghai Longyun, Shanghai Longyun also initiated a legal claim against Guangdong Sinofocus for the sum of RMB9,611,000 (equivalent to approximately HK$11,342,000). The litigation result against Shanghai Longyun was released on 8 July 2015 and Guangdong Sinofocus lost the case. The Group paid a sum of RMB9,611,000 (equivalent to approximately HK$11,342,000) to Shanghai Longyun in full on 29 January 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

Business and Operation Review

With the commitment to diversify its business and tap into the potentially significant potential media and entertainment market in the People's Republic of China (the "PRC"), the Group has devoted most of its management resources and efforts to identify suitable opportunities for investment in film rights and has continued to secure long-term strategic relationships with internationally recognised directors as well as emerging ones from the Greater China Region. The Group has commenced production of a number of new movie projects with these directors during the reporting period.

Film Rights Investment

In respect of revenue derived from the Group's business interests, the newly developed film rights investment and film and TV rights business generated revenue of HK$6,048,000 (30 June 2015: nil) and segment loss of HK$530,985,000 (30 June 2015: segment profit of HK$801,000) for the six months ended 30 June 2016. The revenue contribution was mainly the result of its investment in "Mr. Nian" (年獸大作戰), a Chinese animation that hit the screen during the 2016 Chinese New Year.

During the reporting period, the Group entered into two agreements with Master China Films Limited ("Master China"), a company owned by Mr. Wong Kar Wai ("Mr. Wong") and Mr. Chan Ho Sun Peter ("Mr. Chan") respectively ("Agreements"), pursuant to which Master China and Mr. Chan have conditionally agreed to provide to the Group with certain services, investment rights and other rights, relating to film and media productions as set forth in the Agreements. Pursuant to the Agreements, the Company allotted and issued 100,000,000 shares and 144,500,000 shares to Mr. Wong and Mr. Chan (collectively, the "Issuances") respectively. The fair value of the Company's shares issued pursuant to the Issuances was HK$513,450,000 which would be recognised as an expense for the six months ended 30 June 2016. The Group also contributed RMB100,000,000 and HK$100,000,000 for the development of the internet drama series produced by Master China and partially directed by Mr. Wong ("Mr. Wong's Productions"), and the films directed or co-directed by Mr. Chan ("Mr. Chan's Productions") respectively.

The terms and structure of the Agreements which include the shares issued pursuant to the Issuances would enable the Group to benefit from opportunities to cooperate with Mr. Wong and Mr. Chan without any immediate cash outlay by the Group. This would enable the Group to retain more cash for general working capital and also facilitate development funding and future cash investments in film and TV rights, including the investments in Mr. Wong's Productions and Mr. Chan's Productions. In addition, these arrangements, including the Issuances, would broaden the Company's shareholder base and also facilitate the Group as well as Mr. Wong and Mr. Chan to further explore potential opportunities in the media, entertainment and related businesses.

Property Agency

With reference to the Group's property agency operation, revenue of HK$4,593,000 (30 June 2015: HK$31,871,000) and segment loss of HK$1,017,000 (30 June 2015: HK$6,598,000) were recorded respectively. The contraction was mainly due to the allocation of more resources to the media, entertainment and related businesses by the management which believes will be the Company's future growth driver, as well as the notable slowdown of the property market in Hong Kong in the first half year – a sharp contrast with the most robust market in the second half of 2015.

Securities Trading and Investments

For the six months ended 30 June 2016, the Group's securities trading and investments recorded a segment loss of HK$2,798,000 (30 June 2015: nil) which was mainly due to loss from change in fair value of investments held for trading.

On 13 January 2016, the Group signed a framework agreement with MUBI, Inc. ("MUBI"), which operates a world-renowned curated online video-on-demand platform, in respect of proposed strategic cooperation by way of the subscription for 8% of the issued capital stock of MUBI at US$10,000,000 by the Group and establish a joint venture with MUBI which would involve the contribution by the Group of US$40,000,000 cash to and the contribution by MUBI by way of license of its intellectual property. On 17 June 2016, the Company announced that the Group and MUBI agreed to terminate the framework agreement. Both the Group and MUBI are continuing to explore a mutually-beneficial arrangement for both parties.

Financial Review

Review of Results

During the review period, the Group recorded revenue of HK$10,641,000 (30 June 2015: HK$31,871,000), representing a net loss attributable to the owners of the Company of HK$568,003,000 (30 June 2015: HK$6,067,000). The loss was principally due to the one-off non-cash expenses of share-based payments of HK$513,450,000 for the Issuances, being the fair value of the Company's shares issued pursuant to the Issuances. Excluding the aforesaid one-off non-cash expenses, net loss attributable to the owners of the Company amounted to HK$54,553,000.

