

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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)

INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 31 DECEMBER 2016

FINANCIAL HIGHLIGHTS

- The Group recorded revenue of approximately HK\$131.6 million for the six months ended 31 December 2016, a decrease of approximately HK\$177.8 million or approximately 57.5% when compared to the corresponding period last year. The decrease was mainly due to the film released during the period under review was of general-scale, whilst during the corresponding period last year, the Group had released two films of which one was a large-scale film alone accounted for approximately 71.9% of the total revenue for the corresponding period last year.
- Gross profit margin for the six months ended 31 December 2016 was approximately 51.4% which translates into gross profit of approximately HK\$67.6 million.
- The Group reported a profit attributable to owners of the Company of approximately HK\$7.1 million for the six months ended 31 December 2016, a decrease of approximately HK\$0.9 million or approximately 12.0% when compared to the corresponding period last year.
- The Group's net assets and net current assets as at 31 December 2016 amounted to approximately HK\$357.4 million and approximately HK\$162.1 million respectively.
- The Board does not recommend the payment of any dividend for the six months ended 31 December 2016.

INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2016

The board (the “**Board**”) of directors (the “**Directors**”) of Pegasus Entertainment Holdings Limited (the “**Company**”) is pleased to announce the unaudited results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the six months ended 31 December 2016 together with the comparative unaudited figures for the corresponding period in 2015 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 31 December 2016

		Six months ended 31 December	
	Notes	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Revenue	3	131,583	309,381
Cost of sales		<u>(63,962)</u>	<u>(184,248)</u>
Gross profit		67,621	125,133
Other income		3,665	2,173
Selling and distribution expenses		(47,953)	(49,158)
Administrative expenses		(20,633)	(57,794)
Net foreign exchange loss		(2,634)	(3,161)
Impairment loss on other receivables		–	(2,011)
Finance costs	5	–	(139)
Share of results of associates		(1,102)	887
Share of results of a joint venture		8,097	<u>(572)</u>
Profit before tax		7,061	15,358
Income tax expense	6	(528)	<u>(10,181)</u>
Profit for the period	7	6,533	5,177
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Share of exchange difference of an associate		90	–
Share of exchange difference of a joint venture		45	–
Exchange difference arising on translating foreign operations		1,675	945
		<u>1,810</u>	<u>945</u>
Total comprehensive income for the period		<u>8,343</u>	<u>6,122</u>

		Six months ended	
		31 December	
		2016	2015
	<i>Note</i>	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Profit (loss) for the period attributable to:			
Owners of the Company		7,063	8,025
Non-controlling interests		(530)	(2,848)
		<u>6,533</u>	<u>5,177</u>
Total comprehensive income (expense) for the period attributable to:			
Owners of the Company		8,873	8,970
Non-controlling interests		(530)	(2,848)
		<u>8,343</u>	<u>6,122</u>
Earnings per share			
	8		
Basic (HK cent)		0.3	0.3
Diluted (HK cent)		0.3	0.3

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	<i>Notes</i>	31 December 2016 HK\$'000 (Unaudited)	30 June 2016 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment		35,720	39,259
Intangible assets		5,600	5,600
Interests in associates		72,875	53,887
Interest in a joint venture		55,646	47,504
Prepayment to an artiste		12,000	12,000
Available-for-sale investment		4,056	4,056
Deferred tax assets		9,394	7,878
		195,291	170,184
Current assets			
Film rights		14,357	3,175
Film production in progress		82,787	80,050
Investments in film/drama production		29,963	33,401
Inventories		621	801
Trade and other receivables	9	28,219	35,716
Prepayment to an artiste		12,000	12,000
Rental deposits		33,507	19,989
Amount due from non-controlling interest		–	146
Pledged bank deposits		31,211	31,165
Bank balances and cash		65,460	72,177
		298,125	288,620
Current liabilities			
Trade and other payables	10	41,100	45,582
Receipts in advance		17,754	69,037
Tax payable		9,353	7,555
Amounts due to related companies		17	402
Amount due to non-controlling interest		26	–
Amount due to a joint venture		67,773	3,918
		136,023	126,494
Net current assets		162,102	162,126
Total assets less current liabilities		357,393	332,310
Capital and reserves			
Share capital		6,489	6,309
Reserves		353,151	327,718
Equity attributable to owners of the Company		359,640	334,027
Non-controlling interests		(2,247)	(1,717)
Total equity		357,393	332,310

