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If you are in any doubt as to any aspect of this Response Document or the action to be taken, you should consult a licensed securities dealer or registered institution in securities, a bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Pegasus Entertainment Holdings Limited, you should at once hand this Response Document to the purchaser(s) or transferee(s) or to the bank or licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

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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)

**RESPONSE DOCUMENT IN RELATION TO
MANDATORY UNCONDITIONAL CASH OFFER BY
 KINGSTON SECURITIES**

**FOR AND ON BEHALF OF NICE RICH GROUP LIMITED
TO ACQUIRE ALL THE ISSUED SHARES OF
PEGASUS ENTERTAINMENT HOLDINGS LIMITED
(OTHER THAN THOSE ALREADY OWNED OR
TO BE ACQUIRED BY NICE RICH GROUP LIMITED AND
PARTIES ACTING IN CONCERT WITH IT)**

**Independent financial adviser to Independent Board Committee
and Independent Shareholders**

ALTUS CAPITAL LIMITED

29 November 2017

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DEFINITIONS

In this Response Document, unless the context otherwise requires, the following expressions shall have the following meanings:

“acting in concert”	has the meaning ascribed to it under the Takeovers Code
“Altus Capital”	Altus Capital Limited, a licensed corporation carrying on Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities as defined under the SFO, acting as the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders
“associate(s)”	has the meaning ascribed to it under the Takeovers Code
“Board”	the board of Directors
“Business Day”	a day on which banks are generally open for business in Hong Kong (excluding Saturdays, Sundays and public holidays)
“Closing Date”	13 December 2017, the closing date of the Offer, which is 28 days after the date on which the Offer Document is posted, or if the Offer is extended, any subsequent closing date of the Offer as extended and announced by the Offeror in accordance with the Takeovers Code
“Company”	Pegasus Entertainment Holdings Limited (stock code: 1326), a company incorporated in the Cayman Islands with limited liability and the Shares of which are listed on the Main Board of the Stock Exchange
“Completion”	the completion of the sale and purchase of the Sale Shares in accordance with the Sale and Purchase Agreement
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“Encumbrances”	any claim, charge, mortgage, security, lien, pledge, option restriction, equity, power of sale, hypothecation or other third party rights or interests, retention of title, right of pre-emption, right of first refusal, other encumbrance or security interest of any kind, or another type of preferential arrangement (including, without limitation, a title transfer or retention arrangement) having similar effect

DEFINITIONS

“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any of his delegates
“Form of Acceptance”	the accompanying form of acceptance in respect of the Offer
“Group”	the Company and its subsidiaries from time to time
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Honour Grace”	Honour Grace Limited, a company incorporated in the British Virgin Islands with limited liability, being one of the Vendors, the issued share capital of which is held as to 60% by Mr. Wong, 20% by Ms. Wong Yee Kwan Alvina, an executive Director and the daughter of Mr. Wong, and 20% by Mr. Wong Chi Woon Edmond, an executive Director and the son of Mr. Wong
“Independent Board Committee”	the independent committee of the Board comprising all three independent non-executive Directors, namely Mr. Lam Kam Tong, Mr. Lo Eric Tien-cheuk and Mr. Tang Kai Kui, Terence, established to give a recommendation to the Independent Shareholders in respect of whether the Offer is fair and reasonable and as to acceptance
“Independent Shareholders”	the Shareholders other than (i) the Vendors, Mr. Wong, their respective associates and parties acting in concert with any of them; and (ii) the Offeror and its ultimate beneficial owner, their respective associates and parties acting in concert with any of them
“Kingston Corporate Finance”	Kingston Corporate Finance Limited, a licensed corporation to carry on Type 6 (advising on corporate finance) regulated activity under the SFO and being the financial adviser to the Offeror in respect of the Offer
“Kingston Securities”	Kingston Securities Limited, a licensed corporation to carry on Type 1 (dealing in securities) regulated activity under the SFO and being the agent to make the Offer for and on behalf of the Offeror
“Last Trading Day”	20 October 2017, being the last trading day on which the Shares were traded on the Stock Exchange prior to the issue and publication of the Rule 3.5 Announcement

DEFINITIONS

“Latest Practicable Date”	27 November 2017, being the latest practicable date prior to the printing of this Response Document for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Loan Facility”	a loan facility granted by Kingston Securities as lender to the Offeror as borrower pursuant to the terms of a loan facility agreement made between Kingston Securities and the Offeror on 20 October 2017 for financing the consideration payable under the Sale and Purchase Agreement and the Offer
“Mr. Wong”	Mr. Wong Pak Ming, an executive Director and the chairman of the Board and a controlling shareholder (prior to Completion), being one of the Vendors, and the brother of Ms. Wong
“Ms. Wong”	Ms. Wong Kit Fong, being one of the Vendors and the sister of Mr. Wong
“Mr. Zhang”	Mr. Zhang Liang Johnson, the sole shareholder and the sole director of the Offeror
“Offer”	the mandatory unconditional cash offer made by Kingston Securities for and on behalf of the Offeror to acquire all the issued Shares not already owned or agreed to be acquired by the Offeror or parties acting in concert with it in accordance with the Takeovers Code
“Offer Document”	the offer document dated 15 November 2017 issued by the Offeror, which sets out, among others, details of the Offer in accordance with the Takeovers Code
“Offer Period”	has the meaning ascribed to it under the Takeovers Code, being the period commencing from 18 October 2017 (i.e. the date of the Rule 3.7 Announcement) and ending on the Closing Date
“Offer Price”	HK\$0.319 per Offer Share payable by the Offeror to the Shareholders for each Offer Share accepted under the Offer
“Offer Share(s)”	the issued Share(s) other than those already owned or to be acquired by the Offeror and parties acting in concert with it when the Offer is made

