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 2017

FINANCIAL HIGHLIGHTS

- The Group record revenue of approximately HK$225.6 million for the year ended 30 June 2017, a decrease of HK$220.8 million or 49.5% when compared to the corresponding year 2016. This was mainly due to the revenue derived from the large-scale blockbuster released in last year whilst the overall scale of the films released during the year under review were comparatively smaller than the films released in last year.

- Gross profit margin for the year ended 30 June 2017 was approximately 51.5% which translates into gross profit of approximately HK$116.3 million.

- The Group reported a loss attributable to owners of the Company of approximately HK$40.0 million for the year ended 30 June 2017 as compared to a loss of approximately HK$72.6 million for the corresponding year 2016, the improvement of the results was mainly due to the reduction of the impairment losses recognised during the year under review.

- The Group's net assets and net current assets as at 30 June 2017 reached HK$307.7 million and HK$123.3 million respectively.

- The Board does not recommend the payment of final dividend for the year ended 30 June 2017.

RESULTS FOR THE YEAR ENDED 30 JUNE 2017

The board of directors (the "Board") of Pegasus Entertainment Holdings Limited (the "Company") is pleased to announce the audited results of the Company and its subsidiaries (collectively, the "Group") for the year ended 30 June 2017 together with the comparative figures for the corresponding period in 2016 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2017

	Notes	**2017** ***HK$'000***	2016 *HK$'000*
Revenue	*4*	**225,631**	446,381
Cost of sales		**(109,370)**	(259,552)
Gross profit		**116,261**	186,829
Other gains		**5,353**	–
Other income		**6,593**	4,738
Selling and distribution expenses		**(110,539)**	(102,820)
Administrative expenses		**(43,943)**	(87,674)
Net foreign exchange loss		**(5,016)**	(6,779)
Impairment loss on goodwill		**–**	(43,084)
Impairment loss on intangible asset		**–**	(20,514)
Impairment loss on interest in an associate		**(20,351)**	–
Impairment loss on other receivable		**–**	(2,011)
Financial costs		**(9)**	(170)
Share of results of associates		**(1,757)**	(234)
Share of results of a joint venture		**13,494**	(2,090)
Loss before tax		**(39,914)**	(73,809)
Income tax expense	*6*	**(966)**	(10,343)
Loss for the year	*7*	**(40,880)**	(84,152)
Other comprehensive expense			
Item that may be reclassified subsequently to profit or loss			
Share of exchange difference of an associate arising on translating foreign operation		**48**	29
Share of exchange difference of a joint venture arising on translating foreign operation		**(2,413)**	(2,485)
Exchange difference arising on translating foreign operation		**1,116**	1,503
		(1,249)	(953)
Total comprehensive expense for the year		**(42,129)**	(85,105)

	Note	**2017**	2016
		HK$'000	*HK$'000*
Loss for the year attributable to:			
Owners of the Company		**(39,984)**	(72,591)
Non-controlling interests		**(896)**	(11,561)
		(40,880)	(84,152)
Total comprehensive expense for the year attributable to:			
Owners of the Company		**(41,233)**	(73,544)
Non-controlling interests		**(896)**	(11,561)
		(42,129)	(85,105)
Loss per share			
Basic and diluted (HK cents)	*8*	**(1.56)**	(2.90)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

	Notes	2017 HK$'000	2016 HK$'000
Non-current assets			
Property, plant and equipment		**62,058**	39,259
Goodwill		**–**	–
Intangible assets		**5,600**	5,600
Interests in associates		**53,454**	53,887
Interest in a joint venture	*9*	**459**	47,504
Prepayment to an artiste		**12,000**	12,000
Rental deposits		**24,833**	–
Deposits for acquisition of property, plant and equipment		**15,229**	–
Available-for-sale investment		**–**	4,056
Deferred tax assets		**10,832**	7,878
		184,465	170,184
Current assets			
Film rights		**9,264**	3,175
Film production in progress		**122,521**	80,050
Available-for-sale investment		**4,056**	–
Investments in film/drama production		**27,417**	33,401
Inventories		**579**	801
Trade and other receivables	*10*	**9,143**	35,716
Prepayment to an artiste		**12,000**	12,000
Rental deposits		**19,944**	19,989
Amount due from non-controlling interest		**–**	146
Tax recoverable		**245**	–
Pledged bank deposits		**31,250**	31,165
Bank balances and cash		**31,998**	72,177
		268,417	288,620
Current liabilities			
Trade and other payables	*11*	**59,676**	45,582
Receipts in advance	*11*	**71,849**	69,037
Tax payable		**11,479**	7,555
Amounts due to related companies		**26**	402
Amount due to a joint venture		**2,116**	3,918
		145,146	126,494
Net current assets		**123,271**	162,126
Total assets less current liabilities		**307,736**	332,310

	Note	**2017** HK$'000	2016 HK$'000
Capital and reserves			
Share capital	*12*	**6,489**	6,309
Reserves		**304,725**	327,718
Equity attributable to owners of the Company		**311,214**	334,027
Non-controlling interests		**(3,478)**	(1,717)
Total equity		**307,736**	332,310