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2016

	Attributable to owners of the Company									
	Share capital HK\$'000 (Unaudited)	Share premium HK\$'000 (Unaudited)	Share option reserve HK\$'000 (Unaudited)	Other reserve HK\$'000 (Unaudited) <i>(Note)</i>	Exchange reserve HK\$'000 (Unaudited)	Warrants reserve HK\$'000 (Unaudited)	Accumulated losses HK\$'000 (Unaudited)	Sub-total HK\$'000 (Unaudited)	Non-controlling interests HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
At 1 July 2015 (Audited)	6,040	479,313	-	10	(21)	495	(128,647)	357,190	10,652	367,842
Profit (loss) for the period	-	-	-	-	-	-	8,025	8,025	(2,848)	5,177
Exchange difference arising on translating foreign operations	-	-	-	-	945	-	-	945	-	945
Total comprehensive income (expense) for the period	-	-	-	-	945	-	8,025	8,970	(2,848)	6,122
Acquisition of addition interest in a subsidiary	-	-	-	-	-	-	-	-	(1,008)	(1,008)
Recognition of equity-settled share-based payments	-	-	25,272	-	-	-	-	25,272	-	25,272
Transfer upon share options lapsed	-	-	(25,272)	-	-	-	25,272	-	-	-
Issue of shares upon exercise of warrants	269	25,040	-	-	-	(200)	-	25,109	-	25,109
At 31 December 2015 (Unaudited)	6,309	504,353	-	10	924	295	(95,350)	416,541	6,796	423,337
At 1 July 2016 (Audited)	6,309	504,353	-	10	(974)	295	(175,966)	334,027	(1,717)	332,310
Profit (loss) for the period	-	-	-	-	-	-	7,063	7,063	(530)	6,533
Share of exchange difference of an associate	-	-	-	-	90	-	-	90	-	90
Share of exchange difference of a joint venture	-	-	-	-	45	-	-	45	-	45
Exchange difference arising on translating foreign operations	-	-	-	-	1,675	-	-	1,675	-	1,675
Total comprehensive income (expense) for the period	-	-	-	-	1,810	-	7,063	8,873	(530)	8,343
Issue of shares upon exercise of warrants	180	16,693	-	-	-	(133)	-	16,740	-	16,740
Transfer upon warrants expired	-	-	-	-	-	(162)	162	-	-	-
At 31 December 2016 (Unaudited)	6,489	521,046	-	10	836	-	(168,741)	359,640	(2,247)	357,393

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 INTERIM 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 KY1-1111, 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 is principally engaged in 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 unaudited consolidated financial statements for the six months ended 31 December 2016 (the “**Interim Financial Statements**”) have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”) and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”).

The Interim Financial Statements have been prepared under the historical cost basis. The principal accounting policies used in the preparation of the Interim Financial Statements are consistent with those used in the annual consolidated financial statements for the year ended 30 June 2016.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards. For those which are effective for accounting period beginning on 1 July 2016, the application has no material impact on the reported results and the financial position of the Group for the current and/or prior accounting periods. For those which are not yet effective, the Group is in the process of assessing their impact on the Group's results and financial position.

The Interim Financial Statements are presented in Hong Kong dollars (“**HK\$**”), which is the Company's functional and presentation currency.

3. REVENUE

	Six months ended	
	31 December	
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Film production, distribution and licensing income	57,051	235,048
Film exhibition income	66,570	66,724
Post-production income	797	988
Advertising, marketing and publication income	2,514	4,203
Advertising income	–	2,418
Services income	4,651	–
	<u>131,583</u>	<u>309,381</u>

4. SEGMENT INFORMATION

The Group identifies operating segments on 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 six months ended 31 December 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 certain of other income, selling and distribution expenses, administrative expenses, finance costs and share of results of associates. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

Segment revenue and results

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

For the six months ended 31 December 2016:

	Film and TV series production and distribution <i>HK\$’000</i> (Unaudited)	Film exhibition <i>HK\$’000</i> (Unaudited)	Post- production <i>HK\$’000</i> (Unaudited)	Advertising, marketing and publication <i>HK\$’000</i> (Unaudited)	Total <i>HK\$’000</i> (Unaudited)
Segment revenue — External customers	<u>61,702</u>	<u>66,570</u>	<u>797</u>	<u>2,514</u>	<u>131,583</u>
Segment profit (loss)	<u>24,912</u>	<u>(7,434)</u>	<u>(1,679)</u>	<u>(707)</u>	<u>15,092</u>
Unallocated other income					184
Unallocated head office and corporate expenses					(7,113)
Share of results of associates					<u>(1,102)</u>
Profit before tax					<u>7,061</u>