DEFINITIONS

“Offeror”	Nice Rich Group Limited, a company incorporated in the British Virgin Islands with limited liability
“Overseas Shareholders”	Shareholders whose addresses, as shown on the register of members of the Company, are outside Hong Kong
“Pledged Shares”	the Sale Shares and the Offer Shares (as the case may be) to be deposited with Kingston Securities as collaterals for the Loan Facility
“PRC”	the People’s Republic of China which, for the purpose of this Response Document, shall exclude Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Registrar”	Tricor Investor Services Limited, the Hong Kong branch share registrar and transfer office of the Company, with its address at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong
“Relevant Period”	the period commencing on the date of falling six months preceding 18 October 2017, being the date of the Rule 3.7 Announcement, and ending on the Latest Practicable Date
“Response Document”	this response document issued by the Company, which sets out, among others, information relating to the Offer and the Group
“Rule 3.5 Announcement”	the joint announcement of the Company and the Offeror dated 25 October 2017 made pursuant to Rule 3.5 of the Takeovers Code
“Rule 3.7 Announcement”	the announcement of the Company dated 18 October 2017 made pursuant to the Listing Rules and Rule 3.7 of the Takeovers Code
“Sale and Purchase Agreement”	the conditional sale and purchase agreement dated 22 October 2017 and entered into among the Offeror, the Vendors and Mr. Wong in relation to the sale and purchase of the Sale Shares
“Sale Share(s)”	an aggregate of 1,523,808,000 Shares, comprising 1,200,000,000 Shares, 125,816,000 Shares and 197,992,000 Shares beneficially owned by Honour Grace, Mr. Wong and Ms. Wong, respectively, immediately prior to Completion, representing approximately 58.71% of the issued share capital of the Company

DEFINITIONS

“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	the ordinary share(s) of HK\$0.0025 each in the issued share capital of the Company
“Shareholder(s)”	holder(s) of Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	the Codes on Takeovers and Mergers and Share Buy-backs
“Trading Day(s)”	a day when the Stock Exchange is open for trading in Hong Kong
“Vendors”	(i) Honour Grace, (ii) Mr. Wong and (iii) Ms. Wong, being the vendors of the Sale Shares under the Sale and Purchase Agreement
“%”	per cent.

Notes:

1. All time and date references contained in this Response Document refer to Hong Kong times and dates.
2. Certain amounts and percentage figures in this Response Document have been subject to rounding adjustments.
3. The singular includes the plural and vice versa, unless the context otherwise requires.
4. References to any Appendix, paragraph and any sub-paragraph of them are references to the Appendices to, and paragraphs of, this Response Document and any sub-paragraph of them respectively.
5. References to any statute or statutory provision include a statute or statutory provision which amends, consolidates or replaces the same whether before or after the date of this Response Document.
6. Reference to one gender is a reference to all or any genders.

LETTER FROM THE BOARD



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)

Executive Directors:

Mr. Wong Pak Ming (*Chairman*)

Ms. Wong Yee Kwan Alvina

Mr. Wong Chi Woon Edmond

Independent Non-Executive Directors:

Mr. Lam Kam Tong

Mr. Lo Eric Tien-cheuk

Mr. Tang Kai Kui Terence

Registered office:

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

Headquarter and principal place

of business in Hong Kong:

Rooms 1801-02, Westlands Centre

20 Westlands Road

Quarry Bay

Hong Kong

29 November 2017

To the Shareholders,

Dear Sir or Madam,

**MANDATORY UNCONDITIONAL CASH OFFER BY
KINGSTON SECURITIES LIMITED
FOR AND ON BEHALF OF NICE RICH GROUP LIMITED
TO ACQUIRE ALL THE ISSUED SHARES OF
PEGASUS ENTERTAINMENT HOLDINGS LIMITED
(OTHER THAN THOSE ALREADY OWNED OR
TO BE ACQUIRED BY NICE RICH GROUP LIMITED AND
PARTIES ACTING IN CONCERT WITH IT)**

INTRODUCTION

References are made to the Rule 3.7 Announcement and the Rule 3.5 Announcement.

LETTER FROM THE BOARD

The Company and the Offeror jointly announced that the Offeror, the Vendors and Mr. Wong entered into the Sale and Purchase Agreement on 22 October 2017, pursuant to which the Offeror had conditionally agreed to purchase and the Vendors had conditionally agreed to sell the Sale Shares, representing approximately 58.71% of the entire issued share capital of the Company as at the Latest Practicable Date and the date of the Sale and Purchase Agreement at a consideration of HK\$486,094,752 (equivalent to HK\$0.319 per Sale Share).

Completion took place on 27 October 2017. Immediately following Completion, the Offeror was interested in 1,523,808,000 Shares, representing approximately 58.71% of the entire issued share capital of the Company. Pursuant to Rule 26.1 of the Takeovers Code, the Offeror is required to make an unconditional mandatory cash offer for 1,071,805,733 Shares, representing all the issued Shares other than those already owned or to be acquired by the Offeror and parties acting in concert with it. Kingston Securities, for and on behalf of the Offeror, is making the Offer.

Pursuant to Rule 2.1 of the Takeovers Code, the Independent Board Committee, comprising three independent non-executive Directors, namely Mr. Lam Kam Tong, Mr. Lo Eric Tien-cheuk and Mr. Tang Kai Kui, Terence, had been formed to advise the Independent Shareholders as to whether the terms of the Offer are, or are not, fair and reasonable and as to the acceptance of the Offer.

As announced on 14 November 2017, Altus Capital had been appointed as the Company's independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Offer and in particular as to whether the terms of the Offer are, or are not, fair and reasonable and as to the acceptance of the Offer.

The purpose of this Response Document is to provide you with, among other things, (i) information relating to the Offer and the Group; (ii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders in relation to the Offer; and (iii) a letter of advice from Altus Capital to the Independent Board Committee in relation to the Offer and as to its acceptance.

THE OFFER

The terms of the Offer summarised below are set out in detail in the Offer Document and the Form of Acceptance. You are recommended to refer to them for further details.

As at the Latest Practicable Date, the Company had 2,595,613,733 Shares in issue. Save for the aforesaid, the Company did not have any outstanding options, derivatives, warrants, or securities which are convertible or exchangeable into Shares and has not entered into any agreement for the issue of such options, derivatives, warrants or securities which are convertible or exchangeable into Shares as at the Latest Practicable Date.

The Offer is being made by Kingston Securities for and on behalf of the Offeror in compliance with the Takeovers Code on the terms and conditions set out in the Offer Document and the Form of Acceptance on the following basis:

For each Offer ShareHK\$0.319 in cash

LETTER FROM THE BOARD

The Offer Price of HK\$0.319 per Offer Share is equal to the price per Sale Share paid by the Offeror under the Sale and Purchase Agreement.

