Pegasus Entertainment Holdings Limited
天馬影視文化控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1326)

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 30 JUNE 2016

FINANCIAL HIGHLIGHTS

- The Group (as defined below) achieved a record high revenue of approximately HK$446.4 million for the year ended 30 June 2016, an increase of HK$291.1 million or 187.5% when compared to the corresponding year 2015. This was mainly driven by the considerable revenue derived from the distribution and licensing of the large-scale action film produced by the Group, namely "Ip Man 3" (葉問3).

- Gross profit margin for the year ended 30 June 2016 was approximately 41.9% which translates into a gross profit of approximately HK$186.8 million.

- The Group reported a loss attributable to owners of the Company of approximately HK$72.6 million for the year ended 30 June 2016 as compared to a loss of approximately HK$215.3 million for the same period of the previous financial year, the loss reduction was mainly due to the outstanding performance of the film and TV series production and distribution segment, the improvement of the film exhibition segment and the reduction of the impairment loss recognised during the year ended 30 June 2016.

- The Group's net assets and net current assets as at 30 June 2016 reached HK$332.3 million and HK$162.1 million respectively.

- The Board (as defined below) does not recommend the payment of final dividend for the year ended 30 June 2016.

RESULTS FOR THE YEAR ENDED 30 JUNE 2016

The Board of Directors of the Company (the "Board") is pleased to announce the audited results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 30 June 2016 together with the comparative figures for the corresponding period in 2015 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2016

	Notes	**2016** ***HK$'000***	2015 *HK$'000*
Revenue	*4*	**446,381**	155,240
Cost of sales		**(259,552)**	(108,419)
Gross profit		**186,829**	46,821
Other income		**4,738**	2,869
Selling and distribution expenses		**(102,820)**	(84,456)
Administrative expenses		**(87,674)**	(33,369)
Net foreign exchange loss		**(6,779)**	(110)
Impairment loss on goodwill	*9*	**(43,084)**	(138,000)
Impairment loss on intangible asset	*10*	**(20,514)**	–
Impairment loss on other receivables		**(2,011)**	–
Impairment loss on prepayment for investment in TV series production		**–**	(15,750)
Finance costs		**(170)**	(78)
Share of results of an associate		**(234)**	(4,548)
Share of results of a joint venture		**(2,090)**	–
Loss before tax		**(73,809)**	(226,621)
Income tax (expense) credit	*6*	**(10,343)**	9,637
Loss for the year	*7*	**(84,152)**	(216,984)
Other comprehensive (expense) income			
Items that may be reclassified subsequently to profit or loss			
Share of exchange difference of an associate		**29**	2
Share of exchange difference of a joint venture		**(2,485)**	–
Exchange difference arising on translating foreign operation		**1,503**	–
		(953)	2
Total comprehensive expense for the year		**(85,105)**	(216,982)

	Note	2016 HK$'000	2015 HK$'000
Loss for the year attributable to:			
Owners of the Company		**(72,591)**	(215,258)
Non-controlling interests		**(11,561)**	(1,726)
		(84,152)	(216,984)
Total comprehensive expense for the year attributable to:			
Owners of the Company		**(73,544)**	(215,256)
Non-controlling interests		**(11,561)**	(1,726)
		(85,105)	(216,982)
Loss per share			
Basic and diluted (HK cents)	*8*	**(2.9)**	(9.1)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2016

	Notes	2016 HK$'000	2015 HK$'000
Non-current assets			
Property, plant and equipment		**39,259**	45,458
Goodwill	9	**–**	43,084
Intangible assets	10	**5,600**	37,268
Interest in an associate		**53,887**	54,092
Interest in a joint venture	11	**47,504**	–
Prepayment to an artiste		**12,000**	18,000
Available-for-sale investment		**4,056**	4,056
Deferred tax assets		**7,878**	9,580
		170,184	211,538
Current assets			
Film rights		**3,175**	6,931
Film production in progress		**80,050**	181,753
Investments in film/drama production		**33,401**	25,530
Inventories		**801**	931
Trade and other receivables	12	**35,716**	12,881
Prepayment to an artiste		**12,000**	12,000
Rental deposits		**19,989**	20,130
Amount due from non-controlling interest		**146**	–
Tax recoverable		**–**	224
Pledged bank deposits		**31,165**	31,066
Bank balances and cash		**72,177**	81,750
		288,620	373,196
Current liabilities			
Trade and other payables	13	**45,582**	45,508
Receipts in advance	13	**69,037**	170,683
Tax payable		**7,555**	–
Amounts due to related companies		**402**	694
Amount due to non-controlling interest		**–**	7
Amount due to a joint venture		**3,918**	–
		126,494	216,892
Net current assets		**162,126**	156,304
Total assets less current liabilities		**332,310**	367,842
Capital and reserves			
Share capital	14	**6,309**	6,040
Reserves		**327,718**	351,150
Equity attributable to owners of the Company		**334,027**	357,190
Non-controlling interests		**(1,717)**	10,652
Total equity		**332,310**	367,842

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2016

	Attributable to owners of the Company									
	Share capital	Share premium	Share option reserve	Other reserve	Exchange reserve	Warrants reserve	Retained profits (accumulated losses)	Sub-total	Non-controlling interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(Note)*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 July 2014	4,800	199,168	–	10	(23)	710	86,611	291,276	–	291,276
Loss for the year	–	–	–	–	–	–	(215,258)	(215,258)	(1,726)	(216,984)
Share of exchange difference of an associate	–	–	–	–	2	–	–	2	–	2
Total comprehensive income (expense) for the year	–	–	–	–	2	–	(215,258)	(215,256)	(1,726)	(216,982)
Issue of new shares	500	62,500	–	–	–	–	–	63,000	–	63,000
Cost of issuing new shares	–	(3,000)	–	–	–	–	–	(3,000)	–	(3,000)
Acquisition of subsidiaries	460	195,500	–	–	–	–	–	195,960	9,570	205,530
Cost of issuing consideration shares	–	(500)	–	–	–	–	–	(500)	–	(500)
Issue of shares upon exercise of warrants	290	26,895	–	–	–	(215)	–	26,970	–	26,970
Shares repurchased and cancelled	(10)	(1,250)	–	–	–	–	–	(1,260)	–	(1,260)
Capital contribution from non-controlling interests	–	–	–	–	–	–	–	–	2,808	2,808
At 30 June 2015	6,040	479,313	–	10	(21)	495	(128,647)	357,190	10,652	367,842
Loss for the year	–	–	–	–	–	–	(72,591)	(72,591)	(11,561)	(84,152)
Share of exchange difference of an associate	–	–	–	–	29	–	–	29	–	29
Share of exchange difference of a joint venture	–	–	–	–	(2,485)	–	–	(2,485)	–	(2,485)
Exchange difference on arising translating foreign operation	–	–	–	–	1,503	–	–	1,503	–	1,503
Total comprehensive expense for the year	–	–	–	–	(953)	–	(72.591)	(73,544)	(11,561)	(85,105)
Acquisition of additional interest in a subsidiary	–	–	–	–	–	–	–	–	(1,008)	(1,008)
Issue of shares upon exercise of warrants	269	25,040	–	–	–	(200)	–	25,109	–	25,109
Recognition of equity-settled share based payments	–	–	25,272	–	–	–	–	25,272	–	25,272
Transfer upon share options lapsed	–	–	(25,272)	–	–	–	25,272	–	–	–
Capital contribution from non-controlling interests	–	–	–	–	–	–	–	–	200	200
At 30 June 2016	6,309	504,353	–	10	(974)	295	(175,966)	334,027	(1,717)	332,310

Note: Other reserve represents the difference between the aggregate nominal value of the respective share capital of the companies now comprising the subsidiaries of the Company over the nominal value of the shares of the Company issued pursuant to the group reorganisation completed on 5 October 2012 to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing").

