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歡喜傳媒集團有限公司*

HUANXI MEDIA GROUP LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 1003)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2019

The board (the "**Board**") of directors (the "**Directors**") 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 2019 together with the comparative amounts for the corresponding period in 2018. The unaudited condensed consolidated interim financial information of the Group have been reviewed by the Company's audit committee.

* *for identification purpose only*

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the six months ended 30 June 2019

		Six months ended 30 June	
		2019	2018
	NOTE	***HK$'000***	*HK$'000*
Revenue and film investment income	4	**1,068,980**	84,988
Cost of revenue	6	**(604,524)**	(70,074)
Gross profit		**464,456**	14,914
Other income		**8,375**	84
Other gains/(losses)		**308**	(624)
Selling and distribution costs	6	**(7,035)**	(341)
Administrative expenses	6	**(55,553)**	(115,152)
Operating profit/(loss)		**410,551**	(101,119)
Finance income		**2,358**	573
Finance costs		**(2,463)**	(11,062)
Finance costs, net		**(105)**	(10,489)
Profit/(loss) before income tax		**410,446**	(111,608)
Income tax expense	7	**(88,914)**	–
Profit/(loss) for the period		**321,532**	(111,608)
Profit/(loss) for the period attributable to owners of the Company		**321,532**	(111,608)
Other comprehensive loss			
Item that will not be reclassified to profit or loss:			
Exchange differences arising on translation of functional currency to presentation currency		**(7,799)**	4,681
Item that may be reclassified to profit or loss:			
Exchange differences on translation of foreign operations		**(5,465)**	(12,612)
		(13,264)	(7,931)
Total comprehensive income/(loss) for the period		**308,268**	(119,539)
Total comprehensive income/(loss) for the period attributable to owners of the Company		**308,268**	(119,539)
Earnings/(loss) per share			
– Basic and diluted *(HK dollar)*	9	**0.11**	(0.04)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2019

	NOTE	30 June 2019 HK$'000	31 December 2018 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**4,090**	3,762
Right-of-use assets		**44,548**	–
Intangible assets		**13,891**	16,285
Rental deposits	12	**5,606**	5,608
Prepayment for film and TV programmes rights	10	**369,801**	370,222
Film and TV programmes rights	11	**27,205**	18,077
		465,141	413,954
CURRENT ASSETS			
Film and TV programmes rights	11	**665,664**	744,542
Trade and other receivables, deposits and prepayments	12	**394,021**	371,305
Contract assets		**4,912**	5,220
Cash and cash equivalents		**296,426**	158,528
		1,361,023	1,279,595
Total assets		**1,826,164**	1,693,549
EQUITY			
Share capital		**31,547**	29,181
Reserves		**1,329,445**	629,487
Total equity		**1,360,992**	658,668
NON-CURRENT LIABILITY			
Lease liabilities		**29,181**	–
CURRENT LIABILITIES			
Trade and other payables	13	**259,448**	98,025
Lease liabilities		**15,883**	–
Contract liabilities		**419**	528,652
Amounts due to related parties		**396**	92,467
Borrowings	14	**67,856**	295,307
Tax payable		**91,989**	20,430
		435,991	1,034,881
Total liabilities		**465,172**	1,034,881
Total equity and liabilities		**1,826,164**	1,693,549

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2019

1. BASIS OF PREPARATION

This unaudited condensed consolidated interim financial information for the six months ended 30 June 2019 has been prepared in accordance with Hong Kong Accounting Standard ("**HKAS**") 34 "Interim Financial Reporting" issued by Hong Kong Institute of Certified Public Accountants 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.

The unaudited condensed consolidated interim financial information does not include all the notes of the type normally included in an annual financial report. Accordingly, the unaudited condensed consolidated interim financial information is to be read in conjunction with the annual report for the year ended 31 December 2018 which have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRS**") and any public announcements made by the Company during the six months ended 30 June 2019.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the adoption of new and amended standards as set out below.