The Offer Shares to be acquired under the Offer shall be free from all Encumbrances and together with all rights attached to them, including the rights to receive all dividends and distribution declared, made or paid on or after the date on which the Offer is made, being the date of posting of the Offer Document. The Offer is extended to all Shareholders other than the Offeror in accordance with the Takeovers Code.

The Offer is unconditional in all respects and is not conditional upon acceptances being received in respect of a minimum number of Shares or any other conditions.

Confirmation of financial resources

As stated in the Offer Document, the Offeror intends to finance the consideration payable under the Offer by approximately HK\$346 million from the Loan Facility. The Offeror confirms that the repayment of the interest on, repayment of or security for any liability (contingent or otherwise) of the Loan Facility will not depend on any significant extent on the business of the Company. The Pledged Shares would not result in the transfer of voting rights. Kingston Corporate Finance, the financial adviser to the Offeror in respect of the Offer, is satisfied that sufficient financial resources are available to the Offeror to satisfy the consideration of the Sale Shares and the full acceptance of the Offer.

Effects of accepting the Offer

By accepting the Offer, the Shareholders will sell their Shares free from all Encumbrances and together with all rights accruing or attaching to them, including, without limitation, the right to receive all dividends and distributions which may be recommended, declared, made or paid, if any, at any time on or after the date on which the Offer is made, being the date of posting of the Offer Document. Acceptance of the Offer by any Shareholder will be deemed to constitute a warranty by such person that all Shares sold by such person under the Offer are free from all Encumbrances and together with all rights accruing or attaching to them, including, without limitation, the right to receive all dividends and distributions which may be recommended, declared, made or paid, if any, at any time on or after the date on which the Offer is made (i.e. the date of posting of the Offer Document).

Comparisons of value

The Offer Price of HK\$0.319 per Offer Share represents:

- (a) a premium of 16.00% over the closing price of HK\$0.275 per Share as quoted on the Stock Exchange on the last trading day immediately preceding the date of the Rule 3.7 Announcement;
- (b) a premium of approximately 13.93% over the closing price of HK\$0.28 per Share as quoted on the Stock Exchange on the Last Trading Day;

LETTER FROM THE BOARD

- (c) a premium of approximately 22.98% over the average closing price of HK\$0.2594 per Share as quoted on the Stock Exchange for the five consecutive trading days up to and including the Last Trading Day;
- (d) a premium of approximately 1.27% over the closing price of HK\$0.315 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and
- (e) a premium of approximately 165.83% over the audited consolidated net asset value per Share of approximately HK\$0.12 as at 30 June 2017 (being the date of which the latest audited consolidated annual results of the Group were made up), calculated based on the Group's audited consolidated net assets of approximately HK\$307 million as at 30 June 2017 and 2,595,613,733 Shares in issue as at the date of the Rule 3.5 Announcement.

INFORMATION OF THE GROUP

The Group is principally engaged in films and television series production, distribution and licensing of film rights, film exhibition, post-production, as well as advertising, marketing and publication.

The relevant financial information relating to the Group as required by the Takeovers Code is set out in Appendix I to this Response Document.

LETTER FROM THE BOARD

SHAREHOLDING STRUCTURE OF THE COMPANY

The table below sets out the shareholding structure of the Company (i) immediately prior to Completion; and (ii) as at the Latest Practicable Date based on the disclosure of interest notices filed by the relevant Shareholders under Part XV of the SFO and so far as was known to the Directors:

	Immediately prior to Completion		As at the Latest Practicable Date	
	<i>Number of Shares</i>	<i>%</i>	<i>Number of Shares</i>	<i>%</i>
<i>The Offeror and parties acting in concert with it</i>				
Offeror	—	0.00	1,535,992,000	59.18
Sub-total	—	0.00	1,535,992,000	59.18
<i>Vendors</i>				
Honour Grace	1,200,000,000	46.23	—	0.00
Mr. Wong	125,816,000	4.85	—	0.00
Ms. Wong	206,320,000	7.95	8,328,000	0.32
Sub-total	1,532,136,000	59.03	8,328,000	0.32
Other Shareholders	1,063,477,733	40.97	1,051,293,733	40.50
Total	2,595,613,733	100.00	2,595,613,733	100.00

INFORMATION OF THE OFFEROR AND THE INTENTIONS ON THE COMPANY

Your attention is drawn to the sections headed “Information of the Offeror” and “The Offeror’s intention in relation to the Company” in the “Letter from Kingston Securities” of the Offer Document.

In particular, as stated in the Offer Document, the Offeror intends to continue the existing principal businesses of the Group after the close of the Offer. The Offeror will, following the close of the Offer, conduct a review on the business activities and financial position of the Group to formulate business plans and strategies for the future business development of the Group. As at the Latest Practicable Date, the Offeror had no definitive plans for any acquisition or disposal of assets and/or business of the Group.

The Board is currently made up of six Directors, comprising three executive Directors and three independent Directors. Mr. Wong will remain as an executive Director and his terms of service will remain unchanged. Mr. Wong entered into the latest service agreement with the Company on 5 October 2012. The Offeror intends to nominate Mr. Lee, Hin Kwong Patrick as an executive Director. The Offeror is in the course of identifying additional candidates for the Board, subject to compliance with the Takeovers Code and the Listing Rules. The appointment

LETTER FROM THE BOARD

of Directors nominated by the Offeror would not take effect earlier than the date of posting of the Offer Document in compliance with the Takeovers Code. Further announcement(s) will be made by the Company in compliance with the requirements of the Takeovers Code and the Listing Rules as and when there are further changes in the composition of the Board.

Save for the changes in the Board composition, the Offeror has no intention to (i) discontinue the employment of any employees of the Group; or (ii) re-deploy the fixed assets of the Group other than those in its ordinary and usual course of business.

The Board is aware of the Offeror's intentions in relation to the Group and is willing to render co-operation with the Offeror and will continue to act in the best interest of the Group and the Shareholders as a whole.

MAINTAINING THE LISTING STATUS OF THE COMPANY

As stated in the letter from Kingston Securities contained in the Offer Document, the Offeror intends to maintain the listing of the Shares on the Main Board of the Stock Exchange after the close of the Offer. The sole director of the Offeror and the new Director(s) (who will be nominated by the Offeror and to be appointed as Director(s)) have jointly and severally undertaken to the Stock Exchange to take appropriate steps to ensure that a sufficient public float exists for the Shares following the close of the Offer.