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2017

	Attributable to owners of the Company									
	Share capital *HK$'000*	**Share premium** *HK$'000*	**Share option reserve** *HK$'000*	**Other reserve** *HK$'000* *(Note)*	**Exchange reserve** *HK$'000*	**Warrants reserve** *HK$'000*	**Accumulated losses** *HK$'000*	**Sub-total** *HK$'000*	**Non-controlling interests** *HK$'000*	**Total** *HK$'000*
At 1 July 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 arising on translating foreign operation	–	–	–	–	29	–	–	29	–	29
Share of exchange difference of a joint venture arising on translating foreign operation	–	–	–	–	(2,485)	–	–	(2,485)	–	(2,485)
Exchange difference arising on 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**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**(39,984)**	**(39,984)**	**(896)**	**(40,880)**
Share of exchange difference of an associate arising on translating foreign operation	**–**	**–**	**–**	**–**	**48**	**–**	**–**	**48**	**–**	**48**
Share of exchange difference of a joint venture arising on translating foreign operation	**–**	**–**	**–**	**–**	**(2,413)**	**–**	**–**	**(2,413)**	**–**	**(2,413)**
Exchange difference arising on translating foreign operation	**–**	**–**	**–**	**–**	**1,116**	**–**	**–**	**1,116**	**–**	**1,116**
Total comprehensive expense for the year	**–**	**–**	**–**	**–**	**(1,249)**	**–**	**(39,984)**	**(41,233)**	**(896)**	**(42,129)**
Acquisition of non-controlling interests of a subsidiary	**–**	**–**	**–**	**–**	**–**	**–**	**53**	**53**	**(865)**	**(812)**
Share of reserve movement of an associate	**–**	**–**	**–**	**–**	**–**	**–**	**1,627**	**1,627**	**–**	**1,627**
Issue of shares upon exercise of warrants	**180**	**16,693**	**–**	**–**	**–**	**(133)**	**–**	**16,740**	**–**	**16,740**
Transfer upon warrants expired	**–**	**–**	**–**	**–**	**–**	**(162)**	**162**	**–**	**–**	**–**
At 30 June 2017	**6,489**	**521,046**	**–**	**10**	**(2,223)**	**–**	**(214,108)**	**311,214**	**(3,478)**	**307,736**

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 public limited company incorporated in the Cayman Islands and its shares are listed on the Stock Exchange. 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 at the end of each reporting period. 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 2016 except in relation to adoption of new accounting policies for the first time for the current period's financial statements.

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Accountants ("HKICPA") for the first time in the current year:

Amendments to HKFRS 11	Accounting for Acquisitions of Interest in Joint Operations
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012–2014 Cycle
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKAS 27	Equity Method in Separate Financial Statements
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception

Except as described below, the application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Amendments to HKAS 1 Disclosure Initiative

The Group has applied the amendments to HKAS 1 for the first time in the current year. The amendments to HKAS 1 clarify that an entity need not provide a specific disclosure required by an HKFRS if the information resulting from that disclosure is not material, and give guidance on the bases of aggregating and disaggregating information for disclosure purposes. However, the amendments reiterate that an entity should consider providing additional disclosures when compliance with the specific requirements in HKFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, events and conditions on the entity's financial position and financial performance.

As regards the structure of the financial statements, the amendments provide examples of systematic ordering or grouping of the notes. The Group has applied these amendments retrospectively. The grouping and ordering of certain notes have been revised to give prominence to the areas of the Group's activities that management considers to be the most relevant to an understanding of the Group's financial performance and financial position. Specifically, information to capital risk management and financial instruments was reordered to the consolidated financial statements. Other than the above presentation and disclosure changes, the application of the amendments to HKAS 1 has not resulted in any impact on the financial performance or financial position of the Group in these consolidated financial statements.

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
HKFRS 16	Leases[2]
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration[1]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatment[2]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 7	Disclosure Initiative[4]
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[4]
Amendments to HKAS 40	Transfers of Investment Property[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2014–2016 Cycle except for amendments to HKFRS 12[1]

[1] Effective for annual periods beginning on or after 1 January 2018
[2] Effective for annual periods beginning on or after 1 January 2019
[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 2017

HKFRS 9 Financial Instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 which are relevant to the Group are:

- all recognised financial assets that are within the scope of HKFRS 9 *Financial Instruments: Recognition and Measurement* are required to be 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 that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income ("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.

- 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.

Based on the Group's financial instruments and risk management policies as at 30 June 2017, application of HKFRS 9 in the future may have a material impact on the classification and measurement of the Group's financial assets. The Group's available-for-sale investment stated at cost less impairment of HK$4,056,000 as at 30 June 2017 (2016: HK$4,056,000), will either be measured as fair value through profit or loss or be designated as FVTOCI (subject to fulfilment of the designation criteria). In addition, the expected credit loss model may result in early provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised cost.

Except for the above, the directors of the Company (the "Directors") do not anticipate that the application of HKFRS 9 in the future may have other material impact on amounts reported in respect of the Group's financial assets.

HKFRS 15 Revenue from Contracts with Customers

In May 2015, 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.

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The Directors anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, the Directors do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

Based on the Group existing business model as at 30 June 2017, the Directors do not anticipate that the application of these amendments will have a material effect on the Group's consolidated financial statements.