2. ACCOUNTING POLICIES

(a) New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period, and the Group had to change its accounting policies and make retrospective adjustments as a result of adopting HKFRS 16 "Leases".

The impact of the adoption of the leasing standard are disclosed in Notes 2(b) and 3 below. The other standards did not have any impact on the Group's accounting policies and did not require retrospective adjustments.

(b) New standards, amendments to standards and interpretation that have been issued but are not effective

The following new standards, amendments to standards and interpretation have been issued, but are not effective for the Group's financial year beginning on 1 January 2019 and have not been early adopted:

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

There are no other standards and interpretations that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

3. CHANGES IN ACCOUNTING POLICIES

This note explains the impact of the adoption of HKFRS 16 "Leases" on the Group's financial statements and discloses the new accounting policies that have been applied from 1 January 2019 in Note 3(b) below.

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

(a) Adjustments recognised on adoption of HKFRS 16

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

The measurement principles of HKFRS 16 are only applied after that date. The remeasurements to the lease liabilities were recognised as adjustments to the related right-of-use assets immediately after the date of initial application.

	HK$'000
Operating lease commitments disclosed as at 31 December 2018	35,577
Discounted using the lessee's incremental borrowing rate at the date of initial application	(2,134)
Exemption for short-term leases	(3,540)
Lease liability recognised as at 1 January 2019	29,903
Of which are:	
Current lease liabilities	8,899
Non-current lease liabilities	21,004
	29,903

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

The recognised right-of-use assets related to the following types of assets.

	As at 30 June 2019	As at 1 January 2019
	HK$'000	*HK$'000*
Properties	**44,520**	29,864
Equipment	**28**	39
Total right-of-use assets	**44,548**	29,903

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

- right-of-use assets – increase by HK$29,903,000
- lease liabilities – increase by HK$29,903,000.

Practical expedients applied

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

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

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

(b) The Group's leasing activities and how these are accounted for

As a lessee, the Group's leases are mainly rentals of office. Rental contracts are typically made for fixed periods of 3 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of property, plant and equipment was classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the fixed payments (including in-substance fixed payments), less any lease incentives receivable.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received; and
- any initial direct cost.

Payments associated with short-term leases are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

4. REVENUE AND FILM INVESTMENT INCOME

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

	Six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
Revenue derived from content production		
– Sublicensing and sales of film and TV programmes rights	**254,881**	6,196
– Share of box office revenue	**810,185**	–
Film rights investment income	**–**	78,552
Other media related revenue	**3,914**	–
Property agency commission and service income in Hong Kong	**–**	240
	1,068,980	84,988

5. SEGMENT INFORMATION

The chief operating decision maker ("**CODM**") has been identified as the executive directors who review the Group's internal reporting in order to assess performance and allocate resources. The CODM has determined the operating segments based on these reports.

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

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

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

	Six months ended 30 June					
	Investment in film and TV programmes rights		**Others**		**Consolidated**	
	2019	2018	**2019**	2018	**2019**	2018
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue						
Sublicensing and sales of film and TV programmes rights	**254,881**	6,196	**–**	–	**254,881**	6,196
Share of box office revenue	**810,185**	–	**–**	–	**810,185**	–
Film rights investment income	**–**	78,552	**–**	–	**–**	78,552
Other media related revenue	**3,914**	–	**–**	–	**3,914**	–
Property agency commission and service income in Hong Kong	**–**	–	**–**	240	**–**	240
	1,068,980	84,748	**–**	240	**1,068,980**	84,988
Timing of revenue recognition						
At a point in time	**1,068,980**	6,196	**–**	240	**1,068,980**	6,436
Segment profit/(loss)	**444,763**	(4,629)	**(4)**	(399)	**444,759**	(5,028)
Unallocated corporate expenses					**(34,208)**	(96,091)
Finance costs, net					**(105)**	(10,489)
Profit/(loss) before income tax					**410,446**	(111,608)
Income tax expense					**(88,914)**	–
Profit/(loss) for the period					**321,532**	(111,608)

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

The accounting policies of the operating segments are the same as the Group's accounting policies described in the annual consolidated financial statements for the year ended 31 December 2018.