The Stock Exchange has stated that if, upon closing of the Offer, less than the minimum prescribed percentage applicable to the Company, being 25% of the Shares, are held by the public or if the Stock Exchange believes that (i) a false market exists or may exist in the trading of the Shares; or (ii) there are insufficient Shares in public hands to maintain an orderly market, it will consider exercising its discretion to suspend trading in the Shares until the prescribed level of public float is restored.

RECOMMENDATIONS

The Independent Board Committee has been formed to advise the Independent Shareholders as to whether the terms of the Offer are, or are not, fair and reasonable and so to the acceptance of the Offer.

Altus Capital has been appointed and approved by the Independent Board Committee as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Offer are, or are not, fair and reasonable and as to the acceptance of the Offer.

Your attention is drawn to the "Letter from the Independent Board Committee" of this Response Document which sets out its recommendation to the Independent Shareholders in respect of the Offer. Your attention is also drawn to the "Letter from Altus Capital" of this Response Document which contains, among other things, the independent financial adviser's advice to the Independent Board Committee in relation to the Offer.

The Independent Shareholders are urged to read those letters carefully before taking any action in respect of the Offer.

LETTER FROM THE BOARD

ADDITIONAL INFORMATION

You are advised to read this Response Document together with the Offer Document and the Form of Acceptance in respect of the acceptance and settlement procedures of the Offer. Your attention is also drawn to the additional information contained in the appendices to this Response Document.

In considering what action to take in connection with the Offer, you should also consider your own tax positions, if any, and in case of any doubt, consult your professional advisers.

Yours faithfully,
For and on behalf of
Pegasus Entertainment Holdings Limited
Wong Pak Ming
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the text of a letter of recommendation from the Independent Board Committee to the Independent Shareholders prepared for the purpose of inclusion in this Response Document.



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)

29 November 2017

To the Independent Shareholders,

Dear Sir or Madam,

**MANDATORY UNCONDITIONAL CASH OFFER BY
KINGSTON SECURITIES LIMITED
FOR AND ON BEHALF OF NICE RICH GROUP LIMITED
TO ACQUIRE ALL THE ISSUED SHARES OF
PEGASUS ENTERTAINMENT HOLDINGS LIMITED
(OTHER THAN THOSE ALREADY OWNED OR
TO BE ACQUIRED BY NICE RICH GROUP LIMITED AND
PARTIES ACTING IN CONCERT WITH IT)**

INTRODUCTION

We refer to the Response Document dated 29 November 2017 issued by the Company in response to the Offer, of which this letter forms a part. Terms used in this letter shall have the same meanings as those defined in the Response Document unless the context requires otherwise.

We have been appointed to form the Independent Board Committee to consider the terms of the Offer and to give recommendations to the Independent Shareholders as to whether, in our opinion, the terms of the Offer is fair and reasonable so far as they are concerned and as to the acceptance of the Offer.

Altus Capital has been appointed as the independent financial adviser to advise us in this respect. Detail of its advice and the principal factors and reasons taken into consideration in arriving at its advice are set out in the “Letter from Altus Capital” on pages 15 to 31 of the Response Document.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

We also wish to draw your attention to the Offer Document, the “Letter from the Board” and the additional information set out in the Appendices to the Response Document.

RECOMMENDATIONS

Having taken into account the terms of the Offer and the advice and recommendation from Altus Capital, we are of the opinion that the terms of the Offer are fair and reasonable so far as the Independent Shareholders are concerned and therefore we recommend the Independent Shareholders to accept the Offer.

Independent Shareholders are reminded that their decision to realise or to hold their investment in the Shares depends on their own individual circumstances and investment objectives. Furthermore, the Independent Shareholders are recommended to read the full text of the “Letter from Altus Capital” set in on pages 15 to 31 of the Response Document.

Yours faithfully,
For and on behalf of

Independent Board Committee

Lam Kam Tong

Lo Eric Tien-cheuk

Tang Kai Kui Terence

Independent non-executive Directors

LETTER FROM ALTUS CAPITAL

The following is the text of a letter of advice from Altus Capital to the Independent Board Committee and the Independent Shareholders in relation to the Offer, which has been prepared for the purpose of incorporation in this Response Document.

ALTUS.

Altus Capital Limited
21 Wing Wo Street
Central, Hong Kong

29 November 2017

*To the Independent Board Committee and
the Independent Shareholders*

Pegasus Entertainment Holdings Limited
Rooms 1801–02, Westlands Centre
20 Westlands Road
Quarry Bay, Hong Kong

Dear Sir or Madam,

**MANDATORY UNCONDITIONAL CASH OFFER BY
KINGSTON SECURITIES LIMITED
FOR AND ON BEHALF OF NICE RICH GROUP LIMITED
TO ACQUIRE ALL THE ISSUED SHARES OF
PEGASUS ENTERTAINMENT HOLDINGS LIMITED
(OTHER THAN THOSE ALREADY OWNED OR
TO BE ACQUIRED BY NICE RICH GROUP LIMITED AND PARTIES
ACTING IN CONCERT WITH IT)**

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Offer. Details of the Offer are set out in the response document of the Company dated 29 November 2017 (the “**Response Document**”), of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Response Document unless the context requires otherwise.

As set out in the Offer Document, the Offeror, the Vendors and Mr. Wong entered into the Sale and Purchase Agreement on 22 October 2017, pursuant to which the Vendors had conditionally agreed to sell and the Offeror had conditionally agreed to purchase the Sale Shares. The aggregate consideration for the Sale Shares pursuant to the Sale and Purchase Agreement was HK\$486,094,752, equivalent to HK\$0.319 per Share. Completion took place on 27 October 2017.

LETTER FROM ALTUS CAPITAL

Immediately prior to Completion, none of the Offeror, Mr. Zhang and parties acting in concert with any of them owned any Shares or any other convertible securities, options, warrants or derivatives in the Company. Immediately following Completion, the Offeror owned in aggregate 1,523,808,000 Shares representing approximately 58.71% of the entire issued share capital of the Company. Pursuant to Rule 26.1 of the Takeovers Code, the Offeror is required to make a mandatory unconditional cash offer for 1,071,805,733 Shares, representing all the issued Shares not already owned or to be acquired by it and parties acting in concert with it.