HKFRS 16 Leases

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 Leases and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Under the HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

The Group has non-cancellable operating lease commitments of approximately HK$1,203,603,000 among which lease contracts amounting to HK$1,203,568,000 are within original lease term more than one year. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the Directors complete a detailed review.

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

4. REVENUE

	2017	2016
	HK$'000	*HK$'000*
Film production, distribution and licensing income	**83,867**	300,237
Film exhibition income	**137,291**	137,489
Post-production income	**1,957**	1,992
Advertising, marketing and publication income	**2,516**	6,663
	225,631	446,381

5. SEGMENT INFORMATION

Information reported to the Directors, being the chief operating decision maker ("CODM"), for the purposes of resource allocation and assessment of segment performance is based on the following four reportable and operating segments identified under HKFRS 8 Operating Segments.

(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 certain other income, certain selling and distribution expenses, certain administrative expenses, finance costs, impairment loss on interest in an associate and share of results of associates. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

For the year ended 30 June 2017

	Film and TV series production and distribution	**Film exhibition**	**Post-production**	**Advertising, marketing and publication**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
Segment revenue — External customers	**83,867**	**137,291**	**1,957**	**2,516**	**225,631**
Segment profit (loss)	**22,122**	**(25,575)**	**(3,155)**	**(1,892)**	**(8,500)**
Unallocated other income					**370**
Unallocated head office and corporate expenses					**(9,667)**
Finance costs					**(9)**
Impairment loss on interest in an associate					**(20,351)**
Share of results of associates					**(1,757)**
Loss before tax					**(39,914)**

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)	56,766	(12,876)	(3,769)	(79,870)	(39,749)
Unallocated other income					1,754
Unallocated head office and corporate expenses					(35,410)
Finance costs					(170)
Share of results of an associate					(234)
Loss before tax					(73,809)

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 2017

	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	**470**	**5,062**	**1,691**	**405**	**116**	**7,744**
Share of results of a joint venture	**13,494**	**–**	**–**	**–**	**–**	**13,494**
Amounts regularly provided to the CODM but not included in the measure of segment profit or loss:						
Interest income	**–**	**–**	**–**	**–**	**352**	**352**
Finance costs	**–**	**–**	**–**	**–**	**(9)**	**(9)**
Impairment loss on interest in an associate	**–**	**–**	**–**	**–**	**(20,351)**	**(20,351)**
Share of results of associates	**–**	**–**	**–**	**–**	**(1,757)**	**(1,757)**

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
Impairment loss on goodwill	–	–	–	43,084	–	43,084
Impairment loss on intangible asset	–	–	–	20,514	–	20,514
Amortisation of intangible asset	–	–	–	11,154	–	11,154
Share of results of a joint venture	(2,090)	–	–	–	–	(2,090)
Amounts regularly provided to the CODM but not included in the measure of segment profit or loss:						
Interest income	–	–	–	–	1,430	1,430
Finance cost	–	–	–	–	(170)	(170)
Share of results of an associate	–	–	–	–	(234)	(234)

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:

	2017 *HK$'000*	2016 *HK$'000*
Hong Kong and Macau	**169,873**	196,597
The People's Republic of China (the "PRC")	**43,325**	192,968
North America	**–**	23,337
South East Asia Region	**7,890**	17,292
Others	**4,543**	16,187
	225,631	446,381

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

	2017 *HK$'000*	2016 *HK$'000*
The PRC	**15,482**	273
Hong Kong	**168,983**	169,911
	184,465	170,184

Information about major customers

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

	2017	2016
	HK$'000	*HK$'000*
Customer A[1]	**26,460**	N/A[2]
Customer B[1]	**N/A[2]**	87,753
Customer C[1]	**N/A[2]**	78,159

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

	2017	2016
	HK$'000	*HK$'000*
The income tax expense comprises:		
Hong Kong Profits Tax		
— current	**706**	7,746
— underprovision in prior years	**265**	78
	971	7,824
PRC Enterprise Income Tax ("EIT")		
— current	**2,315**	808
— underprovision in prior years	**634**	9
	2,949	817
	3,920	8,641
Deferred taxation	**(2,954)**	1,702
	966	10,343

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

	2017	2016
	HK$'000	*HK$'000*
Loss for the year has been arrived at after charging:		
Directors' emoluments	**6,708**	11,393
Other staff costs	**20,797**	22,116
Retirement benefit scheme contributions, excluding those of Directors	**1,243**	1,171
Total staff costs	**28,748**	34,680
Auditors' remuneration	**1,669**	1,377
Depreciation of property, plant and equipment	**7,744**	7,675
Amortisation of intangible asset	**–**	11,154
Cost of film rights recognised as an expense	**37,181**	171,315
Impairment loss on film production in progress (included in cost of sales)	**2,400**	17,934
Minimum lease payments under operating leases in respect of:		
Premises	**3,710**	4,314
Cinemas	**74,868**	57,158
Contingent rents incurred for cinema	**1,332**	1,509
Cost of services provided	**58,742**	61,052
Cost of inventories sold	**2,295**	2,657
Share-based payment expense	**–**	25,272

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:

	2017	2016
	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	**39,984**	72,591
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	**2,568,078,428**	2,493,134,663

The computation of the diluted loss per share for both years did not assume the exercise of the Company's outstanding warrants since their exercise would result in a decrease in loss per share.