6. EXPENSES BY NATURE

	Six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
Employee benefit expenses (excluding directors' remuneration and share-based compensation)	**20,674**	17,449
Directors' remuneration (excluding share-based compensation)	**6,409**	6,122
Share-based compensation		
– Directors	**–**	41,921
– Employees	**4,056**	23,548
Depreciation		
– Property, plant and equipment	**1,199**	1,548
– Right-of-use assets	**5,885**	–
Legal and professional expenses	**3,348**	6,596
Travelling and entertainment expenses	**4,393**	2,947
Advertising and marketing expenses	**6,618**	77
Amortisation of intangible assets	**2,418**	2,390
Amortisation of film and TV programmes rights	**602,238**	67,615
Commission expense on property agency	**–**	69
Operating lease payments in respect of office premises and photocopying machines	**–**	7,695
Auditors' remuneration	**1,038**	–
Short-term lease expenses	**2,508**	–
Other expenses	**6,328**	7,590
Total cost of revenue, selling and distribution costs and administrative expenses	**667,112**	185,567

7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
Current income tax expense		
– The PRC corporate income tax	**73,627**	–
– The PRC withholding tax	**15,287**	–
	88,914	–

Under the Law of the People's Republic of China (the "**PRC**") on Corporate Income Tax (the "**CIT Law**") and Implementation Regulation of the CIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

According to applicable tax regulations prevailing in the PRC, income of a foreign company derived from a company established in the PRC are generally subject to a 10% withholding tax.

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both periods. No provision for Hong Kong Profits Tax has been made in the unaudited condensed consolidated interim financial information as the relevant group entities incurred tax losses. No overseas profits tax has been calculated for the Group companies that are incorporated in the British Virgin Islands or Bermuda as they are exempted from tax (for the six months ended 30 June 2018: same).

8. DIVIDENDS

Neither dividends were paid, declared or proposed for the six months ended 30 June 2019 and 2018, nor has any dividend been proposed since the end of both reporting periods.

9. EARNINGS/(LOSS) PER SHARE

(a) Basic

Basic earnings/(loss) per share is calculated by dividing the profit/(loss) attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares by the weighted average number of ordinary shares outstanding during the six months ended 30 June 2019 and 2018.

	Six months ended 30 June	
	2019	2018
Profit/(loss) attributable to owners of the Company *(in HK$'000)*	**321,532**	(111,608)
Weighted average number of ordinary shares for basic earnings/(loss) per share *(in thousands)*	**3,052,695**	2,768,055
Basic earnings/(loss) per share *(HK dollar)*	**0.11**	(0.04)

(b) Diluted

The computation of diluted earnings per ordinary share for the six months ended 30 June 2019 does not assume the exercises of the Company's outstanding share options during the period ended 30 June 2019 since their exercise prices are higher than the average market prices of the shares during the period. Accordingly, diluted earnings per ordinary share is the same as basic earnings per ordinary share for the six months ended 30 June 2019.

The basic and diluted loss per share for the period ended 30 June 2018 are the same because the effect of the assumed conversion of all dilutive potential ordinary shares outstanding during the six months ended 30 June 2018 was anti-dilutive.

10. PREPAYMENT FOR FILM AND TV PROGRAMMES RIGHTS

	As at 30 June 2019	As at 31 December 2018
	HK$'000	*HK$'000*
Prepayment for acquisition of film and TV programmes rights *(Note)*	**357,841**	358,248
Prepayment for film director's fee	**11,960**	11,974
	369,801	370,222

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

11. FILM AND TV PROGRAMMES RIGHTS

	As at 30 June 2019 *HK$'000*	As at 31 December 2018 *HK$'000*
Film and TV programmes rights completed	**10,234**	10,246
Film and TV programmes rights under production *(Notes a and b)*	**655,430**	734,296
Licensed film and TV programmes rights *(Note c)*	**27,205**	18,077
	692,869	762,619
Less:		
Current portion	**(665,664)**	(744,542)
	27,205	18,077

Notes:

(a) As at 31 December 2018, included in the film and TV programmes rights under production was a film right with production cost of HK$428,074,000 in respect of the production of the film *Crazy Alien* ("瘋狂的外星人") in the PRC.