As at the Latest Practicable Date, the Company had 2,595,613,733 Shares in issue and the Company had no other outstanding warrants, derivatives, options, convertibles or other securities in issue which may confer any rights to the holder(s) thereof to subscribe for, convert or exchange into Shares.

THE INDEPENDENT BOARD COMMITTEE AND THE INDEPENDENT FINANCIAL ADVISER

Pursuant to Rules 2.1 and 2.18 of the Takeovers Code, the Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Lam Kam Tong, Mr. Lo Eric Tien-cheuk and Mr. Tang Kai Kui Terence, who have no direct or indirect interest in the Offer, has been established by the Company to give advice and recommendation to the Independent Shareholders as to whether the terms of the Offer are fair and reasonable and as to acceptance.

As the independent financial adviser with respect to the Offer, our role is to provide the Independent Board Committee and the Independent Shareholders with an independent opinion and recommendation as to whether the terms of the Offer are fair and reasonable as far as the Independent Shareholders are concerned and whether the Independent Shareholders should, or should not accept the Offer.

Pursuant to Rule 2.1 of the Takeovers Code, our appointment as the independent financial adviser has been approved by the Independent Board Committee. As at the Latest Practicable Date, Altus Capital was not associated or connected with the Company or the Offeror, their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them. During the last two years, there was no previous engagement between us and the Group or the Offeror. Apart from the normal professional fees payable to us in connection with this engagement, no arrangement exists whereby we will receive any fees or benefits from the aforementioned parties. Accordingly, Altus Capital is considered eligible for providing independent advice to the Independent Board Committee and the Independent Shareholders in connection with the Offer.

BASIS OF OUR ADVICE

In formulating our opinion, we have relied on the statements, information, opinions and representations contained or referred to in the Offer Document, the Response Document and/or provided to us by the Company, the Directors and the management of the Company (the “**Management**”). We have assumed that all the statements, information, opinions and representations contained or referred to in the Offer Document, the Response Document and/or

LETTER FROM ALTUS CAPITAL

provided to us were true, accurate and complete at the time they were made and continued to be so as at the date of the Response Document. The Company will notify the Independent Shareholders of any material changes to information contained or referred to in the Response Document as soon as practicable in accordance with Rule 9.1 of the Takeovers Code. Shareholders will also be informed as soon as practicable when there are any material changes to the information contained or referred to herein as well as changes to our opinion after the Latest Practicable Date and throughout the Offer Period.

We have no reason to believe that any statements, information, opinions or representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the statements, information, opinions or representations provided to us untrue, inaccurate or misleading. We have assumed that all the statements, information, opinions and representations for matters relating to the Group contained or referred to in the Response Document and/or provided to us by the Company and the Management have been reasonably made after due and careful enquiry. We have relied on such statements, information, opinions and representations and have not conducted any independent investigation into the business, financial conditions and affairs or the future prospects of the Group.

We have not considered the tax implications on Independent Shareholders who accept the Offer as these depend on their individual circumstances. In particular, the Independent Shareholders who are overseas residents or subject to overseas taxation or Hong Kong taxation on securities dealings should consider their own tax position and, if in any doubt, should consult their own professional advisers.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our advice for the Offer, we have considered the following principal factors and reasons:

1. Business and financial information of the Group

1.1 Background of the Group

The Company was incorporated in the Cayman Islands with limited liability and its Shares were listed on the Growth Enterprise Market (“GEM”) of the Stock Exchange on 31 October 2012 and after the transfer on 9 January 2015, had been listed on the Main Board of the Stock Exchange.

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. As at the Latest Practicable Date, the Group operated three cinemas, a post-production house in Hong Kong and one cinema in the PRC.

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The Group's revenue is predominantly derived from its film and TV series production, distribution and film rights licensing as well as its film exhibition segments. The two segments in aggregate accounted for approximately 98.1% and 98.0% of its revenue for each of the two financial years ended 30 June 2017 respectively. Further information with regards to the Group's historical financial performance is set out in the following section.

1.2 Historical financial performance of the Group

Set out below is a summary of the audited consolidated financial information of the Group for the two financial years ("FY") ended 30 June 2017, which has been extracted from the annual report of the Company for the year ended 30 June 2017 (the "2017 Annual Report").

	FY ended 30 June	
	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(audited)	(audited)
Revenue	446,381	225,631
Gross profit	186,829	116,261
Selling and distribution expenses	(102,820)	(110,539)
— <i>Minimum lease payments under operating leases in respect of cinemas</i>	(57,158)	(74,868)
Administrative expenses	(87,674)	(43,943)
Share of results of a joint venture	(2,090)	13,494
Loss for the year	(84,152)	(40,880)
Current assets	288,620	268,417
— <i>Film production in progress</i>	80,050	122,521
— <i>Bank balances and cash</i>	72,177	31,998
Net current assets	162,126	123,271
Net assets	332,310	307,736

Source: 2017 Annual Report

Business and financial results

As aforementioned, the Group predominantly derived its revenue from its film and TV series production and distribution and film rights licensing as well as its film exhibition segments in the past two financial years.

Film and TV series production and distribution and film rights licensing

The Group's revenue witnessed a decrease of approximately 49.5% from FY2016 to FY2017 mainly because (i) results for one of the two films released during FY2017 (namely "Bounty Hunters" (賞金獵人), jointly produced by the

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Group and production companies from Korea and the PRC) were reflected as a share of results of a joint venture whilst returns from both films released in FY2016 were captured under revenue; and (ii) difference in the scale of films released in the two financial years particularly, significant revenue from the large-scale blockbuster “Ip Man 3” (葉問3) was captured in FY2016.

Such difference in the scale of the films released in FY2016 and FY2017 nevertheless contributed to an improvement of gross profit margin from approximately 41.9% in FY2016 to approximately 51.5% in FY2017 as large-scale production generally incurs more costs and inherently has comparatively lower gross profit margin.

The Group currently has several films in the pipeline with film production in progress amounted to approximately HK\$122.5 million as at 30 June 2017. Out of this pipeline, two films are already completed and are in the pre-release stage whilst two more are due to commence production in FY2018.