9. INTEREST IN A JOINT VENTURE

	2017	2016
	HK$'000	*HK$'000*
Cost of unlisted investment in a joint venture	**52,079**	52,079
Share of post-acquisition profit (loss) and other comprehensive income (expense)	**6,506**	(4,575)
Dividend received during the year	**(58,126)**	–
	459	47,504

On 8 June 2015, Pegasus Motion Pictures (Hong Kong) Limited, 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". The production budget of the film was KRW18,375,000,000 (equivalent to approximately HK$130 million). The production cost of the film was approximately HK$103 million. "Bounty Hunters" was released during the year ended 30 June 2017.

Bounty Productions Limited ("BPL") (a limited company incorporated in Hong Kong) has been set up solely for the film production of "Bounty Hunters". 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.

10. 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:

	2017	2016
	HK$'000	*HK$'000*
Trade receivables:		
0–30 days	**2,307**	23,551
31–60 days	**2**	5,757
61–90 days	**3**	7
91–180 days	**39**	5
181–365 days	**6**	9
Over 365 days	**9**	14
	2,366	29,343
Other receivables, deposits and prepayments	**3,740**	7,718
Less: Allowance for doubtful debts	**–**	(2,011)
	3,740	5,707
Other deposits and prepayments for cinema operation	**3,037**	666
	9,143	35,716

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$59,000 (2016: HK$38,000) as at 30 June 2017 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:

	2017	2016
	HK$'000	*HK$'000*
31–60 days	**2**	3
61–90 days	**3**	7
91–180 days	**39**	5
181–365 days	**6**	9
Over 365 days	**9**	14
	59	38

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.

11. TRADE AND OTHER PAYABLES/RECEIPTS IN ADVANCE

	2017	2016
	HK$'000	*HK$'000*
Trade payables	**18,765**	19,496
Other payables and accruals	**39,667**	24,424
Deposit received *(Note a)*	**1,244**	1,662
	59,676	45,582
Receipts in advance *(Note b)*	**71,849**	69,037

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:

	2017	2016
	HK$'000	*HK$'000*
Within 60 days	**18,233**	19,496
Within 91 to 365 days	**532**	–
	18,765	19,496

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.

(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$71,849,000 (2016: HK$69,037,000) as at 30 June 2017.

12. SHARE CAPITAL

	Number of shares	Share capital *HK$'000*
Ordinary shares of HK$0.0025 each:		
Authorised:		
At 1 July 2015	8,000,000,000	80,000
Effect of share subdivision *(Note)*	24,000,000,000	–
At 30 June 2016 and 2017	32,000,000,000	80,000
Issued and fully paid:		
At 1 July 2015	604,000,000	6,040
Effect of share subdivision *(Note)*	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
Issue of shares upon exercise of warrants	71,845,494	180
At 30 June 2017	2,595,613,733	6,489

Note:

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.

Warrants

On 13 November 2013, the Company entered into a warrant placing agreement with a placing agent pursuant to which the placing agent agreed to place up to 96,000,000 warrants conferring rights to subscribe for 96,000,000 warrant shares at the warrant exercise price of HK$0.93 per warrant shares (subject to adjustment) to not less than six warrant placees.

During the year ended 30 June 2015, register holders of 29,000,000 warrants exercised their rights to subscribe for 29,000,000 ordinary shares of the Company at HK$0.93 per share.

As at 30 June 2015 and 1 July 2015, 67,000,000 warrants were outstanding. As a result of the Share Subdivision, based on the relevant terms of the warrants, the exercise price of the warrants was adjusted from HK$0.93 per share to HK$0.233 per subdivided share, where such adjustment was effective from the close of business of the business day immediately preceding the date on which the Share Subdivision became effective. In accordance with the adjustment of the exercise price of the warrants as aforesaid, the number of shares falling to be issued upon exercise of the warrants changed from 67,000,000 shares to 267,424,892 subdivided shares.

During the year ended 30 June 2016, register holders of 107,768,239 warrants exercised their rights to subscribe for 107,768,239 ordinary shares in the Company at HK$0.233 per share.

During the year ended 30 June 2017, register holders of 71,845,494 warrants exercised their rights to subscribe for 71,845,494 ordinary shares in the Company at HK$0.233 per share.

As at 30 June 2017, the Company had no outstanding warrants as the remaining 87,811,159 warrants had expired.

13. 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	**2017** ***HK$'000***	2016 *HK$'000*
PM Motion Pictures Limited	*(a)*	Service income	**271**	485
Pegasus Laboratory (International) Limited ("Pegasus Laboratory")	*(b)*	Film processing services fee	**22**	8
Pure Project Limited	*(c)*	Rental expense	**1,320**	1,320
BPL	*(d)*	Production income	**5,880**	2,991
Ta Creative House	*(e)*	Production services fee	**500**	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 Pak Ming ("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 2017 and 2016.

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

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

(II) Balances

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

(III) Compensation of key management personnel

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

	2017	2016
	HK$'000	*HK$'000*
Salaries and other allowances	**9,413**	13,817
Retirement benefit scheme contributions	**104**	103
	9,517	13,920

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.