For the six months ended 30 June 2016, selling and distribution costs were HK$147,000 as compared with HK$552,000 in the corresponding period of last year, the decrease was mainly due to the downsized property agency business.

Administrative expenses were HK$48,209,000 (30 June 2015: HK$14,103,000) for the six months ended 30 June 2016 and the increase was primarily due to the incurrence of expenses for the expansion and development of the media, entertainment and related businesses.

For the six months ended 30 June 2016, loss per share for the Group amounted to HK$0.24 (30 June 2015: HK$0.01) and net assets value attributable to the owners of the Company per share was HK$0.37 (31 December 2015: HK$0.43).

Liquidity and Financial Resources

The Group's capital expenditure, daily operations and investments are mainly funded by cash generated from its operations and equity financing. As at 30 June 2016, the Group maintained sufficient working capital amounted to HK$694,591,000 (31 December 2015: HK$988,290,000) with bank balances and cash of HK$491,811,000 (31 December 2015: HK$726,598,000). As at 30 June 2016, the total equity of the Company amounted to HK$935,471,000 (31 December 2015: HK$990,116,000) with no borrowings (31 December 2015: nil). The Group's gearing ratio, expressed as the percentage of total borrowings over total capital, as at 30 June 2016 was zero (31 December 2015: nil). Total capital is calculated as total equity plus total borrowings.

Capital Structure

As at 30 June 2016, the Company had 2,553,055,408 ordinary shares of HK$0.01 each (the "Shares") in issue.

During the period under review, the movement in the issued share capital of the Company and the use of proceeds from fund raising activities are as follows:

a. On 14 April 2015 and 13 May 2015, the Company entered into a subscription agreement and an amendment agreement with Newwood Investments Limited, Numerous Joy Limited, Pacific Wits Limited, Tairong Holdings Limited, Wise Dragon International Limited, Gold Shine Investment Company Limited, Dayunmony Investment Corporation, Concept Best Limited and REORIENT Global Limited (collectively the "Subscribers"), pursuant to which the Company conditionally agreed to allot and issue, and Subscribers conditionally agreed to subscribe for, a total of 1,701,416,556 new Shares ("Subscription Shares") at an issue price of HK$0.40 per Share (the "Subscription") with the aggregate subscription price of HK$680,567,000. The Company had also agreed to allot and issue 30,000,000 new Shares ("Fee Shares") to financial adviser for the settlement of the financial advisory service fee in respect of the Subscription. The Subscription Shares represented approximately 294.8% of the issued share capital of the Company as at 14 April 2015 and approximately 73.7% of the enlarged issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares and Fee Shares as at the date of the Subscription. The subscription price of HK$0.40 per Share represented a discount of approximately 79.17% to the closing price of HK$1.92 per Share as quoted on The Stock Exchange of Hong Kong Limited on 14 April 2015, being the date on which the terms of the Subscription were fixed. The net subscription price, after deducting the relevant expenses, was approximately HK$0.395 per Share and the aggregate nominal value of the Subscription Shares and Fee Shares issued were approximately HK$17,014,000 and HK$300,000 respectively. The net proceeds of approximately HK$672,622,000 (excluding the financial advisory fees in respect of the Subscription settled by Fee Shares) from the Subscription was intended to be used for (i) providing the Group an opportunity to leverage on the extensive experience, expertise and business connection of the Subscribers to develop existing and new business in the advertising, media and entertainment industry; and (ii) the Group's general working capital. As at 30 June 2016, approximately HK$487,968,000 was used for investments in films and TV rights, approximately HK$2,018,000 was used for investments in securities listed in Hong Kong, HK$1,000,000 was used for acquisition of a subsidiary, approximately HK$11,342,000 was used for the payments of the legal claim (details are set out in note 15 to the condensed consolidated financial statements), HK$20,000,000 was used for the purchase of art work, approximately HK$52,773,000 was used for the Group's operating expenses. The remaining approximately HK$97,521,000 of the net proceeds has not yet been utilised and has been deposited in licensed banks in Hong Kong.

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

Charges on Assets

As at 30 June 2016, the Group did not have any charge of assets (31 December 2015: nil).