(b) As at 30 June 2019, included in the film and TV programmes rights under production was a film right with production cost of HK$218,536,000 in respect of the production of the film *Lost in Russia* ("囧媽") in the PRC. On 26 February 2019, the Group entered into an agreement with a company established in the PRC, Beijing Joy Leader Culture Communication Co. Ltd ("**Beijing Joy Leader**"), as the production house of the aforementioned film at a budgeted cost of RMB 380,000,000, including the production fee of RMB30,000,000 to Beijing Joy Leader, as well as the film director fee, producer fee, screenwriter fee, actor fee to Mr. Xu Zheng, the non-executive director of the Company, of RMB87,000,000.

(c) The balance represented the Group's investments in film and TV programmes right licenses. The Group acquired license rights from independent third parties for broadcasting licensed films or TV programmes series on its streaming platform or sublicensing the license rights to other independent third parties.

12. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	As at 30 June 2019	As at 31 December 2018
	HK\$'000	*HK\$'000*
Trade receivables		
– Sublicensing and sales of film and TV programmes rights	**132,758**	2,946
– Film rights investment	**128,329**	136,225
– Other media related revenue	**3,004**	–
– Property agency commission and service income in Hong Kong	**349**	349
	264,440	139,520
Loss allowance	**(257)**	(257)
	264,183	139,263
Deposits	**6,317**	6,219
Prepayments	**36,724**	1,575
Other receivables	**92,403**	229,856
	399,627	376,913
Less: Amounts due within one year shown under current assets	**(394,021)**	(371,305)
Non-current portion	**5,606**	5,608

Trade receivables from sublicensing of film and TV programmes rights are usually received within 180 days from the date of delivery of the master copy or materials.

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

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

The ageing analysis of the trade receivables, net of loss allowance, presented based on invoice date were as follows:

	As at 30 June 2019	As at 31 December 2018
	HK\$'000	*HK\$'000*
0 – 30 days	**256,418**	139,170
31 – 60 days	**1,774**	–
61 – 90 days	**2,957**	–
91 – 180 days	**1,926**	93
Over 180 days	**1,108**	–
	264,183	139,263

(i) Other receivable pledged as security

As at 30 June 2019, the Group has pledged receivables amounting to approximately HK$61,703,000 (as at 31 December 2018: HK$223,133,000) to a third party to obtain borrowings amounting to approximately HK$61,226,000 (as at 31 December 2018: HK$220,364,000) and has retained late payment and credit risk. Thus, the Group considers the held to collect business model to remain appropriate for these receivables and continues measuring them at amortised cost.

(ii) Fair values of trade and other receivables

Due to the short-term nature of the current receivables, their carrying amount is considered to be the same as their fair value.

13. TRADE AND OTHER PAYABLES

	As at 30 June 2019	As at 31 December 2018
	HK$'000	*HK$'000*
Trade payables	**174,602**	64,377
Other payables	**27,927**	15,208
Accruals	**56,919**	18,440
	259,448	98,025

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

The ageing analysis of the trade payables based on invoice date were follows:

	As at 30 June 2019	As at 31 December 2018
	HK$'000	*HK$'000*
0 – 30 days	**135,557**	28,111
61 – 90 days	**5,361**	–
91 – 180 days	**644**	17,685
181 – 365 days	**18,525**	5,630
Over 365 days	**14,515**	12,951
	174,602	64,377

14. BORROWINGS

	As at 30 June 2019 HK$'000	As at 31 December 2018 HK$'000
Other borrowings		
Secured	**61,226**	220,364
Unsecured	**6,630**	74,943
Total borrowings	**67,856**	295,307

All borrowings are repayable within one year.