NOTES TO THE RESULTS

1. GENERAL INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands on 8 March 2012. The Company's registered office is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-111, Cayman Islands and its principal place of business is located at Rooms 1801–2, Westlands Centre, 20 Westlands Road, Quarry Bay, Hong Kong. Its immediate and ultimate holding company is Honour Grace Limited, a company incorporated in the British Virgin Islands.

The Company is an investment holding company. The Group's core business includes film and television ("TV") series production, distribution and licensing of film rights, film exhibition, post-production, as well as advertising, marketing and publication.

2. BASIS OF PREPARATION

The consolidated financial statements have been prepared on the historical cost basis. The principal accounting policies used in the preparation of the consolidated financial statements are consistent with those used in the annual audited financial statements for the year ended 30 June 2015 except in relation to adoption of new accounting policies for the first time for the current period's financial statements.

The consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is the Company's functional and presentation currency.

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

(a) Adoption of new accounting policies

Investment in a joint venture

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the joint venture. When the Group's share of losses of a joint venture exceeds the Group's interest in that joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that joint venture.

An investment in a joint venture is accounted for using the equity method from the date on which the investee becomes a joint venture. On acquisition of the investment in a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with a joint venture of the Group, profits and losses resulting from the transactions with the joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the joint venture that are not related to the Group.

Share-based payment

Equity-settled share-based payment transactions

Share options granted to consultants

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service. The fair values of the goods or services received are recognised as expenses, with a corresponding increase in equity (share option reserve), when the Group obtains the goods or when the counterparties render services, unless the goods or services qualify for recognition as assets.

(b) New and revised HKFRSs in issue but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers[1]
HKFRS 16	Leases[4]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 11	Accounting for Acquisition of Interest in Joint Operations[2]
Amendments to HKFRS 15	Clarifications to HKFRS 15 Revenue from Contracts with Customers[1]
Amendments to HKAS 1	Disclosure Initiative[2]
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation[2]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012–2014 Cycle[2]
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants[2]
Amendments to HKAS 27	Equity Method is Separate Financial Statements[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception[2]
Amendments to HKAS 7	Disclosure Initiative[5]
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[5]

[1] Effective for annual periods beginning on or after 1 January 2018
[2] Effective for annual periods beginning on or after 1 January 2016
[3] Effective for annual periods beginning on or after a date to be determined
[4] Effective for annual periods beginning on or after 1 January 2019
[5] Effective for annual periods beginning on or after 1 January 2017

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in 2013 to include the new requirements for general hedge accounting. Another revised version of HKFRS 9 was issued in 2014 mainly to include (a) impairment requirements for financial assets and (b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of HKFRS 9:

- All recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in HKAS 39. Under HKFRS 9, However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the retrospective quantitative effectiveness test has been removed. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The directors of the Company ("the Directors") anticipate that the adoption of HKFRS 9 in the future may have a material impact on the amounts reported in respect of the Group's financial assets and financial liabilities. Regarding the Group's financial assets, it is not practicable to provide a reasonable estimate of that effect until a detailed reviewed has been completed.

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

The Directors anticipate that the application of HKFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review.

HKFRS 16 Leases

HKFRS 16, which upon the effective date will supersede HKAS 17 *Leases*, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The Directors will assess the impact of the application of HKFRS 16. For the moment, it is not practicable to provide a reasonable estimate of the effect of the application of HKFRS 16 until the Group performs a detailed review.

Except as described above, the Directors anticipate that the application of the other new and revised HKFRSs will have no material impact on the Group's consolidated financial statements.

4. REVENUE

	2016 *HK$'000*	2015 *HK$'000*
Film production, distribution and licensing income	**297,107**	77,011
Film exhibition income	**137,489**	73,141
Advertising, marketing and publication income	**6,663**	790
Advertising income	**3,130**	1,786
Post-production income	**1,992**	1,140
Service income	**–**	1,372
	446,381	155,240

5. SEGMENT INFORMATION

The Group identifies operating segments on the basis of internal reports about components of the Group that are regularly reviewed by the Directors, the chief operating decision makers ("CODM") in order to allocate resources to the segments and to assess their performance.

For the year ended 30 June 2016, the Group is organised into four main reportable segments as follows:

(i) Film and TV series production and distribution;

(ii) Film exhibition;

(iii) Post-production; and

(iv) Advertising, marketing and publication

Segment profit (loss) represent the profit earned or loss incurred by each segment without allocation of other income, certain of selling and distribution expenses, administrative expenses, finance costs, share of results of an associate and share of results of a joint venture. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

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

For the year ended 30 June 2016

	Film and TV series production and distribution *HK$'000*	**Film exhibition** *HK$'000*	**Post-production** *HK$'000*	**Advertising, marketing and publication** *HK$'000*	**Total** *HK$'000*
Segment revenue — External customers	**300,237**	**137,489**	**1,992**	**6,663**	**446,381**
Segment profit (loss)	**58,856**	**(12,876)**	**(3,769)**	**(79,870)**	**(37,659)**
Unallocated other income					**1,754**
Unallocated head office and corporate expenses					**(35,410)**
Finance costs					**(170)**
Share of results of an associate					**(234)**
Share of results of a joint venture					**(2,090)**
Loss before tax					**(73,809)**

For the year ended 30 June 2015

	Film and TV series production and distribution *HK$'000*	Film exhibition *HK$'000*	Post-production *HK$'000*	Advertising, marketing and publication *HK$'000*	Total *HK$'000*
Segment revenue — External customers	80,169	73,141	1,140	790	155,240
Segment loss	(32,934)	(37,876)	(1,998)	(137,993)	(210,801)
Unallocated other income					669
Unallocated head office and corporate expenses					(11,863)
Finance costs					(78)
Share of results of an associate					(4,548)
Loss before tax					(226,621)

As the Group's segment assets and liabilities are not regularly provided to the Group's CODM, the relevant analysis for both years is not presented.

Other segment information

For the year ended 30 June 2016

	Film and TV series production and distribution *HK$'000*	**Film exhibition** *HK$'000*	**Post-production** *HK$'000*	**Advertising, marketing and publication** *HK$'000*	**Unallocated** *HK$'000*	**Total** *HK$'000*
Amounts included in the measured of segment profit or loss:						
Depreciation of property, plant and equipment	**392**	**5,015**	**1,687**	**407**	**174**	**7,675**
Amortisation of intangible asset	**–**	**–**	**–**	**11,154**	**–**	**11,154**
Amounts regularly provided to the CODM but not included in the measure of segment profit or loss:						
Interest income	**–**	**–**	**–**	**–**	**1,430**	**1,430**
Share of results of an associate	**–**	**–**	**–**	**–**	**(234)**	**(234)**
Share of results of a joint venture	**–**	**–**	**–**	**–**	**(2,090)**	**(2,090)**

For the year ended 30 June 2015

	Film and TV series production and distribution *HK$'000*	Film exhibition *HK$'000*	Post-production *HK$'000*	Advertising, marketing and publication *HK$'000*	Unallocated *HK$'000*	Total *HK$'000*
Amounts included in the measured of segment profit or loss:						
Depreciation of property, plant and equipment	231	3,003	891	13	162	4,300
Amortisation of intangible asset	–	–	–	232	–	232
Amounts regularly provided to the CODM but not included in the measure of segment profit or loss:						
Interest income	–	–	–	–	669	669
Share of results of an associate	–	–	–	–	(4,548)	(4,548)