DIVIDEND

No dividend was paid or proposed for the year ended 30 June 2017, nor has any dividend been proposed since ended of the reporting period (2016: 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 exhibitions, (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 during the year under review.

Film and TV series production and distribution

During the year under review, film and TV series production and distribution operations had remained one of the core businesses of the Group with reported revenues of approximately HK$83.9 million, a decrease of approximately 72.1% compared to the corresponding period last year. This was because even though two films were released during the year under review, namely "Bounty Hunters" (賞金獵人) and "S Storm" (S風暴), only the contributions from "S Storm" (S風暴) were reflected in the revenue, while "Bounty Hunters" (賞金獵人) was a film jointly produced by the Group and production companies from Korea and the PRC, the results of which were reflected in the share of the results of a joint venture. During the corresponding period last year, the Group released two films, namely "Ip Man 3" (葉問3) and "Wong Ka Yan" (王家欣), however, revenues were mainly bolstered by the large-scale blockbuster "Ip Man 3" (葉問3). "Bounty Hunters" (賞金獵人) generated revenue over HK$152.6 million to the joint venture, in return it attributed net profit to the Group of approximately HK$13.5 million during the year under review. As a result, the profit from this business segment was decreased from HK$56.8 million during the corresponding period last year to HK$22.1 million during the year under review.

Currently, the Group has a number of films and TV series in the production pipeline which are scheduled for release during the next financial year. These include two films that are in the pre-release stage: "Lucid Dreams" (八步半之喜怒哀樂), a general-scale drama film starring Kevin Cheng (鄭嘉穎), Louis Cheung (張繼聰), Dada Chan (陳靜) and Stephy Tang (鄧麗欣) and directed by Teddy Robin (泰迪羅賓); and "Tomorrow Is Another Day" (黃金花), a general-scale drama film starring Teresa Mo (毛舜筠) and Ray Lui (呂良偉). "The Invincible Dragon" (九龍不敗) is a large-scale action film starring Max Zhang (張晉) and Anderson Silva, a former UFC middleweight champion, and directed by Fruit Chan (陳果), which has now entered into the final stage of production.

In addition, several more films are scheduled to start production by the forthcoming financial year, namely, "L Storm" (L風暴), a large-scale action film and sequel to the Group's previously released films entitled "Z Storm" (Z風暴) and "S Storm" (S風暴), starring Louis Koo (古天樂) and Julian Cheung (張智霖); along with "Ip Man 4" (葉問4), the forth sequel in the "Ip Man" (葉問) film series starring Donnie Yen (甄子丹).

Other than film production, the Group has been extending its scope of film development by investing in a number of movies across different genres and from different countries in order to cater to wider audience interests. Subsequent to the year under review, the Group invested in the distribution of a meaningful French animated film "Ballerina" (天使愛芭蕾) that was released in August 2017, voice acting by Mr. Wong (黃栢鳴), the Chairman of the Board, and Stephanie Au (歐鎧淳), three-time Olympic swimmer. Moreover, the Group 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 young Chinese physicist who race against the clock to save the earth from a terrifying loss of gravity. Crystal Liu (劉亦菲), a famous Chinese actress is part of the main cast. The pre-production of "Inversion" is underway with filming and worldwide theatrical distribution tentatively scheduled to take place in early 2018 and by 2019, respectively. Based on the outstanding pre-sale performance track record, the Group expects the film to receive a positive market response when it is finally released. This will serve as a significant catalyst for income growth over the next few years.

In the future, the Group will continue to identify quality investment opportunities in film and TV series projects worldwide, not only to strengthen the Group's revenue base, but also to enrich its knowledge and experience for tapping into the global market. The Group has also made use of the 3-year strategic cooperation framework with 華策影業(天津)有限公司 (in English, for identification purpose only, Huace Pictures (Tianjin) Co., Ltd.) ("Huace Pictures") entered in June 2016 to strengthen the Group's capability and to further extend penetration into the PRC film market. "L Storm" (L風暴) will be the second cooperative venture between the Group and Huace Pictures in which the Group will serve as producer and Huace Pictures will be 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

In terms of film exhibition operations, the Group's flagship cinema complex — Cinema City Langham Place, which is situated in a prime location of Mongkok, has maintained its number one ranking in terms of box office receipts among all cinemas in Hong Kong during the year under review.

As the only cinema in Hong Kong equipped with "4Dx" exclusive viewing technology, which provides an advanced, sophisticated cinematic experience for audiences, Cinema City Langham Place has been maintaining its primary position as the largest box office receipts cinema in Hong Kong. During the year under review, the box office receipts came to approximately HK$119.6 million, which was a slight decrease of approximately 2.6% year on year. The Group considers the performance of Cinema City Langham Place outperforming the market as its drop was less than the overall market given the fact that the total Hong Kong box office receipts in the first half of 2017 were down 4.2% and Cinema City Langham Place still ranked top of the list among all cinemas in Hong Kong.

As for the Group's first cinema in the PRC, located in "Vivo City" (怡豐城), a new large-scale retail complex in the Central Business District (CBD) of southwest Shanghai, renovation work has already been completed. Currently, "Vivo City" (怡豐城) is under refurbishment and undergoing structure consolidation work. Given that we need to coordinate with "Vivo City" (怡豐城) and wait for its completion on the construction work, we expect the cinema's commencement date will be delayed and begin full operation in late 2017. Nevertheless, the cinema is currently under the trial operation period, the Group is look forward to commence full operation as early as practicable.