For the six months ended 31 December 2015:

	Film and TV series production and distribution <i>HK\$'000</i> (Unaudited)	Film exhibition <i>HK\$'000</i> (Unaudited)	Post- production <i>HK\$'000</i> (Unaudited)	Advertising, marketing and publication <i>HK\$'000</i> (Unaudited)	Total <i>HK\$'000</i> (Unaudited)
Segment revenue — External customers	<u>237,466</u>	<u>66,724</u>	<u>988</u>	<u>4,203</u>	<u>309,381</u>
Segment profit (loss)	<u>69,326</u>	<u>(11,611)</u>	<u>(2,016)</u>	<u>(8,501)</u>	<u>47,198</u>
Unallocated other income					859
Unallocated head office and corporate expenses					(33,447)
Finance costs					(139)
Share of results of associates					<u>887</u>
Profit before tax					<u>15,358</u>

Geographical information

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

	Six months ended 31 December	
	2016 <i>HK\$'000</i> (Unaudited)	2015 <i>HK\$'000</i> (Unaudited)
Hong Kong and Macau	82,562	79,716
The People's Republic of China (the "PRC")	42,838	189,340
South East Asia region	3,080	9,474
Others	3,103	30,851
	<u>131,583</u>	<u>309,381</u>

5. FINANCE COSTS

	Six months ended 31 December	
	2016 <i>HK\$'000</i> (Unaudited)	2015 <i>HK\$'000</i> (Unaudited)
Interest on bank borrowings wholly repayable within five years	—	64
Interest on bank overdrafts	—	75
	<u>—</u>	<u>139</u>

6. INCOME TAX EXPENSE

	Six months ended	
	31 December	
	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
The income tax expense comprises:		
Hong Kong Profits Tax		
— current	1,792	8,546
PRC Enterprise Income Tax (“EIT”)		
— current	252	–
Deferred taxation	<u>(1,516)</u>	<u>1,635</u>
	<u>528</u>	<u>10,181</u>

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the six months ended 31 December 2015 and 2016.

Under the Law of the PRC on EIT (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. PROFIT FOR THE PERIOD

	Six months ended	
	31 December	
	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Profit for the period has been arrived at after charging:		
Directors’ emoluments	3,355	8,304
Other staff costs	9,785	11,040
Retirement benefit scheme contributions, excluding those of Directors	<u>445</u>	<u>450</u>
Total staff costs	<u>13,585</u>	<u>19,794</u>
Depreciation of property, plant and equipment	3,853	3,813
Amortisation of intangible assets	–	5,577
Cost of film rights recognised as an expense	33,549	148,659
Cost of services provided	29,346	34,385
Cost of inventories sold	1,067	1,204
Minimum lease payments under operating leases in respect of:		
Premises	1,899	2,069
Cinema	30,266	28,545
Contingent rents incurred for cinema	670	750
Share-based payment expense	–	25,272
and after crediting:		
Bank interest income	184	859
Handling service income (included in other income)	<u>1,204</u>	<u>1,070</u>

8. EARNINGS PER SHARE

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

	Six months ended 31 December	
	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Earnings		
Profit for the period attributable to owners of the Company for the purpose of basic and diluted earnings per share	<u>7,063</u>	<u>8,025</u>
	Six months ended 31 December	
	2016	2015
	(Unaudited)	(Unaudited)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	<u>2,540,992,068</u>	2,462,834,063
Effect of dilutive ordinary shares arising from issue of warrants	<u>41,260,047</u>	<u>128,962,910</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>2,582,252,115</u>	<u>2,591,796,973</u>

9. 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:

	31 December	30 June
	2016	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Trade receivables:		
0 – 30 days	8,228	23,551
31 – 60 days	9	5,757
61 – 90 days	32	7
91 – 180 days	787	5
181 – 365 days	3	9
Over 365 days	<u>10</u>	<u>14</u>
	9,069	29,343
Other receivables, deposits and prepayments	18,276	5,707
Other deposits and prepayments for cinema operation	<u>874</u>	<u>666</u>
	<u>28,219</u>	<u>35,716</u>

Generally, with the exception of post-production and advertising, marketing and publication customers, who are generally granted credit period ranging from 30 to 60 days and 90 to 120 days respectively, 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.