The secured borrowings are secured by other receivables amounting to approximately HK$61,703,000 (as at 31 December 2018: HK$223,133,000).

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

15. PENDING LITIGATION

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

By the above action, the Chengdu Plaintiff alleged that the 18 Defendants through unfair competition adversely affect the box office receipts of the Chengdu Plaintiff's film during the release period of the film *Us and Them* (後來的我們). The Chengdu Plaintiff mainly requested the 18 Defendants to compensate a total sum of RMB10,000,000 (equivalent to approximately HK$11,832,000) and bear the relevant legal fee and reasonable expenses arising from their legal rights protection. One of the 18 Defendants is applying for transferring the case to Chaoyang District People's Court of Beijing for trial.

In the opinion of legal counsel, it is premature to predict the outcome of the said claim against Shou Ying. The Company considers that the amounts of claim by the Chengdu Plaintiff against Shou Ying is insignificant to the Group as a whole.

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

* *The English name is for identification purpose only*

By the above lawsuit, the Wuhan Plaintiffs alleged that the 17 Defendants infringed on the adaptation and filming rights for the script of the film *Us and Them* (後來的我們) and damaged the interests of market through filming *Us and Them* (後來的我們). The Wuhan Plaintiffs mainly requested the 17 Defendants to stop the reproduction, distribution and dissemination of the film, compensate a total sum of RMB70,000,000 and bear the case acceptance fee and other legal fees. As at the date of this announcement, this lawsuit is still in trial before Wuhan Intermediate People's Court.

In the opinion of legal counsel, it is premature to predict the outcome of the said claim against Shou Ying. The Company considers that the amounts of claim by the Wuhan Plaintiffs against Shou Ying is insignificant to the Group as a whole.

16. CHANGE IN PRESENTATION OF COMPARATIVES

Certain comparative figures of the unaudited condensed consolidated interim financial information were reclassified to conform with the current period's presentation.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND OPERATION REVIEW

The Company managed to bring encouraging results during the first half of this year, as revenue from its principal business, namely investment in film and TV programmes rights, and its streaming platform "huanxi.com" (歡喜首映) (the "**Platform**"), surged 11.58-fold to HK$1,068,980,000 when compared with the last corresponding period. The Group's business has achieved a turnaround with net profit of HK$321,532,000. Such outstanding achievements are not only a true testimony to the Group's unspoken efforts in securing top film directors in China; investing and producing quality film and TV contents; and operating a streaming platform; which are beginning to pay off; they also signify the official commencement of the harvest phase for the Group's film and TV business.

As for investment in film and TV programmes rights, *Crazy Alien* (瘋狂的外星人), a film exclusively invested by the Group and directed by Ning Hao, hit cinema screens during the Chinese New Year holiday in 2019. The film achieved satisfactory box office receipts and critical acclaim, boasting box office receipts of more than RMB400 million and snatching the No.1 spot on its debut day. In total, box office receipts amounted to RMB2.2 billion. This film contributed significant revenue to the Group during the period under review. Also, rights in certain films were sold to third parties during the period under review, which also generated promising revenue to the Group.

As for the streaming platform "huanxi.com", cooperation between the Group and Tianjin Maoyan Weying Cultural Media Co., Ltd.* ("**Maoyan**") – a leading internet and pan-entertainment platform in China, was progressing as planned. The Group promoted its films and drama series contents by leveraging Maoyan's internet resources, thereby attracting users to the Platform. Currently, "huanxi.com" serves for more than 1 million of paid users. Moreover, the Group has been actively enriching the contents available on "huanxi.com": not only by jointly creating platform-exclusive resources with shareholder directors and contracted directors, making blockbuster films such as *Crazy Alien* (瘋狂的外星人), *Dying to Survive* (我不是藥神), and *Ash Is Purest White* (江湖兒女) available on the Platform, but also by purchasing quality film and TV productions from around the world, including, among others, *Detective Yugami* (刑警弓神), a popular Japanese TV drama series; *Bodyguard* (貼身保鑣, translated title in Hong Kong: 內政保鑣), the most watched BBC drama series in the past decade; and *See You Up There* (天上再見), a movie that created a stir in the world of film in France. With premium film and TV contents on offer, the Platform has continued to attract more paid users, the streaming platform business will become another growth driver of the Group's business.