During the year under review, the Group successfully expanded its film exhibition business and scheduled to open four new cinemas in different strategic locations across the territory, including Chai Wan, Causeway Bay and Tsuen Wan.

Cinema City Chai Wan first opened for trial operation in mid-July 2017 and officially started operation in August 2017. This is the Group's second cinema in Hong Kong, and is now the only cinema operated in the Chai Wan district. With five movie halls and approximately 500 seats, equipped with the world's most advanced 4K projection and 7.1 Dolby surround sound systems, Cinema City Chai Wan has enjoyed an overwhelmingly positive response and has achieved a promising attendance in its first month of business. In addition, Cinema City JP, the Group's third cinema in Hong Kong, has approximately 700 seats and is one of the few cinemas in Hong Kong equipped with a 4K laser phosphor projection system, which has already soft opened in mid-August 2017. The fourth cinema in Causeway Bay and the fifth cinema in Tsuen Wan are expected to open for business in the fourth quarter of 2017. With 5 cinemas in full operation by the end of 2017, the Group is expected to became one of the three largest cinema circuits in Hong Kong.

Cinema City Langham Place has been another key revenue driver for the Group. During the year under review, revenue from film exhibition amounted to approximately HK$137.3 million, accounting for approximately 60.8% of total revenue of the Group. The revenue amount was similar to the corresponding period last year, while loss of this business segment increased significantly from HK$12.9 million during the corresponding period last year to approximately HK$25.6 million this year mainly attributable to the accounting treatment relating to the lease recognition and the amortisation of the rent-free period as compensation for the renovation period offered by the landlords of all the new cinemas were not in operation during the year under review. Pursuant to the lease agreements entered into between the Group and the landlords of all the new cinemas, rent-free periods ranging from 3 to 9 months were offered by the landlords. Based on the accepted accounting principles, practices and policies adopted by the Group, these rent-free incentives were treated as a uniform reduction of overall rental expenses on a straight-line or systematic basis over the entire lease term. Despite the fact that the lease terms began during the year under review and rental payments had not to pay during the rent-free periods, rental expenses were immediately recognised under the aforementioned accounting treatment while revenues only began to generate when the cinema started operations, which was after the year under review.

Notwithstanding the short-term losses as mentioned above, the Group believes that these new cinemas will bring steady and continual cash returns for the Group, once the cinemas start operations, which will, in turn, help further expand the overall revenue base of the Group. The Group is confident that the performance of film exhibition will be further improved going forward. Therefore, the Group is optimistic about prospects for the film exhibition business and will be on the lookout for any chance to open more cinemas in Hong Kong as well as in the PRC.

Post-production

Post-production plays an important role in the Group's overall integrated film production process. In order to fully control this business segment, the Group has acquired the remaining 20% equity stake from the owner of the non-controlling interest during the year under review. In spite of a loss of HK$3.2 million recorded during the year under review, the loss was narrowed when compared with HK$3.8 million loss in the corresponding period last year. Going forward, the post-production business is poised to maintain its small-scale operation to support the Group's overall profitability in the film production, and more importantly to benefit the Group's film production business in terms of efficiency and cost control.

Advertising, marketing and publication

The film advertising and marketing business has allowed the Group to benefit from sophisticated advertising and promotion strategies as well as cost reductions during the year under review. As for the publication business, the Group ceased the publication of the monthly luxury lifestyle magazine — "Platinum of UnionPay" (銀聯白金) in August 2016 in view of its unsatisfactory performance in order to save costs and to reallocate the Group's resources to make further investments in other business segments. As a result, the losses in this business segment narrowed substantially from HK$79.9 million during the corresponding period last year to approximately HK$1.9 million this year.

The Group continues to review the overall structure and strategies of its print and digital media publication business, including using the Group's publication platform for promotional events and joint film marketing campaigns thereby creating a synergy effect from the Group's publication business and film production, distribution, advertising and marketing businesses. By focusing on other business segments, the re-orientation of print and digital media publication operations has helped strengthen the core business development of the Group, which forms an important part of the Group's film production value chain. The Group intends to maintain this business segment as a small-scale operation with a supportive role to the Group's core businesses before a solid development plan comes up.

Outlook

After the explosive growth in terms of total national box office receipts over the past few years, the pace of growth for the entire film industry in the PRC has slowed since 2016. However, as compared to the growth rate of the national box office receipts in 2016 of 3.7%, the growth rate in the first half of 2017 has regained the upward momentum, the Group believes that this is just a healthy adjustment and the industry by and large still has great potential growth over the long run.

In addition, on-going favourable policies were issued by the PRC government to support and governance the development of the film business operations. In November 2016, the Film Industry Promotion Law of the PRC (中國電影產業促進法) was adopted at the Standing Committee of the Twelfth National People's Congress of the PRC (中國第十二屆全國人民代表大會常務委員會) for the purposes of promoting investment in film production and encouraging the long-term development of the film industry. The above mentioned law came into force on 1 March 2017. The Group believes such favourable policies would continue to make better guidance for the industry participants and healthy environment of the film market.