Exposure to Exchange Rate

Most of the Group's business transactions, assets and liabilities are denominated in Hong Kong dollars, US dollars and Renminbi. The Group's exposure to currency risk in respect of the US dollar is minimal as the Hong Kong dollar is pegged to the US dollar. Nevertheless, operations and performances of the Group might be affected by the fluctuation of Renminbi. Presently, the Group does not have any currency hedging policy but will closely monitor the Renminbi exchange rate and take appropriate measures to minimize any adverse impact that may be caused by its fluctuation.

Risk Management

During the period, the Group constantly reviewed the risk and credit control systems of its profit centers to improve the overall control system and mitigate credit risk.

Contingent Liabilities

As at 30 June 2016, the Group had no significant contingent liabilities (31 December 2015: nil) except for the litigation set out in note 15 to the condensed consolidated financial statements.

Litigation

Details pertaining to the litigation are set out in note 15 to the condensed consolidated financial statements.

Employees and Remuneration Policies

As at 30 June 2016, the Group had 51 (30 June 2015: 25) employees and 13 (30 June 2015: 179) agents. The Group hired more employees to develop the Group's media, entertainment and related business during the period under review, while the number of agents decreased due to the downsizing of the property agency business, as well as the Group's shift in focus towards the high-growth media and entertainment industry. The Group has developed effective remuneration policies that are subject to review on a regular basis. The employees are remunerated with competitive packages which are in line with prevailing industry practices and individual performance.

Business Strategies and Prospects

The year 2016 represents the Group's continuing transition into a media and entertainment company in the Greater China Region, and it has allocated significant resources towards developing the media, entertainment and related businesses during the reporting period.

Following the successful debut of the Group's first invested Chinese comedy movie "Lost in Hong Kong" in the last quarter of 2015, the Group has been working hand-in-hand with its non-executive directors on the board of directors of the Company, namely Mr. Xu Zheng ("Mr. Xu") and Mr. Ning Hao ("Mr. Ning") and establishing new relationships with more renowned and talented directors. The Group strongly believes that quality content is the key for a movie to succeed. A number of such investments in film and TV rights are in the pipeline, while the Group has also directed resources towards developing an online multimedia platform to further explore media, entertainment and related businesses.

It is worth noting that the new movie projects directed by Mr. Xu and Mr. Ning are already well underway. Specifically, Mr. Xu has commenced work on "Mr. Pig", a fantasy comedy produced and directed by and starring Mr. Xu and his team. "Mr. Pig" is estimated to be completed in 2017 or 2018, while Mr. Xu's team is also planning the next movie – the new "Lost" series of films. Separately, Mr. Ning's new film "Crazy Alien" is also under production and the project is estimated to be completed in 2017 or 2018. Under Mr. Ning's supervision, the Group also intends to invest in five movies with scripts written by Mr. Liu Cixin, China's most popular science-fiction writer who has won several major international awards for his work in the genre, in order to step into the world of science fiction. In addition, in order to enhance its investment in film content, the Group is also taking part in Mr. Ning's New Directors Scheme (新星導計劃) with an intention to invest in five movies enlisting new directors and produced by Mr. Ning. Further from working closely with Mr. Xu and Mr. Ning, the Group is also under consideration for potential investment in international films.

To further consolidate its leading position in the media and entertainment industry, the Group is striving to tighten the link with certain award-winning directors. In June 2016, the Company was pleased to introduce Mr. Wong and Mr. Chan as additional two director shareholders of the Group (together with Mr. Xu and Mr. Ning, collectively, "Director Shareholders"), which would strengthen its ability to obtain the investment rights of films and TV productions from these two internationally respected directors. It is expected that both Mr. Wong and Mr. Chan would serve as members of the Group's artistic advisory committee during the cooperation period to provide consultancy services with respect to the Group's films and programmes.

Pursuant to the agreement with Master China, the Group would exclusively invest in a total of 18 episodes of an internet drama series that would span two seasons. Such series would be produced by Master China and partially directed by Mr. Wong with the first season of 12 episodes, part or all of which are expected to complete production by the end of 2017, with the second season to commence production right afterwards. The Group will own exclusive rights to distribute, sublicense and broadcast the internet drama series via new media platform for global viewership for a period of 10 years.

As for the Group's association with Mr. Chan, it will have investment rights in at least two films directed or co-directed by Mr. Chan in the coming six years and hold up to 60% of total investment in each of Mr. Chan's Productions. The Group will also have priority to purchase an exclusive global distribution licenses in new media with respect to Mr. Chan's Productions. This renowned director has already begun preparing his first film with the Group, and it is expected that production will commence in or around the first half of 2017.