* *The English name is for identification purpose only*

Investment in Film and TV Programmes Rights Business

For the six months ended 30 June 2019, the Group's segmental revenue reached HK$1,068,980,000 (30 June 2018: HK$84,748,000), representing an increase of 11.61 times compared with last corresponding period. The segmental profit amounted to HK$444,763,000 for the period (30 June 2018: a segment loss of HK$4,629,000). The significant improvement was mainly due to the revenue from the film *Crazy Alien* (瘋狂的外星人), the streaming platform "huanxi.com" and sale of rights in certain films.

Other Businesses

The Group's other businesses include property agency business and securities trading and investments business. For the six months ended 30 June 2019, the Group's other businesses did not record any revenue (30 June 2018: HK$240,000) and recorded segmental loss of HK$4,000 (30 June 2018: HK$399,000). This segment shrank mainly because the management has allocated more resources to media and entertainment related businesses, which are the Group's major growth drivers.

FINANCIAL REVIEW

Review of Results

During the period under review, the Group recorded revenue of HK$1,068,980,000 (30 June 2018: HK$84,988,000), representing 11.58 times increase in revenue compared with last corresponding period. The gross profit was HK$464,456,000 (30 June 2018: HK$14,914,000), representing 30.14 times increase in gross profit compared with last corresponding period. The profit attributable to the owners of the Company for the six months ended 30 June 2019 amounted to HK$321,532,000 (30 June 2018: loss of HK$111,608,000). The significant improvement of revenue, gross profit and profit attributable to the owners of the Company were mainly caused by (i) the increase in revenue from the Group's principal business, namely investment in film and TV programmes rights, as well as the streaming platform "huanxi.com" and the sale of rights in certain films; and (ii) the decrease in the recognition of share-based payments to HK$4,056,000 (30 June 2018: HK$65,469,000).

For the six months ended 30 June 2019, earnings per share of the Group amounted to HK$0.11 (30 June 2018: loss per share of HK$0.04) and net asset value per share attributable to the owners of the Company was HK$0.43 (31 December 2018: HK$0.23).

Liquidity and Financial Resources

The Group's capital expenditure, daily operations and investments are mainly funded by cash generated from its operations and equity fund raising. As at 30 June 2019, the Group had net current assets of HK$925,032,000 (31 December 2018: HK$244,714,000), with cash and cash equivalents of HK$296,426,000 (31 December 2018: HK$158,528,000). As at 30 June 2019, the total equity of the Company amounted to HK$1,360,992,000 (31 December 2018: HK$658,668,000) with total borrowings of HK$68,252,000 (31 December 2018: HK$387,774,000). The Group's gearing ratio, expressed as the percentage of total borrowings over total capital, was 0.05 (31 December 2018: 0.37) as at 30 June 2019. Total capital is calculated as total equity plus total borrowings.

Capital Structure

As at 30 June 2019, the Company had 3,154,655,408 ordinary shares (31 December 2018: 2,918,055,408) of HK$0.01 each (the "**Share**" or "**Shares**") in issue.

During the period under review, the movement in the issued Shares of the Company are as follows:

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

The gross proceeds and net proceeds raised from the Subscription is HK$390,555,620 and approximately HK$390,000,000 respectively. Approximately HK$93,574,000 have been used by the Company for the six months ended 30 June 2019 and approximately HK$296,426,000 remains unutilised which is expected to be fully utilised by 31 March 2020. The following table sets out the breakdown of the use of net proceeds as at 30 June 2019.