In Hong Kong, the government has also clearly demonstrated its support for continuing to promote the development of the film industry. To this end, the Hong Kong Government in March 2017 announced two commercial sites which are slated for sale in Kai Tak and in Sha Tin, and the announcement included that in the land lease was a required minimum number of cinema seats. The new measures aim to facilitate local cinema development with a view to attracting audiences and promoting the long-term growth of Hong Kong's film industry. With the support of the Hong Kong Government, the Group remains optimistic about the future prospects for the industry.

Looking forward, the development of the film market will continue to be driven by high quality films and increasing number of the cinema screens. Based on these industry drivers, the Group will continue to strategically focus on its established core businesses in film production and exhibition to strengthen the integration of its film production value chain and effectively utilise its available resources to capture business opportunities within the film industry in the PRC and Hong Kong in order to maximise the Group's value and returns to shareholders of the Company (the "Shareholders").

Financial Review

Revenue and Gross profit

Revenue of the Group for the year under review amounted to approximately HK$225.6 million, representing a decrease of approximately HK$220.8 million or 49.5% compared to the corresponding period last year, mainly contributed by revenue from the business segments of film and TV series production and distribution and film exhibition of approximately HK$83.9 million and HK$137.3 million, respectively. Despite the Group released two films during both the year under review and the corresponding period last year, the significant decrease in revenue of film and TV series production and distribution was mainly due to the revenue derived from the large-scale blockbuster "Ip Man 3" (葉問3) released in last year whilst the overall scale of the films released during the year under review were comparatively smaller than the films released in last year. Moreover, "Bounty Hunters" (賞金獵人), one of the two films released during the year under review, was a film jointly produced by the Group and production companies from Korea and the PRC, its results were reflected in the share of results of a joint venture. For film exhibition segment, the revenue for the year under review was maintained the level to the corresponding period last year.

Gross profit of the Group was approximately HK$116.3 million representing a decrease of approximately HK$70.6 million or approximately 37.8% compared to the corresponding period last year. Gross profit margin for the year under review was approximately 51.5%, which showed a significant increase from that of approximately 41.9% for the corresponding period last year. This was mainly attributable to the increase of the gross profit margin of the film and TV series production and distribution segment from 36.8% last year to 42.4% this year, the production of general-scale film during the year under review as opposed to a large-scale film, due to the relatively large costs involved, large-scale production inherently has a lower gross profit margin. Moreover, the gross profit margin for film exhibition segment was slightly increased approximately 3.2 percentage points from 54.3% last year to 57.5% this year following the Group's strictly control in direct cost.

Other gains and income

Other gains and income was approximately HK$11.9 million for the year under review, representing an increase of approximately HK$7.2 million or approximately 152.1% compared to the corresponding period last year. This was mainly due to (i) a compensation of approximately HK$5.3 million according to the delay in handover of a leased cinema premises from the landlord in the PRC during the year under review; and (ii) the investment income from investments in film/drama production of approximately HK$1.4 million during the year under review, whilst no such income were recorded in the corresponding period last year.

Selling and distribution expenses

Selling and distribution expenses increased by approximately HK$7.7 million or 7.5% from approximately HK$102.8 million for the corresponding period last year to approximately HK$110.5 million for the year under review. This was mainly due to the increase of rental related expenses of cinema operations of approximately HK$21.2 million in aggregate during the year under review attributable to the accounting treatment relating to the lease recognition and the amortisation of the rent-free period offered by the landlords of all the new cinemas were not in operation as mentioned in the film exhibition section of the Business Review; and such increase was set off by the decrease of film advertising, promotion and distribution costs of approximately HK$13.5 million regarding the number and scale of films released during the year under review as aforementioned.

Administrative expenses

Administrative expenses decreased by approximately HK$43.7 million or approximately 49.9% from approximately HK$87.7 million for the corresponding period last year to approximately HK$43.9 million for the year under review. This was mainly due to (i) 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 corresponding period last year; (ii) the amortisation of intangible assets for the advertising, marketing and publication segment of approximately HK$11.2 million during the corresponding period last year; and (iii) the discretionary bonus paid to the Directors of HK$6.0 million during the corresponding period last year, whilst no such expenses were recognised during the year under review.

Net foreign exchange loss

Net foreign exchange loss decreased by approximately HK$1.8 million from approximately HK$6.8 million for the corresponding last year to approximately HK$5.0 million for the year under review. This was mainly due to the extent of the depreciation of RMB against HK$ was narrowed down during the year under review.

Impairment losses recognised for the year

Total impairment losses recognised for the year decreased by approximately HK$45.3 million or approximately 69.0% from approximately HK$65.6 million for the corresponding period last year to approximately HK$20.4 million for the year under review. During the year under review, impairment loss was recognised on interest in Jade Dynasty Holdings Limited, an associate of the Group, and its subsidiaries (collectively, "JDH Group") due to the recoverable amount of JDH Group, which is its value in use, according to the Group's assessment of its budget and expected future cashflows is less than its carrying amount.

Impairment loss on goodwill and intangible assets amounted to approximately HK$43.1 million and HK$20.5 million respectively in respect of the uncertainty of the publication business were recognised for the corresponding period last year, whilst no such impairment losses were recognised during the year under review.