10. TRADE AND OTHER PAYABLES

	31 December 2016 <i>HK\$'000</i> (Unaudited)	30 June 2016 <i>HK\$'000</i> (Audited)
Trade payables	15,633	19,496
Other payables and accruals	24,311	24,424
Deposits received	1,156	1,662
	<u>41,100</u>	<u>45,582</u>

The average credit period on purchases of goods is 60 to 90 days. As at 30 June 2016 and 31 December 2016, the aged of trade payables were fall within 60 days. The aging analysis of trade payables presented is based on the invoice date at the end of the reporting period.

DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 31 December 2016 (31 December 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 period under review, film and TV series production and distribution operations have remained the core business of the Group with reported revenues of approximately HK\$61.7 million, representing a decrease of 74.0% compared to the corresponding period last year. This was because even though two films were released during the period under review, namely “Bounty Hunters” (賞金獵人) and “S Storm” (S風暴), only the contributions from “S Storm” (S風暴) was reflected in the revenue total, while “Bounty Hunters” (賞金獵人) was a film jointly produced by the Group and production companies from Korea and the PRC, its results was reflected in share of results of a joint venture. During the corresponding period last year, the Group had released two films, namely “Ip Man 3” (葉問3) and “Wong Ka Yan” (王家欣) of which revenue was mainly contributed by a large-scale blockbuster “Ip Man 3” (葉問3).

“Bounty Hunters” (賞金獵人) was released in July 2016 and generated revenue over HK\$150.0 million to a joint venture, in return attributed net profit to the Group of approximately HK\$8.1 million during the period under review. As a result, the profit from this business segment was decreased from HK\$69.3 million during the corresponding period last year to HK\$24.9 million during the period under review.

Currently, the Group has a number of films and TV series in the production pipeline which are scheduled to be completed and released by the year ending 30 June 2017. These include: “Dream Has Become A Reality” (怪談之喜怒哀樂), 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), directed by Tai Lee Chan (陳大利), a new director in the industry.

In addition, a few more films in the production pipeline are scheduled to be completed and released during the second half of 2017. These include: “Made in Kowloon” (九龍不敗), a large-scale action film, starring Max Zhang (張晉) and Anderson Silva, the former UFC middleweight champion, and directed by Fruit Chan (陳果), who is the director of the award-winning film — “The Midnight After” (那夜凌晨, 我坐上了旺角開往大埔的紅VAN); and “L Storm” (L風暴), a general-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).

In recent years, the Group has been seeking new promising directors in order to mature the new flock of talent and boost the development of Hong Kong’s film industry. Apart from Tai Lee Chan (陳大利), Benny Lau (劉偉恆), the director of “Wong Ka Yan” (王家欣) was also a fledgling director who received positive feedback after the release of his film in October 2015.

In addition, the Group has also invested in an international sci-fi movie entitled – “Inversion” (tentative name) which is slated for worldwide theatrical distribution. Jack Huston, who starred in movies “Ben-Hur” (賓虛) and “American Hustle” (騙海豪情) as well as Liu Yifei (劉亦菲), who has taken many starring roles in movies such as “Never Gone” (致青春：原來你還在這裡) and the series of “The Four” (四大名捕) are part of the main cast. As additional time was needed for preparation and preliminary photography work, the shooting schedule has been further delayed. The filming and worldwide theatrical distribution tentatively scheduled to take place in mid of 2017 and 2018 respectively. With an outstanding pre-sale performance track record, the Group expects that the film will be another bit hit upon its release.

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 entering the global market. The Group will also make 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.) since June 2016 to strengthen the Group’s capabilities in and further penetrate into the PRC film market.

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 to date maintained its number one ranking in terms of box office receipts among all cinemas in Hong Kong during the period under review. Cinema City Langham Place recorded growth in both the number of admissions and total box office receipts, outperforming the overall market even the Hong Kong box office receipts posted a slight decline of 2.0% in 2016 to approximately HK\$1.95 billion.