Use of proceeds for:	**Amount proposed to be used** *(HK$'000)*	**Amount used** *(HK$'000)*	**Unutilised amount** *(HK$'000)*
Investment in, production of and purchase of film and TV contents	190,000	(39,183)	150,817
Development of its online video platform	100,000	(15,679)	84,321
General working capital	100,000	(38,712)	61,288
Total	390,000	(93,574)	296,426

The proceeds are used and proposed to be used in accordance with the intentions previously disclosed by the Company in the announcement of the Company dated 12 March 2019.

The Board believes that the Subscription can raise sufficient funds for the Group to accelerate the development of its streaming platform as well as the Group's investment in film and TV programmes rights, and also serve to broaden the shareholder base of the Company.

Please refer to the Company's announcements dated 12 March 2019, 13 March 2019 and 19 March 2019 for details of the Subscription Agreement.

Charges on Assets

As at 30 June 2019, the Group's secured borrowings of approximately HK$61,226,000 (31 December 2018: HK$220,364,000) were secured by other receivables amounting to approximately HK$61,703,000 (31 December 2018: approximately HK$223,133,000).

Foreign Exchange Exposure

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

Risk Management

During the period under review, 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 the year-end date last year.

Contingent Liabilities

Save as disclosed in note 15 "Pending Litigation" to the unaudited condensed consolidated interim financial information, the Group had no significant contingent liabilities as at 30 June 2019 (31 December 2018: same).

Employees and Remuneration Policies

As at 30 June 2019, the Group had 90 employees (31 December 2018: 84). It hired more employees during the period under review to support the expanding of its media and entertainment related businesses. The Group has in place well-designed remuneration management and incentive mechanisms, with employees remunerated based on their positions and work performance, along with industry trends.

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the plans are held separately from those of the Group in funds under the control of trustees. The employees of the Group's subsidiaries in China are members of a state-managed retirement benefit plan operated by the Chinese government. The subsidiaries are required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit plan is to make the specified contributions.

Prospects

The Group has always emphasised that the key to succeeding in the film and TV industry lies in premium content, believing that the delivery of quality film and TV contents, together with extensive broadcast channels, will play a major role in shaping China's film and TV industry going forward. Industry statistics suggest that Chinese films generated total box office receipts of RMB31.17 billion with a total attendance of approximately 807 million in the first half this year, down year-on-year by 2.8% and 10.5%, respectively. This was the first time that both figures recorded negative growths since 2011. In general, the market attributes these declines mostly to higher ticket prices and the lack of appeal of recently released films, with a consensus that the only means to bring back audience is through fascinating storylines. As a result, it is the Group's belief that always walking the extra mile in production is the secret to delivering outstanding box-office performance.

Immediately following the release of *Crazy Alien* (瘋狂的外星人) in the first half year, the Group remained as committed to bolstering its reserve of premium film and TV resources. Among which, films such as *Me and My Motherland* (我和我的祖國), directed by Xu Zheng, Ning Hao and Zhang Yibai and others; *Lost in Russia* (囧媽), written, directed and starred by Xu Zheng; *Chinese Women's Volleyball Team* (中國女排) and *Li Na* (李娜), directed by Chan Ho Sun Peter; *One Second* (一秒鐘), directed by Zhang Yimou; *Run for Young* (瘋犬少年的天空), directed by Zhang Yibai; *Miss Mom* (生不由己) (tentative name), directed by Tang Danian and starring Ren Suxi; *Tropical Memories* (熱帶往事), produced by Ning Hao and directed by young director Wen Shipei; and *The Advanced Animals* (高級動物), produced by Gao Qunshu, are expected to be released in the second half of 2019 or next year. The Group is confident that these productions will energise the Group and enable it to maintain a strong growth momentum in results. Among these films, *Lost in Russia* (囧媽) is the latest addition to Xu Zheng's classic "Lost" series of comedy. The story takes place on a train to Russia, with the protagonist being a small business owner embroiled in business disputes. He not only fights with his mother on the train, but also finds himself in the centre of many funny stories. With a meticulous attention to detail in production, this film will undoubtedly be highly anticipated by the audience. With regard to *Chinese Women's Volleyball Team* (中國女排), which is directed by Chan Ho Sun Peter, it features the real-life story covering female volleyball players of the Chinese national team. Highlighting their tenacity and unyielding spirit to win honour for their country, this is an exceptional production delivered through the combination of familiar scenes and refined acting technique. Each with its own distinct style, *Lost in Russia* (囧媽) and *Chinese Women's Volleyball Team* (中國女排) cater to their respective audiences. The Group is confident that these two films will appeal to filmgoers from many different age groups and generate considerable revenue for the Group's film business in the first half of next year. In addition, *Li Na* (李娜), a biographical film directed by Chan Ho Sun Peter, celebrates the legendary female tennis player who won Asia's first Grand Slam women's singles champion. Exploring her "love-hate relationship" with tennis, the story starts in Wuhan, and follows her travels to Beijing, Paris and London, unveiling the extraordinary struggle and endurance behind her glory. The film is also expected to be well received by the audience.