Geographical information

An analysis of the Group's revenue from external customers by geographical market based on where the film distribution and licensing income is derived from are as below:

	2016	2015
	HK$'000	*HK$'000*
Hong Kong and Macau	**196,597**	99,527
People's Republic of China (the "PRC")	**192,968**	45,210
North America	**23,337**	–
South East Asia Region	**17,292**	4,310
Others	**16,187**	6,193
	446,381	155,240

The Group's non-current assets by geographical location of the assets are details below:

	2016	2015
	HK$'000	*HK$'000*
The PRC	**273**	347
Hong Kong	**169,911**	211,191
	170,184	211,538

Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

	2016	2015
	HK$'000	*HK$'000*
Customer A[1]	**N/A[2]**	15,750
Customer B[1]	**87,753**	N/A[2]
Customer C[1]	**78,159**	N/A[2]

1 Revenue from film and TV series production and distribution.

2 The corresponding revenue did not contribute over 10% of the total revenue of the Group.

6. INCOME TAX EXPENSE (CREDIT)

	2016 HK$'000	2015 HK$'000
The income tax expense (credit) comprises:		
Hong Kong Profits Tax		
— current	**7,746**	48
— under (over) provision in prior years	**78**	(77)
	7,824	(29)
PRC Enterprise Income tax ("EIT")		
— current	**808**	–
— underprovision in prior years	**9**	–
	817	–
	8,641	(29)
Deferred taxation	**1,702**	(9,608)
	10,343	(9,637)

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

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 are 25% from 1 January 2008 onwards.

7. LOSS FOR THE YEAR

	2016 HK$'000	2015 HK$'000
Loss for the year has been arrived at after charging:		
Directors' emoluments	**11,393**	6,146
Other staff costs	**22,116**	9,694
Retirement benefit scheme contributions, excluding those of Directors	**1,171**	581
Total staff costs	**34,680**	16,421
Auditors' remuneration	**1,377**	1,162
Depreciation of property, plant and equipment	**7,675**	4,300
Amortisation of intangible asset	**11,154**	232
Cost of film rights recognised as an expense	**171,315**	72,892
Impairment loss on film production in progress (included in cost of sales)	**17,934**	–
Minimum lease payments under operating leases in respect of:		
Premises	**4,314**	2,035
Cinema	**57,158**	52,751
Contingent rents incurred for cinema	**1,509**	877
Cost of services provided	**61,052**	33,610
Cost of inventories sold	**2,657**	1,666
Share-based payment expense	**25,272**	–
and after crediting:		
Bank interest income	**1,430**	669
Membership fee income (included in other income)	**505**	162
Investment income from investment in film/drama production (included in other income)	**–**	765
Handling service income (included in other income)	**2,335**	993

8. LOSS PER SHARE

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

	2016	2015
	HK$'000	*HK$'000*
Loss		
Loss for the year attributable to owners of the Company for the purpose of basic and diluted loss per share	**72,591**	215,258
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	**2,493,134,663**	2,377,549,378

The weighted average number of ordinary shares for both years for the purpose of basic and diluted loss per share has been adjusted for the share subdivision completed on 22 July 2015 (note 14(a)).

The computation of the diluted loss per share for the year ended 30 June 2016 and 2015 does not assume the exercise of the Company's outstanding warrants since their exercise would result in a decrease in loss per share.

9. GOODWILL

	HK$'000
Cost	
At 1 July 2014	–
Arising on acquisition of subsidiaries	181,084
At 30 June 2015 and 2016	181,084
Impairment	
At 1 July 2014	–
Impairment loss recognised for the year	(138,000)
As 30 June 2015	(138,000)
Impairment loss recognised for the year	(43,084)
As 30 June 2016	(181,084)
Carrying Amounts	
At 30 June 2016	–
At 30 June 2015	43,084

For the purpose of impairment testing, goodwill (before impairment loss) of HK$181,084,000 (2015: HK$181,084,000) has been allocated to the groups of cash generating units ("CGUs") of Chili Advertising & Promotions Limited ("Chili") and its subsidiaries (collectively referred to as "Chili Group") which included Chili and Chili Platinum Advertising and Magazine Publishing Limited ("Chili Platinum") acquired by the Group.

Pursuant to the sales and purchase agreement dated 6 March 2015 (as amended by a supplemental agreement dated 30 April 2015) (the "Agreement") entered into between Green Riches Holdings Limited ("Green Riches"), a wholly-owned subsidiary of the Company and Ms. Wong Kit Fong, the sister of Mr. Wong Pak Ming ("Mr. Wong"), the Chairman and substantial shareholders of the Company, as the vendor for the acquisition of Chili Group at a total consideration of stated amount of HK$68,000,000, which was satisfied partly by HK$10,040,000 paid in cash and HK$57,960,000 was satisfied by issuance of 46,000,000 consideration shares by the Company at the agreed issuance price of HK$1.26 per consideration share ("Consideration Share") (the "Acquisition").

At 12 June 2015, the date of completion of the Acquisition, the fair value of aggregate consideration paid for the Acquisition was increased from HK$68,000,000 as stated in the Agreement to HK$206,000,000 at the date of completion due to the unforeseen increase in the quoted market price of the Company's shares. The market price of the fixed number of Consideration Shares paid as part of the consideration of the Acquisition increased from HK$1.26 (at the date of the Agreement) to HK$4.26 (at the date of completion of the Acquisition) per Consideration Share. As a result, the amount of goodwill recognised as of the date of completion of the Acquisition was HK$181,084,000 instead of the original estimated amount of HK$43,084,000, which was estimated as of the date of the Agreement based on the stated consideration amount of HK$68,000,000.

As at 30 June 2015, the recoverable amount of Chili Group has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a five-year period and a discount rate of 17.02%. Cash flows beyond the five-year period are extrapolated using a steady 3% growth rate. Other key assumptions for the value in use calculations related to the estimation of cash flows which include budgeted sales and gross margins. The estimation of the budgeted sales and gross margins is based on past performance of Chili Group and management's expectations for the market development as well as the continuous renewal of the publishing corporation agreement. The estimated recoverable amount of Chili Group was below its carrying amount, accordingly the Group recognised an impairment loss of HK$138,000,000 in relation to goodwill arising on the Acquisition and charged to profit or loss during the year ended 30 June 2015.

During the year ended 30 June 2016, management of the Company ("Management") intends to terminate its publishing cooperation agreement with an independent third party and cease the publication of a magazine operated by Chili Platinum under Chili Group due to its unsatisfactory operating results which was mainly due to decrease in demand for advertising market for luxury products and services in the PRC arising from the slowdown of the growth of the PRC economy and conspicuous spending.

As at 30 June 2016, the recoverable amount of Chili Platinum has been determined based on fair value less costs of disposal calculations, determined by the cost approach. The recoverable amount of Chili has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a five-year period and a discount rate of 12.40% (2015: 13.14%). Cash flows beyond the five-year period are extrapolated using a steady 3% (2015: 3%) growth rate. The estimation of the budgeted sales and gross margins is based on past performance of Chili and Management's expectations for the market development.