Share of results of associates

During the year under review, the Group had two associates, JDH Group and Supreme Art Entertainment Limited ("Supreme Art"), an associate the Group acquired in July 2016.

The operation of JDH Group had recorded a loss attributable to the Group of approximately HK$3.8 million. JDH Group generated 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 corresponding period last year of approximately HK$0.2 million, the increase in loss for the year under review was mainly due to the decrease in the licensing income derived from its database of comic stories and comic heroes for film, TV series and theme park development.

The operation of Supreme Art had recorded a profit attributable to the Group of approximately HK$2.1 million. Supreme Art is engaged in the provision of artiste management and agency services which is benefit to the Group's film production business.

Share of results of a joint venture

BPL was set up by the Group with two independent third parties for the production and distribution of the film, "Bounty Hunters" (賞金獵人), of which the Group owns as to 40% interest. "Bounty Hunters" (賞金獵人) was released in July 2016 and generated revenue of approximately HK$152.6 million to the joint venture this year, in return attributed net profit to the Group of approximately HK$13.5 million during the year under review.

Income tax expense

The income tax expense of the Group for the year under review amounted to approximately HK$1.0 million (2016: HK$10.3 million) at the effective tax rate, excluding certain tax losses not recognised and non-taxable items which include impairment losses recognised and share of results of associates and a joint venture that were net of tax, was approximately 19.2% (2016: 18.7%).

Loss for the year under review

The Group's loss and total comprehensive expense attributable to owners of the Company for the year under review amounted to approximately HK$40.0 million (2016: HK$72.6 million) and HK$41.2 million (2016: HK$73.5 million) respectively. The improvement of the results for the year under review was primarily resulted from the significant increase in other income and decreases in administrative expenses and of impairment losses recognised, being set off against the decrease in revenue and gross profit contributed by film and TV series production and distribution as well as film exhibition businesses during the year under review as aforementioned.

Liquidity, Financial Resources and Capital Structure

As at 30 June 2017, the Group's bank balances and cash amounted to approximately HK$63.2 million (30 June 2016: HK$103.3 million), which are denominated mainly in HK$, US$ and RMB.

As at 30 June 2017, the Group did not have any interest-bearing loans and shareholders' loans (30 June 2016: Nil). Gearing ratio was not applicable as at 30 June 2016 and 2017.

The Group had un-utilised credit facilities totaling HK$55.0 million as at 30 June 2017 (30 June 2016: HK$35.0 million). The Group has maintained these general banking facilities for flexibility.

As at 30 June 2017, the Group had total non-current assets of approximately HK$184.5 million (30 June 2016: HK$170.2 million), net current assets of approximately HK$123.3 million (30 June 2016: HK$162.1 million) and net assets of approximately HK$307.7 million (30 June 2016: HK$332.3 million). The current ratio of the Group, representing the ratio of current assets over current liabilities, was approximately 1.8 as at 30 June 2017 (30 June 2016: 2.3).

During the year ended 30 June 2017, the Group mainly funded its liquidity by the net proceeds from the Listing and 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.

Employee Information

As at 30 June 2017, the Group had 122 full-time employees (30 June 2016: 94). Staff costs, including Directors' remuneration and part-time staff, amounted to approximately HK$28.7 million for the year ended 30 June 2017 (2016: HK$34.7 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$30.5 million and HK$30.6 million as at 30 June 2016 and 2017, respectively were pledged to secure a general banking facility of HK$30.0 million available to the Group. As at 30 June 2017, the Group's bank deposits of approximately HK$0.7 million (30 June 2016: 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 2017.

Contingent Liabilities

As at 30 June 2016 and 2017, 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 2017.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining a high standard of corporate governance practices. During the year ended 30 June 2017, 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 the Shareholders and investors.

Chairman and Chief Executive Officer

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 Chief Executive Officer ("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 CEO and therefore the daily operation and management of the Company is monitored by the executive Directors as well as the senior management of the Group.

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 and Mr. Lo Eric Tien-cheuk were unable to attend the annual general meeting of the Company held on 17 November 2016 as they had other business engagement.

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 2017.

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 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 review and assess the financial reporting, risk management and internal control systems of the Company and making recommendation thereof. The final results of the Group for the year ended 30 June 2017 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 2017.

REVIEW OF THIS FINAL RESULTS ANNOUNCEMENT

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of changes in equity, consolidated statement of profit or loss and other comprehensive income, and the related notes thereto for the year ended 30 June 2017 as set out in this announcement have been agreed by the Company's auditor, Deloitte Touche Tohmatsu, to the amounts set out in the Group's draft consolidated financial statements for the year ended 30 June 2017. The work performed by Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by Deloitte Touche Tohmatsu on this announcement.

ANNUAL GENERAL MEETING AND CLOSURE OF THE REGISTER OF MEMBERS

The forthcoming annual general meeting of the Company ("AGM") will be held on Thursday, 23 November 2017 at 11:00 a.m. The register of members of the Company will be closed from Monday, 20 November 2017 to Thursday, 23 November 2017, both days inclusive. In order to ascertain shareholders' eligibility to attend and vote at the forthcoming AGM, all transfer documents, accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration no later than 4:30 p.m. on Friday, 17 November 2017.

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 2016/17 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 2017

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.