Meanwhile, the Group has signed agreements with respected directors, Mr. Li Yang and Mr. Liu Xingang in June 2016 whereby it has exclusive rights to invest in at least three films directed by each of these two directors respectively during a cooperation period of 6 years. Production of Mr. Li Yang's movie is expected to be completed in or around the first half of 2017. In the same time, the Group has also entered into exclusive negotiation with Shanghai Jiayu Cultural Investment Limited ("Shanghai Jiayu",上海嘉娛文化投資有限公司) to acquire the rights of four popular TV programmes in the PRC, namely "Top Funny Comedian" ("歡樂喜劇人"), "The Original Comedy Show" ("笑傲江湖"), "Your Face Sounds Hilarious" ("歡樂大咖秀") and "I'm No Singer" ("我不是歌手"), and the related advertisement business. This proposed transaction is currently under negotiation and if it is consummated, it would further expand the Group's media content investment business to TV programmes, especially in the media and entertainment industry in the PRC. The Group will provide investors with further updates on this matter as and when appropriate.

With a number of investments in film rights in the pipeline and preparation works well-underway, the Group is confident that it can deliver more quality film and TV productions to audiences, and truly realise its vision to produce and distribute high quality film and TV productions for viewing by a wide audience particularly in the Greater China region.

Given the Central Government's efforts to encourage development of the internet, migration of content to this medium is expected, and will encompass all aspects of the cultural and entertainment industry. This will give rise to the emergence of the internet content creation industry chain, which is represented by video websites and supplemented by film and TV organisations. Mindful of the aforementioned developments, the Group strives to develop online multimedia platform. Ensuring that the online platform has an enticing portfolio of content is an experienced management team that, besides having a finger on the pulse of the PRC media and entertainment industry, also has an acute sense of viewers' preferences. With the Group's ample experience in film and TV content creation, it is committed to developing an online film and TV services platform that is distinctive and innovative, with market-oriented productions that generate constant momentum for supporting the long-term and sustainable development of the new media business.

Conclusion

The Group believes that the continuous economic growth, urbanisation and improving living standard of citizens in China are the main drivers for its business growth and the growing demand in the entertainment consumption industry. Going forward, the Group will shrewdly utilise its resources and leverage the advantages afforded by its management team and Director Shareholders in the media and entertainment industry. It will also continue to actively explore opportunities to cooperate with exceptional veterans and rising stars of the relevant industries. At the same time, the Group will examine opportunities that may emerge and are conducive to the development of film and TV content, including opportunities that can help advance its entertainment platform, which in turn encourages growth of the media and entertainment-related businesses and further reinforces the Group's competitiveness and broadens its appeal.

With all the investments and efforts made in the period under review and more accomplishments sure to be achieved in the forthcoming years, the Group is confident it can strengthen its footprint in China's media and entertainment industry and remains committed to creating greater long-term returns for the Company's shareholders and ultimately advance its sustainable business development in the long run.

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 "Listing Rules") throughout the six months ended 30 June 2016, except for the following deviations:

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

   On 18 September 2015, Mr. Xiang Shaokun, Steven, an executive Director (appointed as an executive Director on 2 September 2015), was appointed as the chief executive officer of the Group. Mr. Dong Ping focuses on the leadership role in the Board to ensure that the Board works effectively in discharging its responsibilities whilst Mr. Xiang Shaokun, Steven focuses on day-to-day corporate management matters of the Group. The Board considers that the segregation of responsibilities among the Board members meets the requirements under the CG Code for the period from 1 January 2016 to 15 January 2016. Since 15 January 2016, Mr. Dong Ping was redesignated as the Chairman of the Board and therefore Code A.2.1 of the CG Code has been complied with since then and the roles of the Chairman (by Mr. Dong Ping) and chief executive officer (by Mr. Xiang Shaokun, Steven) are therefore separate and exercised by different individuals.

b. 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, Mr. Gao Zhikai and Mr. So Chak Kwong (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 1 June 2016 due to their respective engagement.

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.

OTHER INFORMATION

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

During the six months ended 30 June 2016, 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 and the independent auditor 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 2016.

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

Hong Kong, 29 August 2016

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, Mr. Gao Zhikai and Mr. So Chak Kwong as non-executive directors, and Mr. Su Tuong Sing, David, Mr. Li Xiaolong and Mr. Wong Tak Chuen as independent non-executive directors.