Film exhibition

Revenue contribution from the film exhibition segment remained stable at approximately HK\$137.5 million in FY2016 and HK\$137.3 million in FY2017. Gross profit margin for film exhibition segment increased slightly from approximately 54.3% in FY2016 to 57.5% in FY2017 following the Group’s strict control on direct costs.

The Group had significantly expanded its film exhibition segment in the past year. As at the Latest Practicable Date, in addition to its flagship cinema, Cinema City Langham Place, Cinema City Chai Wan had commenced operations in August 2017, whilst Cinema City JP had commenced operations in late October 2017. The Group’s first cinema in the PRC had also commenced trial operations in late September 2017. On top of these, the Group intends to unveil two more cinemas in Hong Kong in the fourth quarter of 2017. Due to such expansion, the accounting treatment for the relevant leases and rent-free period offered by the respective landlords prior to the respective operation commencement had resulted in significant increase in the Group’s selling and distribution expenses in FY2017. The net increase of approximately HK\$7.7 million in selling and distribution expenses from FY2016 to FY2017 was a combination of the rise in lease expenses as mentioned earlier, offset by the decrease in film advertising, promotion and distribution costs of approximately HK\$13.5 million owing to the smaller scale of films released during FY2017.

Loss for the year

The Group’s loss making position have improved from FY2016 to FY2017. Such improvement of the results for FY2017 was primarily resulted from (i) the significant increase in other income — mainly due to a compensation of approximately HK\$5.3 million received from a landlord owing to the delay in handover of a leased cinema premise in the PRC; (ii) significant decrease in

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administrative expenses — primarily resulting from the absence of share based compensation previously recognised in FY2016 due to the grant of share options and significant amortisation of intangible assets for the advertising, marketing and publication segment in FY2016; and (iii) a reduction in impairment losses being recognised in FY2017, which in aggregate, offset the aforementioned decrease in revenue and gross profit contributed by film and TV series production and distribution as well as film exhibition businesses during FY2017.

Net asset

The net asset of the Group decreased from approximately HK\$332.3 million as at 30 June 2016 to approximately HK\$307.7 million as at 30 June 2017 in line with the loss for the year recorded for FY2017.

Gearing

As at the respective financial year ends for the last two years, the Group did not have any interest-bearing loans or Shareholders' loans and accordingly had no gearing.

1.3 Outlook

As noted in the 2017 Annual Report, the pace of growth for the film industry in the PRC has slowed since 2016 after the explosive growth in terms of the total PRC national box office receipts received over the past few years. Notwithstanding this, the growth rate of the PRC national box office receipts in the first half of 2017 has regained the upward momentum. The Group was of the view that the adjustment in 2016 was a healthy sign and the industry still has great potential to grow in the long run.

Moreover, the Group believes the film industry will continue to benefit from favourable policies by both the PRC and Hong Kong governments. In particular, the Film Industry Promotion Law of the PRC (中國電影產業促進法), effective from 1 March 2017, was introduced to promote investment in film production and encourage long-term development of the film industry. The Hong Kong government, on the other hand, has demonstrated its support to promote the development of the film industry for example, by indicating minimum number of cinema seats in commercial sites slated for sale in Kai Tak and Sha Tin in March 2017.

The Group will continue to strategically focus on its established core businesses in film production and exhibition so as 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 particular, although the Group as a whole had recorded losses for the past three financial years, its film and TV series production and distribution segment remains profitable. The Group's film exhibition segment has been successful in that the Group's flagship cinema complex has achieved number one ranking in terms of box

office receipts among all cinemas in Hong Kong since its opening. The Directors are confident that with the attraction of film viewing experience special to cinema complexes such as “4Dx” features as opposed to home viewing and the ongoing expansion of its cinema network, its film exhibition business will bring steady and continual cash returns for the Group and further expand the Group’s revenue base.

1.4 Dividend

We noted that since its listing on the GEM and subsequent transfer to the Main Board of the Stock Exchange and up to the Latest Practicable Date, the Group had not declared any dividend. The Offer presents the opportunity for Independent Shareholders to realise returns to their investments, including those not previously paid out in the form of dividend. Further analysis on the Offer Price is set out in the paragraph headed “4. Evaluation of the Offer Price” below.

2. Background information of the Offeror

2.1 The Offeror

Based on the information disclosed in the Offer Document, the Offeror is a company incorporated in the British Virgin Islands on 8 October 2013 with limited liability and is wholly owned by Mr. Zhang.

Mr. Zhang, aged 36, is an entrepreneur in various industries, including real estate, energy etc. Mr. Zhang has more than six years of experience in the energy sector, where he is a controlling shareholder and an executive director of Kinetic Mines and Energy Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1277), with its principal engagement in the extraction, trading and sales of coal products, as well as involvement in the trading of mineral products through its subsidiaries. Mr. Zhang also has more than eight years of experience in the real estate sector, where he is a director of Seedland Construction Holdings Limited, a company incorporated in Hong Kong on 15 July 2008 with limited liability which principally engages in real estate business through its subsidiaries.

Mr. Zhang is a third party independent of, and not connected with, either the Company or any of its connected persons, save that the Offeror had become a controlling shareholder of the Company following Completion.

2.2 The Offeror’s intention in relation to the Company

It is the intention of the Offeror that the Group will continue with its existing principal activities after the close of the Offer. The Offeror will, following the close of the Offer, conduct a review on the business activities and financial position of the Group to formulate business plans and strategies for the future business development of the Group. As at 13 November 2017, being the latest practicable date for ascertaining information contained in the Offer Document, the Offeror has no definitive plans for any acquisition or disposal of assets and/or business of the Group.

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We also note from the Offer Document that, the Offeror has no intention to (i) discontinue the employment of any employees of the Group; and (ii) redeploy the fixed assets of the Company other than those in its ordinary and usual course of business. The Offeror intends to nominate Mr. Lee, Hin Kwong Patrick as an executive Director and is in the course of identifying additional candidates for the Board, subject to compliance with the Takeovers Code and the Listing Rules. Up to the Latest Practicable Date, the Offeror has not announced any additional appointments or intention to replace members of the Board or the existing management team.