Management has taken the recoverable amounts of Chili Platinum and Chili into consideration for the purpose of impairment assessment of Chili Group. The estimated recoverable amount of Chili Group was below its carrying amount, accordingly the Group recognised an impairment loss of HK$43,084,000 in relation to goodwill and charged to profit or loss during the year ended 30 June 2016.

Subsequent to the year ended 30 June 2016, the Group enters into a termination agreement with the independent third party regarding the publishing cooperation agreement and ceases the publication of a magazine operated by Chili Platinum.

10. INTANGIBLE ASSETS

	Brand	Publishing cooperation agreement	Total
	HK$'000	*HK$'000*	*HK$'000*
COST			
At 1 July 2014	–	–	–
Acquisition of subsidiaries	5,600	31,900	37,500
At 30 June 2015 and 2016	5,600	31,900	37,500
ACCUMULATED AMORTISATION AND IMPAIRMENT			
At 1 July 2014	–	–	–
Provided for the year	–	232	232
At 30 June 2015	–	232	232
Provided for the year	–	11,154	11,154
Impairment loss recognised for the year	–	20,514	20,514
At 30 June 2016	–	31,900	31,900
CARRYING AMOUNTS			
At 30 June 2016	5,600	–	5,600
At 30 June 2015	5,600	31,668	37,268

The intangible assets are allocated to the CGU of Chili Group acquired by the Group which is presented under "Advertising, marketing and publication" reporting segment.

Brand

The brand name is associated to the advertising and promotion services operated by Chili and it is treated as having indefinite useful life because it is expected to contribute to net cash inflows to the Group indefinitely. Therefore, it is not amortised until its useful life is determined to be finite.

As at 30 June 2016, the recoverable amount of Chili has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a five-year period and a discount rate of 12.40% (2015: 13.14%). Cash flows beyond the five-year period are extrapolated using a steady 3% (2015: 3%) growth rate. The estimation of the budgeted sales and gross margins is based on past performance of Chili and management's expectations for the market development.

Publishing cooperation agreement

Chili Platinum entered into a publishing cooperation agreement that used to publish the magazine, namely "Platinum of UnionPay" for a term of four years which can be renewed if not objected by the parties entered into the publishing cooperation agreement. Amortisation is provided to write off the cost of the publishing cooperation agreement using the straight-line method over the estimated useful life of 2.86 years.

As at 30 June 2015, the impairment review was determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a five-year period and a discount rate of 17.02%. Cash flows beyond the five-year period are extrapolated using a steady 3% growth rate. The estimation of the budgeted sales and gross margins is based on past performance of Chili Platinum and management's expectations for the market development as well as the continuous renewal of the publishing cooperation agreement.

As at 30 June 2016, Management intends to terminate its publishing cooperation agreement and cease the publication of a magazine operated by Chili Platinum. The recoverable amount of Chili Platinum has been determined based on fair value less costs of disposal calculations, determined by the cost approach. Accordingly, the Group recognised an impairment loss of HK$20,514,000 in relation to intangible asset and charged to profit or loss.

Subsequent to the year ended 30 June 2016, the Group enters into a termination agreement with the independent third party regarding the publishing cooperation agreement and ceases the publication of a magazine operated by Chili Platinum.

11. INTEREST IN A JOINT VENTURE

	HK$'000
Cost of unlisted investment in a joint venture	52,079
Share of post-acquisition loss and other comprehensive expense	(4,575)
	47,504

On 8 June 2015, Pegasus Motion Pictures (Hong Kong) Limited ("PMPHKL"), an indirect wholly-owned subsidiary of the Company, Harmonious Entertainment (Shanghai) Co., Ltd ("HES") and Bounty Yoohanhwesa ("BY") entered into a Co-Production and Co-Financing Agreement to co-produce and co-finance a film production namely "Bounty Hunters" (賞金獵人). The production budget of the film was KRW18,375,000,000 (equivalent to approximately HK$130 million).

Bounty Productions Limited ("BPL") (a limited company incorporated in Hong Kong) has been set up on solely for the film production. The Group, HES and BY held 40.00%, 25.51% and 34.49% equity interest in BPL respectively. The board of directors of BPL, the governing body which directs the relevant activities that significantly affects the returns of BPL, consists of three directors of which the Group, HES and BY can appoint one director each to the board of directors of BPL. The relevant activities required to be approved unanimously by all these three directors. Therefore, BPL is jointly controlled by the Group, HES and BY. As the joint arrangement does not result in either parties having rights to assets and obligations to liabilities of BPL, it is accounted for as a joint venture of the Group.

12. TRADE AND OTHER RECEIVABLES

The aged analysis of the Group's trade receivables, net of allowance for doubtful debts, based on the invoice date, which approximates the respective revenue recognition dates at the end of the reporting period is as follows:

	2016	2015
	HK\$'000	*HK\$'000*
Trade receivables:		
0 – 30 days	**23,551**	1,983
31 – 60 days	**5,757**	3,479
61 – 90 days	**7**	1
91 – 180 days	**5**	98
181 – 365 days	**9**	458
Over 365 days	**14**	–
	29,343	6,019
Other receivables, deposits and prepayments	**5,707**	6,454
Other deposits and prepayments for cinema operation	**666**	408
	35,716	12,881

Generally, with the exception of post-production customers, who are generally granted credit period ranging from 30 to 60 days, no credit period is granted to the Group's customers. Distribution and licensing fee from distributors in Hong Kong, the PRC and overseas countries are normally settled upon delivery of film negatives to them. On a case-by-case basis, one to two months of credit period may be granted to its customers with good repayment history.

These trade receivables relate to a number of independent customers that have a good repayment history. Included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK$38,000 (2015: HK$557,000) as at 30 June 2016 which are past due as at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral or credit enhancements over these balances.

Aging of trade receivables which are past due but not impaired:

	2016	2015
	HK\$'000	*HK\$'000*
31 – 60 days	**3**	–
61 – 90 days	**7**	1
91 – 180 days	**5**	98
181 – 365 days	**9**	458
Over 365 days	**14**	–
	38	557

Management believes that no impairment allowance is necessary in respect of these balances as there have not been a significant change in credit risk and the balances are still considered fully recoverable.

13. TRADE AND OTHER PAYABLES / RECEIPTS IN ADVANCE

	2016	2015
	HK$'000	*HK$'000*
Trade payables	**19,496**	17,058
Other payables and accruals	**24,424**	26,602
Deposits received *(note a)*	**1,662**	1,848
	45,582	45,508
Receipts in advance *(note b)*	**69,037**	170,683

The average credit period on purchases of goods is 60 to 90 days. The aging analysis of trade payables presented is based on the invoice date at the end of the reporting period. The following is analysis of the Group's trade payables at the end of the reporting period:

	2016	2015
	HK$'000	*HK$'000*
Within 60 days	**19,496**	17,058

Notes:

(a) Deposits received represent deposits received from a cinema circuit operator in Hong Kong for a film to be theatrical release in Hong Kong and from sponsor for film production.

(b) Receipts in advance represents the instalments of contribution from the PRC co-producers for film production in progress and advances of distribution and licensing income received from distributors prior to theatrical release and delivery of film negatives of HK$69,037,000 (2015: HK$170,683,000) as at 30 June 2016.