As the only theatre in Hong Kong equipped with “4Dx” exclusive viewing technology, which provides an advanced, sophisticated cinematic experience for audiences, Cinema City Langham Place has been ranked at the top of the list among all cinemas in Hong Kong. According to the statistics from Hong Kong Box Office Limited, the cinema took in over HK\$123.0 million in box office receipts in 2016, an increase of 5.3% compared with 2015, maintaining its primary position as the largest box office receipts cinema in Hong Kong.

Cinema City Langham Place was another key revenue driver for the Group. During the period under review, revenue from film exhibition amounted to approximately HK\$66.6 million, while loss of this business segment narrowed significantly from HK\$11.6 million during the corresponding period last year to approximately HK\$7.4 million this year. The Group is confident that the performance of film exhibition will be further improved going forward.

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 started and the cinema is expected to begin operations in the third quarter of 2017. With the steady growth of box office receipts and a rise in the number of admissions, the Group is optimistic about prospects for the film exhibition business and will continue to explore all viable opportunities in the PRC for film exhibition 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\$1.7 million recorded during the period under review, the Group will maintain its small-scale operations to provide post-production services for external customers, which will help strengthen the Group’s overall profitability, and more importantly, benefit the Group’s film production business in terms of efficiency and cost control.

Advertising, marketing and publication

During the period under review, the film advertising and marketing business has 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. As for the publication business, in view of the unsatisfactory performance of the Group’s monthly luxury lifestyle magazine — “Platinum of UnionPay” (銀聯白金), the Group has ceased publication of this magazine in August 2016 in order to save cost and release the Group from making further investment in this business segment. Having taken this important step, the loss of this business segment narrowed substantially from HK\$8.5 million during the corresponding period last year to approximately HK\$0.7 million this year.

The Group is now in the process of reviewing the overall structure and strategies of its print and digital media publication business, including 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 businesses. The Group believes that the reorientation of the print and digital media publication business will help further strengthen its core business development, which forms an important part of the Group’s film production value chain.

Outlook

According to the State Administration of Press, Publication, Radio, Film and Television (國家新聞出版廣電總局), in 2016, the PRC total box office receipts grossed approximately RMB45.7 billion, representing a year-on-year growth of approximately 3.7%. The number of new cinemas and screens were 1,612 and 9,552 respectively, and the total number of admissions reached 1.37 billion, representing a year-on-year growth of approximately 8.9%. The PRC now leads the world with a total of 41,179 film screens.

Although industry growth in 2016 was not as impressive as in previous years, the Group believes that this is considered just a healthy adjustment, and the industry is still on the right developmental track for continuous growth.

On-going favourable policies were issued by the PRC government. For example, 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 will come into force on 1 March 2017.

In Hong Kong, the government also clearly stated its desire to continue promoting the development of the film industry, especially with respect to production expansion, elite talent cultivation, Hong Kong film brands promotion and other aspects. The Hong Kong Government's 2016 Policy Address mentions that it will encourage greater production of local films and the development of Hong Kong film brands as well as consider including cinemas in property development projects as a condition for government land leases. In June 2016, the government injected an additional HK\$20.0 million into the Film Development Fund (電影發展基金) to enhance the subsidies for expenses incurred by locally produced Cantonese films slated for distribution and publicity in the PRC.

With the support of recently launched governmental policies, the Group remains optimistic about the future prospect for the industry. Looking forward, the Group will continue to strategically focus on its core businesses to strengthen the integration of its film production value chain and effectively utilise its available resources to capture business opportunities within the PRC film industry, in order to maximise the Group's value and returns to the shareholders of the Company.

Financial Review

Revenue and Gross profit

Revenue and gross profit of the Group were approximately HK\$131.6 million and HK\$67.6 million respectively for the six months ended 31 December 2016, representing decreases of approximately HK\$177.8 million or 57.5% and HK\$57.5 million or 46.0% respectively compared to the corresponding period last year. This was mainly due to the fact that the film released during the period under review namely "S Storm" (S風暴) was of general-scale, whilst during the corresponding period last year, the Group had released two films of which one was a large-scale film namely "Ip Man 3" (葉問3). This large-scale film alone accounted for approximately 71.9% of the total revenue for the corresponding period last year. The

overall gross profit margin for the six months ended 31 December 2016 was approximately 51.4%, which showed a significant increase from that of approximately 40.4% for the corresponding period last year. This was mainly due to the Group production of general-scale film during the period 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. In addition, the gross profit margin for the film exhibition was approximately 57.5% for the period under review, representing an increase of approximately 3.5 percentage points compared to the corresponding period last year.