2.3 Maintaining the listing status of the Company

The Stock Exchange has stated that if, at the close of the Offer, less than the minimum prescribed percentage applicable to the Company, being 25.0% of the issued Shares, are held by the public at all times, or if the Stock Exchange believes that:

- (i) a false market exists or may exist in the trading of the Shares; or
- (ii) there are insufficient Shares in public hands to maintain an orderly market,

it will consider exercising its discretion to suspend dealings in the Shares.

In this regard, we noted from the Offer Document that the Offeror intends the Company to remain listed on the Stock Exchange. The sole director of the Offeror and the new Directors to be appointed to the Board have jointly and severally undertaken to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists in the Shares.

It is also noted that the Offeror does not intend to avail itself of any powers of compulsory acquisition of any Shares outstanding after the close of the Offer.

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3. Basic terms of the Offer

The Share Offer Price of HK\$0.319 per Offer Share represents:

	Price/value per Share at approximately HK\$	Premium at approximately %
(i) the price per Share based on the closing price of the Share as quoted on the Stock Exchange on the last trading day immediately preceding the date of the Rule 3.7 Announcement, being 17 October 2017	0.275	16.00%
(ii) the price per Share based on the closing price as quoted on the Stock Exchange on 20 October 2017, being the Last Trading Day	0.280	13.93%
(iii) the price per Share based on the average closing price of the Shares as quoted on the Stock Exchange for the last five trading days prior to and including the Last Trading Day	0.259	22.98%
(iv) the price per Share based on the average closing price of the Shares as quoted on the Stock Exchange for the last ten trading days prior to and including the Last Trading Day	0.220	44.80%
(v) the Group's net asset value per Share as at 30 June 2016 (based on net asset value of approximately HK\$ 332,310,000 and 2,523,768,239 Shares in issue as at 30 June 2016)	0.132	142.27%
(vi) the Group's net asset value per Share as at 30 June 2017 (based on net asset value of approximately HK\$ 307,736,000 and 2,595,613,733 Shares in issue as at 30 June 2017)	0.119	169.06%

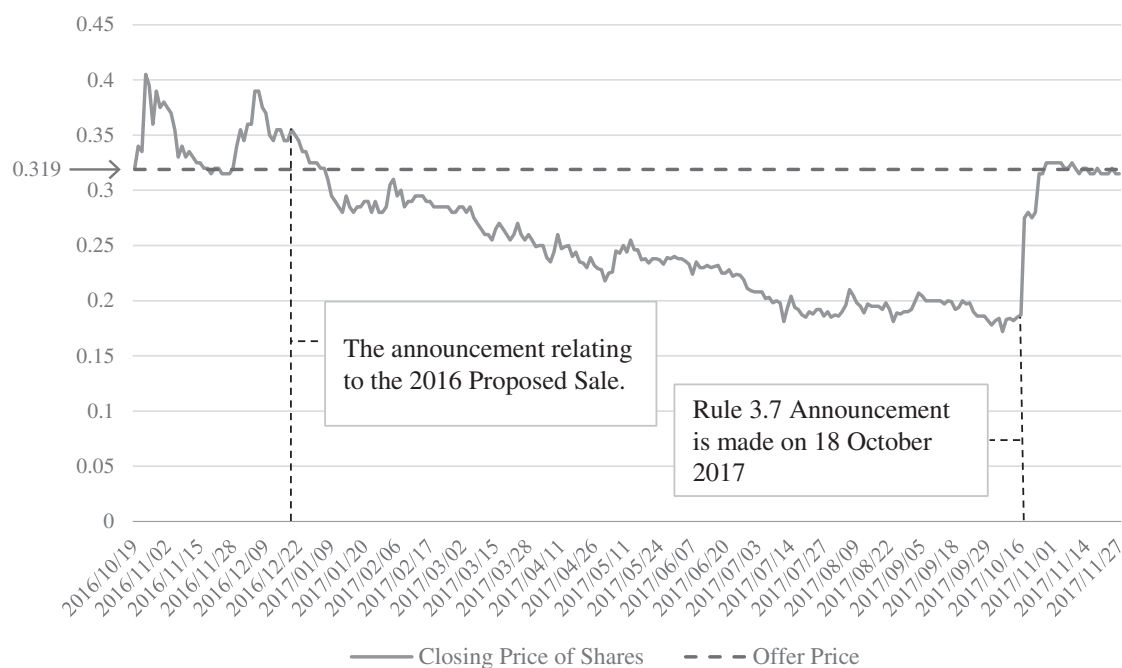
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Further terms and conditions of the Offer, including the procedures for acceptance, are set out in the “Letter from Kingston Securities” and Appendix I to the Offer Document.

4. Evaluation of the Offer Price

4.1 Historical price performance of the Shares

The chart below depicts the closing prices of the Shares traded on the Stock Exchange from 19 October 2016, being the date falling 12 months preceding the date of the Rule 3.7 Announcement made by the Company, up to and including the Latest Practicable Date (the “**Review Period**”).



Source: the website of the Stock Exchange (www.hkex.com.hk)

During the Review Period, the closing price of the Shares had recorded the lowest at HK\$0.17 per Share on 9 October 2017 and the highest of HK\$0.39 per Share on 6 and 7 December 2016. The average daily closing price per Share during the Review Period was HK\$0.26 per Share. In particular, we noted a gradual decreasing trend from January 2017 to July 2017 following the Company’s announcement of proposed sale of 29.9% of the issued share capital of the Company by the then controlling shareholder on 20 December 2016 (“**2016 Proposed Sale**”), which was under the threshold necessitating a mandatory general offer by the proposed purchaser. Such trend continued after the Company announced on 28 March 2017 that the 2016 Proposed Sale had subsequently lapsed. The closing price of the Shares then hovered around or below HK\$0.20 from July 2017 up to 16 October 2017 prior to the Rule 3.7 Announcement.

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The closing price of the Shares increased to HK\$0.28 on 17 October 2017 and following the trading halt and the Rule 3.7 Announcement on 18 October 2017, it maintained at around HK\$0.28 per Share until 20 October 2017. Following the suspension of trading from 23 to 25 October 2017 and after the Rule 3.5 Announcement, the closing price of the Shares went above HK\$0.30 per Share for the first time on 26 October 2017 since 6 January 2017 and has maintained around the Offer Price from 30 October 2017 to up to the Latest Practicable Date.