14. SHARE CAPITAL

	Number of shares	Share capital
		HK$'000
Ordinary shares of HK$0.0025 (2015: HK$0.01) each:		
Authorised:		
At 1 July 2014, 30 June 2015 and 1 July 2015	8,000,000,000	80,000
Effect of share subdivision *(note a)*	24,000,000,000	–
At 30 June 2016	**32,000,000,000**	**80,000**
Issued and fully paid:		
At 1 July 2014	480,000,000	4,800
Issue of new shares *(note b)*	50,000,000	500
Issue of shares upon exercise of warrants	29,000,000	290
Shares repurchased and cancelled	(1,000,000)	(10)
Issue of consideration shares *(note c)*	46,000,000	460
At 30 June 2015	604,000,000	6,040
Effect of share subdivision *(note a)*	1,812,000,000	–
Issue of shares upon exercise of warrants	107,768,239	269
At 30 June 2016	**2,523,768,239**	**6,309**

Notes:

(a) Pursuant to the ordinary resolution passed by the shareholders of the Company at the extraordinary general meeting of the Company held on 21 July 2015, a share subdivision was approved and effective from 22 July 2015, each of the existing issued and unissued ordinary shares of the Company of par value of HK$0.01 subdivided into four subdivided ordinary shares of the Company of par value of HK$0.0025 each (the "Share Subdivision"). The Share Subdivision was duly passed by the shareholders of the Company by way on poll at the extraordinary general meeting of the Company held on 21 July 2015. The Share Subdivision was effective on 22 July 2015.

(b) On 12 September 2014, the Company issued 50,000,000 new shares at a price of HK$1.26 per share. The aggregate gross proceeds and net proceeds from the issuance of new shares are approximately HK$63,000,000 and HK$60,000,000, respectively.

(c) On 12 June 2015, the Company issued 46,000,000 new shares as part of consideration paid for the acquisition of subsidiaries.

During the year ended 30 June 2015, the Company repurchased its own shares through the Stock Exchange as follows:

Date of repurchase	No. of ordinary share of HK$0.01 each	Price per share Highest	Lowest	Aggregate consideration paid
		HK$	*HK$*	*HK$'000*
2 April 2015	928,000	1.29	1.25	1,171
8 April 2015	72,000	1.24	1.24	89
	1,000,000			1,260

The above shares were cancelled upon repurchase on 27 April 2015.

None of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

15 RELATED PARTY DISCLOSURES

(i) Transactions

During the year, the Group entered into the following significant transactions with related parties:

Name of related parties	*Notes*	Nature of transaction	**2016** *HK$'000*	2015 *HK$'000*
PM Motion Pictures Limited	(a)	Service income	**485**	1,425
Pegasus Laboratory (International) Limited ("Pegasus Laboratory")	(b)	Film processing services fee	**8**	847
Pure Project Limited	(c)	Rental expense	**1,320**	490
Chili	(d)	Advertising and promotion services fee	**–**	800
天馬影聯影視文化(北京)有限公司 ("天馬影聯 (北京)")	(e)	Management fee	**–**	227
杭州天馬影視文化有限公司 ("杭州天馬")	(f)	Management fee	**–**	151
BPL	(g)	Production income	**2,991**	–
Ta Creative House	(h)	Production service fee	**2,510**	–

Notes:

(a) The service income was received from PM Motion Pictures Limited for the Group's provision of film distribution services. Mr. Wong, Mr. Wong Chi Woon Edmond and Ms. Wong Yee Kwan Alvina (collectively referred to as the "Controlling Shareholders") all being the Directors, collectively have controlling interests over this company.

(b) The film processing services fee was paid to Pegasus Laboratory in which it is beneficiary owned by a company collectively controlled by the Controlling Shareholders at 30 June 2016 and 2015.

(c) The rental expenses was paid to Pure Project Limited for the office premise leased by the Group. Mr. Wong has controlling interests in Pure Project Limited.

(d) The advertising and promotion services fee was paid to Chili and for the period from 1 July 2014 to 12 June 2015 (the date of completion of acquisition of Chili) in which Ms. Wong Kit Fong, the sister of Mr. Wong, has controlling interest in Chili.

(e) The management fee was paid to 天馬影聯(北京) in which Mr. Wong has controlling interest.

(f) The management fee was paid to 杭州天馬 in which a member of the key management of the Group has controlling interest.

(g) The production income was received from the joint venture, BPL.

(h) The production service fee was paid to Ta Creative House in which Ms. Wong Kit Fong, the sister of Mr. Wong, has controlling interest in Ta Creative House.

(ii) Balances

Details of the amounts due to related companies, amount due from (to) non-controlling interests and amount due to a joint venture are set out in the consolidated statement of financial position.

The amounts are unsecured, interest fee and repayable on demand.

(iii) Compensation of key management personnel

The remuneration of Directors and other key management personnel of the Group during the year was as follows:

	2016	2015
	HK$'000	*HK$'000*
Salaries and other allowances	**13,817**	8,696
Retirement benefit scheme contributions	**103**	109
	13,920	8,805

The remuneration of Directors and key executives is determined by the remuneration committee of the Company having regard to the performance of individuals and market trends.

16. EVENT AFTER THE REPORTING PERIOD

Subsequent to the end of the reporting period, the Group entered into the following significant transaction:

On 11 July 2016, the Group entered into a share purchase agreement with an independent third party to acquire 40% equity interest of a company engaged in a film production business at a consideration of HK$20,000,000. The transaction was completed on the same day. As at the date of this announcement, the Company is in progress of assessing the financial impact of the acquisition.

DIVIDEND

No dividend was paid or proposed for the year ended 30 June 2016, nor has any dividend been proposed since ended of the reporting period (2015: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group is principally engaged in (i) film and TV series production, distribution and licensing of film rights, (ii) film exhibition, (iii) post-production, and (iv) advertising, marketing and publication. The Group produces films and TV series in the Chinese language with Hong Kong and the PRC as its major markets. The Group also operates both a cinema and a post-production house in Hong Kong.

Film and TV series production and distribution

During the year under review, the Group's film and TV series production and distribution business reported revenue of approximately HK$300.2 million compared to HK$80.2 million for the corresponding period last year, representing a year-on-year rise of approximately 274.5%. This was mainly attributable to the considerable revenue derived from the large-scale action film produced by the Group that was released during the year under review, entitled "Ip Man 3" (葉問3). The film was released in late December 2015, and achieved impressive box office receipts of approximately HK$60.4 million in Hong Kong. It also ranked top among all local films shown during the period it was released. For markets outside Hong Kong, according to data provided by the Group's respective film distributors, the film also achieved aggregate box office receipts of approximately HK$1.1 billion. "Ip Man 3" (葉問3) had successfully grossed approximately HK$1.2 billion in total box office receipts worldwide. Given that the income of the film has yet to be fully reflected during the year under review, the Group believes that it will still be making a certain extent contributions to revenue to be received through the sharing of worldwide box office receipts in the next financial year.

Apart from "Ip Man 3" (葉問3), "Wong Ka Yan" (王家欣) was released in October 2015, generating revenue of approximately HK$7.4 million for the Group, while "Bounty Hunters" (賞金獵人), a large-scale adventure action film produced by a joint venture formed between the Group and production companies from Korea and the PRC, starring Lee Min Ho (李敏鎬) and Wallace Chung (鍾漢良) which expected to be released during the year under review was slightly delayed and finally released in July 2016. In addition, "S Storm" (S風暴), a general-scale action film and a sequel to the Group's previously released film entitled "Z Storm" (Z風暴), starring Louis Koo (古天樂) and Julian Cheung (張智霖) was also released in September 2016, "S Storm" (S風暴) is still showing in cinemas in Hong Kong and the PRC as at the date of this announcement. The contributions from these films will be realised in the Group's interim results for the six months ending 31 December 2016.