On another note, as the pay-to-view mode becomes increasingly sophisticated for our internet drama business, users have grown accustomed to paying for access to video contents and services. This resulted in a rapid expansion in online paid user base, presenting a tremendous opportunity for the Group to expand "huanxi.com". Going forward, the Group will continue to bolster the Platform with more quality films and TV productions. Also on the way are internet drama series expected to be released in the coming one to two years, including *Paradise Guesthouse* (天堂旅館), an 12-episode internet drama series produced and co-directed for the first time by the Group's shareholder director Wong Kar Wai, which is currently in pre-production; and *Run For Young* (瘋犬少年的天空), a drama series directed by Zhang Yibai and adapted from the fiction with the same title, which has entered post-production.

The Group firmly believes that owning quality film contents and productions is critical to its success, while outstanding directors and creative teams are key factors that determine the artistic merit and commercial value of films. Thus, its primary objective is to invest in and produce works of artistic excellence that can assure box-office performance. Huanxi Media will continue to give full play to its unique shareholding structure model, and cooperate with shareholder directors, including Ning Hao, Xu Zheng, Chan Ho Sun Peter, Wong Kar Wai, Zhang Yibai, Gu Changwei and Zhang Yimou to ensure its access to original contents sources in China's market of films and internet dramas. This, in turn, will secure a stable supply of quality film and TV productions, thereby leading to the pooling of complementary strengths and win-win outcomes. Meanwhile, as projects that Huanxi Media invested in earlier will be gradually released, it is expected to keep receiving fruitful returns in the next few years.

Dying to Survive (我不是藥神), a film co-produced by Ning Hao and Xu Zheng with Huanxi Media as the investor and producer, grossed more than RMB3 billion in box office receipts in mainland China. Depicting a social phenomenon with a story filled with laughter and tears, not only did the film spark enthusiastic discussions in the society, it also served as a testament to the success of Huanxi Media's model for nurturing new directors. The Group will continue to identify and assist more outstanding new directors, including investing solely in the films they direct, so that it may further enhance its core competitive advantages in film and TV productions.

With films that the Group invested in winning critical acclaim and box office success, Huanxi Media recorded impressive revenue during the period under review. The Group will strive to implement its strategies and continue to create valuable returns for its 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 contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") throughout the six months ended 30 June 2019.

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 announcement, the Board comprises seven Directors, with two executive Directors, two non-executive Directors and three independent non-executive Directors. All the Directors are high calibre executives with diversified industry expertise and bring a wide range of skills and experience to the Group.

Change in Information of Directors

There is no change in Directors' information since 1 January 2019, which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

OTHER INFORMATION

Interim Dividend

The Board does not declare an interim dividend for the six months ended 30 June 2019 (for the six months ended 30 June 2018: nil).

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

During the six months ended 30 June 2019, 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 the accounting principles and practices adopted by the Group and the unaudited condensed consolidated interim financial information of the Group for the six months ended 30 June 2019. The committee is satisfied with the review and the Board is also satisfied with the committee's report.

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

Hong Kong, 14 August 2019

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