Other income

Other income was approximately HK\$3.7 million for the six months ended 31 December 2016, representing an increase of approximately HK\$1.5 million or 68.7% compared to the corresponding period last year. This was mainly due to the investment income from investments in film/drama production of certain PRC film and TV animations programme distributed by independent PRC production houses of approximately HK\$1.0 million recorded for the period under review, whilst no such income was recognised in the corresponding period last year.

Selling and distribution expenses

Selling and distribution expenses decreased by approximately HK\$1.2 million or 2.5% from approximately HK\$49.2 million for the six months ended 31 December 2015 to approximately HK\$48.0 million for the six months ended 31 December 2016. This was mainly due to additional costs of approximately HK\$3.9 million on advertising and promotion events were incurred relating to the release of the large-scale film in the corresponding period last year, whilst no such costs were recorded for the period under review as the film released was of general-scale, outweighed the increase in the rental related expenses of the cinema operation of approximately HK\$2.7 million during the period under review.

Administrative expenses

Administrative expenses decreased by approximately HK\$37.2 million or 64.3% from approximately HK\$57.8 million for the six months ended 31 December 2015 to approximately HK\$20.6 million for the six months ended 31 December 2016. This was mainly due to (i) the grant of share options by the Company in the corresponding period last year which resulted in a charge of share-based payment of approximately HK\$25.3 million, whilst no such cost was recorded for the period under review; (ii) the decrease in total staff costs by approximately HK\$6.7 million as a result of no discretionary bonuses paid to Directors during the period under review; and (iii) the amortisation of intangible assets for the advertising, marketing and publication segment of approximately HK\$5.6 million during the corresponding period last year, whilst no such cost was recognised for the period under review as the relevant assets were fully impaired in the previous financial year.

Share of results of a joint venture

During the period under review, Bounty Productions Limited recorded a profit attributable to the Group of approximately HK\$8.1 million. This represents the Group's sharing of the results of a film namely "Bounty Hunters" (賞金獵人), a large-scale adventure action film, released in July 2016 of which jointly produced by the Group with production companies from Korea and the PRC during the period under review.

Profit for the period

The Group's profit and total comprehensive income attributable to owners of the Company for the six months ended 31 December 2016 amounted to approximately HK\$7.1 million (31 December 2015: HK\$8.0 million) and HK\$8.9 million (31 December 2015: HK\$9.0 million), respectively. The change during the period under review was primarily resulted from the significant decreases in revenue and gross profit from film and TV series production and distribution, being set off against a promising results contributed by the joint venture and the significant decrease in the operating expenses of the Group as aforementioned.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2016, the Group's bank balances and cash amounted to approximately HK\$96.7 million (30 June 2016: HK\$103.3 million), which are denominated mainly in HK\$, United States Dollar and Renminbi.

As at 31 December 2016, the Group's did not have any interest-bearing loans and shareholders' loans (30 June 2016: Nil). Gearing ratio was not applicable as at 31 December 2016 and 30 June 2016.

The Group had un-utilised credit facilities totalling HK\$35.0 million as at 31 December 2016 (30 June 2016: HK\$35.0 million). The Group has maintained these general banking facilities for flexibility.

As at 31 December 2016, the Group had total non-current assets of approximately HK\$195.3 million (30 June 2016: HK\$170.2 million), net current assets of approximately HK\$162.1 million (30 June 2016: HK\$162.1 million) and net assets of approximately HK\$357.4 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 2.2 as at 31 December 2016 (30 June 2016: 2.3).

During the period under review, 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.

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.

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 six months ended 31 December 2016.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining a high standard of corporate governance practices. During the six months ended 31 December 2016, it met all the code provisions of the Corporate Governance Code (the “**Code**”) set out in Appendix 14 of the Listing Rules, save as the deviations as mentioned in the following sections headed “Chairman and Chief Executive Officer” and “General Meetings” 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 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 Pak Ming 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 Meetings

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 shareholders of the Company. 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.

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, risk management and internal control systems of the Company and making recommendations thereof. The unaudited interim results of the Group for the six months ended 31 December 2016 has been reviewed by the Audit Committee.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

The interim results announcement is published on the websites of the Company (www.pegasusmovie.com) and the Stock Exchange (www.hkex.com.hk). The Interim Report 2016/17 will be dispatched to the shareholders of the Company in due course.

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

Hong Kong, 27 February 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.