Currently, the Group has a number of films and TV series in the production pipeline which are mainly scheduled to be completed and released subsequent to the year under review. These include: “Made in Kowloon” (九龍不敗), a large-scale action film, starring Louis Koo (古天樂) and Max Zhang (張晉) and directed by Fruit Chan (陳果), who is the director of an award winning film “The Midnight After” (那夜淩晨，我坐上了旺角開往大埔的紅VAN); “Seven Weapons” (七種武器之孔雀翎), a large-scale action film which adapted from an original famous martial arts novel written by “Gu Long” (古龍); and “Dream Has Become A Reality” (怪談之喜怒哀樂), a general-scale drama film produced by Teddy Robin (泰廸羅賓). Among these releases, “Dream Has Become A Reality” (怪談之喜怒哀樂) is the first ever film project obtained a grant from the Hong Kong Government under the Film Production Grant Scheme (the “FPGS”) of the Film Development Fund to encourage local film production. Granting of this fund has not only lowered the overall production cost but also serves to recognise the underlying creativity and originality of the film.

The Group has also invested in an international blockbuster movie entitled “Inversion” (tentative name) to be produced for worldwide theatrical distribution. “Inversion” is a science fiction movie about a streetwise American con man and a Chinese physicist who race against the clock to save the Earth from losing its gravity. Travis Fimmel, who stars in a movie released called “Warcraft” (魔獸爭霸:戰雄崛起) as well as the TV series “Vikings” is part of the main cast. The production team includes Peter Segal, an eight-time Emmy Award winner as film director, and double Oscar Award winner Paul Haggis for (best original screenplay and best motion picture) together with Bragi Schut and David Arata as screenplay writers. The executive producers comprise the team from “The Revenant” (復仇勇者), Markus Barmettler and Philip Lee, alongside Michael Nozik and Michael Ewing. The pre-production of “Inversion” is underway with filming and worldwide theatrical distribution tentatively scheduled to take place in late 2016 and the second half of 2017 respectively. Based on its outstanding pre-sale performance track record and the energetic production team, the Group expects the movie to receive a positive market response when it’s released, significantly helping to catalyse income growth over the next few years.

During the year under review, the Group continued to identify quality investment opportunities in film and TV series projects worldwide to diversify the Group’s revenue base. On 13 June 2016, the Group entered into a 3-year memorandum of strategic cooperation framework (the “MOC”) with 華策影業（天津）有限公司 (in English, for identification purpose only, Huace Pictures (Tianjin) Co., Ltd.) (“Huace Pictures”) with an aim of diversifying business operations. Based on the MOC, the two parties will co-operate in the areas of contents, project investment, artist management, derivative products development, plus network platforms and market expansion by integrating each other’s film and TV resources. “S Storm” (S風暴) is a cooperative venture between the Group and Huace Pictures in which the Group served as producer and Huace Pictures acted as the film’s distributor across the PRC.

As disclosed in the prospectus of the Company dated 9 October 2012 and the reports published in previous financial years, various factors such as number of films distributed by the Group, the scale, schedule of film release and the result of a film could have significant impact on the Group’s results. Taking all these factors into consideration, the Group’s interim financial results may not be indicative of the Group’s financial results of a full year and the Group’s financial performance would fluctuate from period to period.

Film exhibition

The remarkable box office performance of the Group's flagship cinema complex — Cinema City Langham Place was another key revenue driver for the Group. As of the date of this announcement, the cinema had taken in over HK$187.7 million in box office receipts since its commencement of operations in late November 2014 of which HK$122.7 million was contributed during the year under review. According to statistics from Hong Kong Box Office Limited, the cinema was ranked top among all cinemas in Hong Kong for 19 consecutive months since February 2015 so far. During the year under review, the film exhibition business contributed revenue of HK$137.5 million for the Group, accounting for approximately 30.8% of total revenues during the year under review.

As for the Group's second cinema located in "Vivo City" (怡豐城), a new large-scale retail complex in the Central Business District (CBD) of southwest Shanghai, construction work has been completed and interior design and renovation work began in September 2016. Full operations are expected to begin by the end of 2016.

With the steady growth of the box office receipts and the rising number of admissions in Hong Kong and the PRC, the Group is optimistic about prospects for the film exhibition business and will continue to explore all viable opportunities for business expansion.

Post-production

Post-production plays an important role for the Group in the overall integrated film production process. In spite of a loss of HK$3.8 million recorded during the year under review, the Group will maintain its small-scale development to provide post-production services to external customers which helps strengthen the Group's overall profitability, and more importantly, benefits the Group's film production business in terms of efficiency and cost control.

Advertising, marketing and publication

During the last financial year, the Group completed its acquisition of a film advertising and marketing business together with a printed and digital media publication business. Since the completion of the acquisition, the film advertising and marketing business had not only contributed positive results to the Group but also allowed the Group to benefit from the sophisticated advertising and promotion strategies as well as cost reduction during the year under review.

The Group published its first monthly luxury lifestyle magazine called "Platinum of UnionPay" (銀聯白金) which featured a wide range of the updated news on luxurious lifestyle related products and services in July 2015. This magazine had been provided on a complementary basis. As such, revenue was primarily derived from printed media and digital media advertisements placed by local or international luxury brands in this magazine. When the Company expanded its business to include the publication and distribution of this magazine, the Group believed that the combined digital and print readership base could secure advertising revenue. However, the results of this magazine did not perform as expected. The Group believes that such unsatisfactory performance was mainly due to the slowdown of the growth of the PRC's economy, the PRC's stock market turbulence and the PRC's crackdown on corruption and conspicuous spending, as a result of which those luxury brands were spending less on advertising their products and services. Coupled with the current overall decline within the publication industry amidst today's digital era, running a print magazine is extremely challenging.

In view of such unsatisfactory performance of this magazine, the Group had ceased the publication of this magazine in August 2016 in order to save cost. Meanwhile, the Group had commenced reviewing the overall structure and strategies of its print and digital media publication business, such as using the Group's publication platform for promotion events and joint film marketing campaigns and thereby creating a synergy effect from the Group's publication business and film production, distribution, advertising and marketing business. The Group believes that the reorientation of the printed and digital media publication business will help to further strengthen the Group's core business development, which forms an important part of the Group's film production value chain.

As a result of the uncertainty of the publication business, and for prudence sake, the relevant assets in relation to the publication of this magazine including goodwill and intangible assets with carrying amounts of approximately HK$43.1 million and HK$20.5 million respectively have to be impaired during the year under review which were non-cash items and will not have any negative impact on the cash flow of the Group.

Outlook

Despite recent statistics that have shown a slowdown in the growth pace for the PRC film industry, the PRC is still the world's second largest film market in terms of total box office receipts. In addition, the PRC Government has been actively introducing policies and measures including its revised "Film Industry Development Funds Collection and Manage Approach" 《國家電影事業發展專項資金徵收使用管理辦法》 to encourage film production by sponsors and funds, and some policies in different provinces in the PRC, such as the "Notice on Several Opinions of Supporting the Development of Chongqing Movie" 《關於扶持重慶電影發展的若干意見》 and "Notice of Several Policies on Promoting Shanghai Film Development" 《關於促進上海電影發展的若干政策》 to support and guide the industry. Seven departments including the Ministry of Finance (財政部), National Development and Reform Committee (國家發展改革委員會), People's bank of China (中國人民銀行), State Administration of Taxation (國家稅務總局), State Administration of Press, Publication, Radio, Film and Television (國家新聞出版廣電總局) jointly announced the "Notice of Economic Policies Supporting the Development of the Film Industry" 《關於支持電影發展若干經濟政策的通知》, which provides support in the areas of taxation, financing, and land use with full consideration along the movie production chain, to promote the film industry as well as open up the market to attract foreign film producers and investors. It is expected that the upward trend will continue apace; the PRC could possibly overtake the United States of America and be the biggest movie market in few years.

At the same time, the Hong Kong Government has also been very supportive in fostering the development of the local film industry. In November 2015, "Create Hong Kong" (創意香港) launched the FPGS under the Film Development Fund to support and subsidise small-budget film productions, providing a grant up to HK$2.0 million per film project with the aim of sparking local filmmakers' creativity to come up with quality film projects and boost the volume of local film productions as a whole. It was the Group's pleasure that "Dream Has Become A Reality" (怪談之喜怒哀樂) is the first local film project successfully obtained the grant from the FPGS since its launch.

With all the favourable policies from the PRC and the Hong Kong Government aimed at the film sector, the Group is optimistic about the industry's future. To capture potential growth opportunities, the Group has formulated various strategies and is dedicated transforming plans into reality. In the film production segment, the Group will maintain a production plan of producing approximately three films projects each year, among which, at least one will be a small budget local movie, with the purpose of training and nurturing new film talents.

As for the Group's film exhibition business, riding on the successful operation model of Cinema City Langham Place, the Group will keep exploring potential location to expand its film exhibition business in Hong Kong and the PRC to capture opportunities as a result of continued growth momentum there. The Group's second cinema located at "Vivo City" (怡豐城) in Shanghai is now under internal renovation works and is expected to begin operations in late 2016, before the traditional peak season of 2017 Chinese New Year.

Going forward, the Group will continue to focus on producing quality movies and vigorously optimise its business structure while developing new business models with a solid foundation under all its core operations in order to build an integrated entertainment platform, as well as capture the potential of today's booming movie and entertainment industry.

Financial Review

Revenue and Gross profit

Revenue of the Group for the year ended 30 June 2016 amounted to approximately HK$446.4 million, representing an increase of approximately HK$291.1 million or 187.5% compared to the previous financial year, mainly contributed by revenue from the business segments of film and TV series production and distribution and film exhibition of approximately HK$300.2 million and HK$137.5 million, respectively. Despite the Group released two films during the year under review which compared to three films in the previous financial year, the significant increase in revenue of film and TV series production and distribution was mainly due to the impressive revenue derived from the large-scale action film produced by the Group, namely "Ip Man 3" (葉問3), released during the year under review whilst the overall scale of the films released in the previous financial year were comparatively smaller than the films released during the year under review. Moreover, the revenue from film exhibition business was contributed the Group in a full financial year during the year under review since its commencement of operations in late November 2014.

Gross profit of the Group was approximately HK$186.8 million representing an increase of approximately HK$140.0 million or approximately 299.0% compared to the previous financial year. Gross profit margin for the year under review was approximately 41.9%, which showed a significant increase from that of approximately 30.2% for the previous financial year. This was mainly attributable to the significant increase of the gross profit margin of the film and TV series production and distribution segment from 9.1% for the previous financial year to

36.8% for the year under review. This was mainly driven by the increase of revenue contributed by film and TV series production and distribution as aforesaid. In addition, the gross profit margin for film exhibition segment was slightly increased from 52.8% for the previous financial year to 54.3% for the year under review.

Other income

Other income was approximately HK$4.7 million for the year ended 30 June 2016, representing an increase of approximately HK$1.9 million or approximately 65.1% compared to the previous financial year. This was mainly due to the increase of (i) a service income generated by the ticketing system of film exhibition of approximately HK$1.3 million during the year under review since the commencement of cinema operations in late November 2014; and (ii) bank interest income of approximately HK$0.7 million during the year under review.

Selling and distribution expenses

Selling and distribution expenses increased by approximately HK$18.4 million or 21.7% from approximately HK$84.5 million for the previous financial year to approximately HK$102.8 million for the year ended 30 June 2016. This was mainly due to (i) the general increment to the rental related expenses of Cinema City Langham Place and other direct costs for cinema since its commencement of operations in late November 2014 of approximately HK$12.7 million in aggregate during the year under review; and (ii) the larger scale of the film released by the Group during the year under review leading to additional costs of approximately HK$5.7 million for film advertising and promotion events.

Administrative expenses

Administrative expenses increased by approximately HK$54.3 million or approximately 162.7% from approximately HK$33.4 million for the previous financial year to approximately HK$87.7 million for the year ended 30 June 2016. This was mainly due to (i) the increase in total staff costs by approximately HK$12.6 million as a result of discretionary bonuses paid to the Directors to reward their contributions to the Group and the average number of employees increasing from 61 for the previous financial year to 93 for the year under review; (ii) the grant of share options by the Company on 13 July 2015 which resulted in a charge of approximately HK$25.3 million to the administrative expenses during the year under review; and (iii) the increase of amortisation of intangible asset for the advertising, marketing and publication segment of approximately HK$10.9 million during the year under review.

Net foreign exchange loss

Net foreign exchange loss increased by approximately HK$6.7 million from approximately HK$0.1 million for previous financial year to approximately HK$6.8 million for the year ended 30 June 2016. This was mainly due to the increase of net exchange loss resulted from the depreciation of Renminbi ("RMB") against HK$ by the prevailing rate at the end of the reporting period.

Impairment losses recognised for the year

As a result of the uncertainty of the publication business under the advertising, marketing and publication segment as mentioned in the section of the Business Review, for prudence sake, impairment loss on goodwill and intangible assets amounted to approximately HK$43.1 million and HK$20.5 million respectively were recognised for the year under review.

The impairment loss on other receivables for an advance payment made in relation to a concert investment of approximately HK$2.0 million which was fully recognised during the year under review due to the doubtfulness of its recoverability.

Share of results of an associate

During the year ended 30 June 2016, the operation of Jade Dynasty Holdings Limited and its subsidiaries (the "JDH Group") had recorded a loss attributable to the Group of approximately HK$0.2 million. JDH Group generates revenue from the businesses of comics publication and licensing of its database of comic stories and comics heroes for films, TV series and theme park development as well as related product merchandising. As compared to a loss from the previous financial year of approximately HK$4.5 million, the improvement of the results for the year under review was mainly due to the rise in the licensing income derived from its database of comic stories and comic heroes for film, TV series and theme park development and the reduction of the operating expenses for the comics publication business.

Share of results of a joint venture

During the year ended 30 June 2016, BPL was set up by the Group and two independent third parties for the production and distribution of the film, namely, "Bounty Hunters" (賞金獵人), of which the Group owns as to 40% interest. As the film was released in July 2016, no revenue had yet been recognised during the year under review and the operation of BPL recorded a loss attributable to the Group of approximately HK$2.1 million, which mainly represented the share of administrative expenses of BPL by the Group.

Income tax expense/credit

The income tax expense of the Group for the year ended 30 June 2016 amounted to approximately HK$10.3 million at the effective tax rate, excluding certain non-taxable items which include impairment losses recognised and share of results of an associate and a joint venture that were net of tax, was 18.7% mainly attributed by the Hong Kong Profits Tax rate at 16.5% of the estimated assessable profit of the Group for the year under review. The income tax credit of the Group for the previous financial year amounted to approximately HK$9.6 million at the effective tax rate, excluding certain non-taxable items which include impairment losses recognised and share of results of an associate that was net of tax, was 14.1% mainly attributed by the Hong Kong Profits Tax rate at 16.5% of the adjusted loss of the Group.

Loss for the year under review

The Group's loss and total comprehensive expense attributable to owners of the Company for the year ended 30 June 2016 amounted to approximately HK$72.6 million (2015: HK$215.3 million) and HK$73.5 million (2015: HK$215.3 million) respectively. The improvement of the results for the year under review was primarily resulted from the significant increases in revenue and gross profit contributed by film and TV series production and distribution as well as film exhibition businesses and the decrease of impairment losses recognised during the year under review, being set off against the increase in the operating expenses of the Group as aforementioned.

Liquidity, Financial Resources and Capital Structure

As at 30 June 2016, the Group's bank balances and cash amounted to approximately HK$103.3 million (30 June 2015: HK$112.8 million), which are denominated mainly in HK$, United States Dollar ("US$") and RMB.

As at 30 June 2016, the Group did not have any interest-bearing loans and shareholders' loans (30 June 2015: Nil). Gearing ratio was not applicable as at 30 June 2015 and 2016.

The Group had un-utilised credit facilities totaling HK$35.0 million as at 30 June 2016 (30 June 2015: HK$35.0 million). The Group has maintained these general banking facilities for flexibility.

As at 30 June 2016, the Group had total non-current assets of approximately HK$170.2 million (30 June 2015: HK$211.5 million), net current assets of approximately HK$162.1 million (30 June 2015: HK$156.3 million) and net assets of approximately HK$332.3 million (30 June 2015: HK$367.8 million). The current ratio of the Group, representing the ratio of current assets over current liabilities, was approximately 2.3 as at 30 June 2016 (30 June 2015: 1.7).

During the year ended 30 June 2016, the Group mainly funded its liquidity by the net proceeds from the Listing, issue of new shares pursuant to the subscription rights attaching to the warrants of the Company and resources generated internally. The Group's financial resources are sufficient to support its business and operations. The Group would also consider other financing activities when appropriate business opportunities arise under favourable market conditions.

The financial position and liquidity of the Group remain solid and healthy and there is no material adverse change in the operations of the Group.

Employee Information

As at 30 June 2016, the Group had 94 full-time employees (30 June 2015: 84). Staff costs, including Directors' remuneration and part-time staff, amounted to approximately HK$34.7 million for the year ended 30 June 2016 (30 June 2015: HK$16.4 million).

The Group offers a comprehensive and competitive remuneration and benefits package to all its employees. The Group has adopted a share option scheme for the purpose of providing incentives and rewards to eligible persons who contribute to the success of the Group's operations. The Group has also adopted other employee benefits including a provident fund scheme for its employees in Hong Kong, as required under the Mandatory Provident Fund Schemes Ordinance, and has participated in employee pension schemes organised and governed by the relevant local governments for its employees in the PRC.

Charge on Assets

The Group's bank deposits of approximately HK$30.4 million and HK$30.5 million as at 30 June 2015 and 2016 respectively, were pledged to secure a general banking facility of HK$30.0 million available to the Group. As at 30 June 2016, the Group's bank deposits of approximately HK$0.7 million (30 June 2015: HK$0.7 million) were pledged to secure the bank guarantee provided by a subsidiary of the Company regarding its due payment under a cinema equipment rental agreement.

Foreign Exchange Exposure

The Group's business operations were conducted mainly in Hong Kong with transactions principally denominated in HK$, US$ and RMB. The monetary assets and liabilities are denominated mainly in HK$, US$ and RMB. Apart from HK$, which is pegged to US$, any significant exchange rate fluctuations of HK$ against RMB may have a financial impact to the Group. During the year under review, there was no significant fluctuation in the exchange rates of these currencies.

The Group did not engage in any derivatives activities and did not commit to any financial instruments to hedge its statement of financial position exposure during the year ended 30 June 2016.

Contingent Liabilities

As at 30 June 2015 and 2016, the Group did not have any significant contingent liabilities.

PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company during the year ended 30 June 2016.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining a high standard of corporate governance practices. During the year ended 30 June 2016, it met all the code provisions of the Corporate Governance Code (the "Code") set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), save as the deviations as mentioned in the following sections headed "Chairman and Chief Executive Officer" and "General Meeting of the Company" in this announcement.

The Company will continue to review its corporate governance practices in order to enhance its corporate governance standard, to comply with the increasingly tightened regulatory requirements and to meet the rising expectations of shareholders of the Company (the "Shareholders") and investors.

Chairman and Chief Executive Officer ("CEO")

The Company has not yet adopted A.2.1 of the Code. Under the code provision A.2.1 of the Code, the roles of Chairman and CEO should be separated and would not be performed by the same individual. The division of responsibilities between the Chairman and CEO should be clearly established and set out in writing.

Mr. Wong is the Chairman of the Board and is responsible for the overall strategy planning and policy making of the Group. The Chairman also takes the lead to ensure that the Board works effectively and acts in the best interest of the Company by encouraging the Directors to actively participate in the Board's affairs and promoting a culture of openness and debate.

The Company has no such position as the CEO and therefore the daily operation and management of the Company is monitored by the executive Directors as well as the senior management.

The Board is of the view that although there is no CEO, the balance of power and authority is ensured by the operation of the Board, which comprises experienced individuals who would meet from time to time to discuss issues affecting operation of the Company.

General Meeting of the Company

Code provision A.6.7 of the Code stipulates that the independent non-executive Directors should attend general meetings and develop a balanced understanding of the views of the Shareholders. Mr. Lam Kam Tong was unable to attend the extraordinary general meeting of the Company held on 21 July 2015 and the annual general meeting of the Company held on 17 November 2015 as he had other business engagements.

COMPLIANCE WITH THE REQUIRED STANDARD OF DEALINGS IN SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings set out in Appendix 10 of the Listing Rules. Having made all reasonable enquires, all the Directors have confirmed that they have complied with the required standard of dealings and the code of conduct regarding securities transactions by Directors adopted by the Company during the year ended 30 June 2016.

AUDIT COMMITTEE

The Audit Committee has three members comprising three independent non-executive Directors, Mr. Lam Kam Tong (Chairman of the Audit Committee), Mr. Lo Eric Tien-cheuk and Mr. Tang Kai Kui Terence, with written terms of reference in compliance with the Rules 3.21 to 3.23 of the Listing Rules and the Code. The primary duties of the Audit Committee are mainly to communicate with the external auditor; to review the remuneration, terms of engagement, independency and objectivity of the external auditor; to review the accounting policy, financial position and financial reporting procedures of the Company; and to assess the financial reporting system, internal control procedures and risk management function of the Company and making recommendation thereof. The final results of the Group for the year ended 30 June 2016 has been reviewed by the Audit Committee and a meeting of the Audit Committee has been held with the Company's auditor for reviewing the final results of the Group for the year ended 30 June 2016.

PUBLICATION OF FINAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

The final results announcement is published on the websites of the Company (www.pegasusmovie.com) and the Stock Exchange (www.hkexnews.hk). The Annual Report 2015/16 will be dispatched to the Shareholders in due course.

On behalf of the Board
Pegasus Entertainment Holdings Limited
Wong Pak Ming
Chairman

Hong Kong, 28 September 2016

As at the date of this announcement, the executive Directors are Mr. Wong Pak Ming, Ms. Wong Yee Kwan Alvina and Mr. Wong Chi Woon Edmond and the independent non-executive Directors are Mr. Lam Kam Tong, Mr. Lo Eric Tien-cheuk and Mr. Tang Kai Kui Terence.