The Offer Price is within the range of the closing price of the Shares during the Review Period and represents a premium of approximately 22.98%, 44.80%, 58.08% and 58.82% over the average of the closing prices of the Shares as quoted on the Stock Exchange for the five, ten, 30 and 90 trading days up to and including the Last Trading Day respectively. It also represents a notable premium of approximately 142.27% and 169.06% to the net asset value per Share as at 30 June 2016 and 2017. Based on the above, together with the fact that the Group incurred net losses for both FY2016 and FY2017 and that the rise in the Share price after Rule 3.5 Announcement was likely associated with the market response to the Offer, we are of the view that the Offer Price is fair and reasonable. Shareholders should note that the information set out above is not an indication of the future performance of the Shares and that the price of the Shares may increase or decrease from its closing prices as at the Latest Practicable Date.

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4.2 Historical liquidity of the Shares

The average daily number of Shares traded per month, and the respective percentages of the Shares' monthly trading volume during the Review Period as compared to (i) the total number of issued Shares held by the public as at the respective month end or where applicable as at the Last Trading Day and the Latest Practicable Date; and (ii) the total number of issued Shares as at the respective month end or where applicable as at the Last Trading Day and the Latest Practicable Date, are tabulated as follows:

	Total monthly trading volume of the Shares <i>(number of Shares)</i>	Average trading volume of the Shares per Trading Day during the month <i>(number of Shares)</i>	Approximate percentage of average daily trading volume of the Shares to the total issued Shares <i>(Note 1)</i> <i>(%)</i>	Approximate percentage of average daily trading volume of the Shares to the total number of Shares held by the public <i>(Note 2)</i> <i>(%)</i>	Number of Trading Days in each month
2016					
October	549,392,000	28,915,368	1.14%	2.68%	19
November	355,582,000	16,162,818	0.63%	1.49%	22
December	392,602,000	15,809,160	0.61%	1.43%	20
2017					
January	120,636,000	6,349,263	0.24%	0.57%	19
February	137,562,077	6,878,104	0.26%	0.62%	20
March	84,312,000	3,665,739	0.14%	0.33%	23
April	35,888,000	2,111,059	0.08%	0.19%	17
May	74,488,000	3,724,400	0.14%	0.34%	20
June	44,795,914	2,036,178	0.08%	0.19%	22
July	30,904,000	1,471,619	0.06%	0.14%	21
August	48,392,000	2,199,636	0.08%	0.21%	22
September	103,080,000	4,908,571	0.19%	0.46%	21
October (up to and including the Last Trading Day)	262,760,000	20,212,308	0.78%	1.89%	13
October (after the Last Trading Day up to 31 October 2017) <i>(Note 3)</i>	258,016,000	64,504,000	2.49%	6.04%	4
November (up to the Latest Practicable Date)	161,788,000	8,515,158	0.33%	0.80%	19

Source: the website of the Stock Exchange (www.hkex.com.hk)

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Notes:

1. Based on the total number of issued Shares as at each month end or as at the Last Trading Day (for October 2017) or as at the Latest Practicable Date.
2. Based on the total number of issued Shares held by the public Shareholders of the Company as at each month end or as at the Last Trading Day (for October 2017) or as at the Latest Practicable Date.
3. The suspension period of trading (from 23 October 2017 to 26 October 2017) is excluded in calculating the average daily trading volume of the Shares.

As illustrated in the above table, during the Review Period, the percentage of the average daily trading volume to the total number of issued Shares ranged from approximately 0.08% to 2.49%. When compared to the total number of Shares held by public Shareholders, the percentage ranged from approximately 0.14% to 6.04% over the Review Period. The average daily trading volume of the Shares during the Review Period was approximately 9,350,162 Shares, representing approximately 0.36% of the total number of issued Shares as at the Last Trading Day and approximately 0.88% of the total number of Shares held by public Shareholders as at the Last Trading Day.

It is noted that average daily trading volume as a percentage of the total number of issued Shares held by the public ranged from approximately 1.43% to 2.68% from October to December 2016, the period leading up to the announcement of the 2016 Proposed Sale. Thereafter, save and except for October 2017 and November 2017 (up to the Latest Practicable Day), the average daily trading volume of the Shares was below 0.62% of the total number of issued Shares held by the public Shareholders from time to time during the entire Review Period. In particular, the statistics in the above table revealed that the trading volume of the Shares was relatively thin subsequent to the announcement regarding the 2016 Proposed Sale and prior to the Rule 3.7 Announcement indicating that the Shares were generally illiquid in the open market.

In view of the above, the Offer presents an opportunity for Independent Shareholders considering to dispose their significant number of Share in the open market without exerting downward pressure on the market price of the Shares because of their disposal.

4.3 Comparable analysis

In assessing the fairness and reasonableness of the Offer Price, we have perform analysis on the price-to-book ratios (the “**P/B Ratio(s)**”) of companies which are listed on the Main Board and GEM of the Stock Exchange and are engaged in similar businesses to those of the Group for comparison purposes. We have not performed analysis the price-to-earnings ratios since (as shown in the analysis table) the Company, together with its peers, had been loss-making. The comparable analysis has also excluded the dividend approach as the Company has not declared nor distributed any dividends since its initial listing in 2012.

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As aforementioned, the Group had derived over 98.0% of its revenue from its film and TV series production and distribution and film rights licensing as well as its film exhibition segments. More specifically, for FY2016 and FY2017, its film exhibition segment accounted for approximately 30.8% and 60.8% of total revenue of the Group respectively, while its film and TV series production and distribution segment contributed to approximately 67.3% and 37.2% respectively for the same periods. Further, we note that listed companies on the Stock Exchange often engage in multiple areas within the entertainment industry, with either one or two segments overlapping with that of the Group's main segments. With this in mind, we have set the following selection criteria for the purpose of identifying comparable companies, (i) the shares of which are listed on the Main Board and GEM of the Stock Exchange and of comparable size to the Company with closing market capitalisation as at the Last Trading Day of no more than HK\$1.5 billion; and (ii) revenue generated from either film and TV production and/or film exhibition representing at least 40.0% of its total revenue for the latest financial year. Based on such criteria, we identified five comparable companies (the “**Comparables**”), being an exhaustive list. Independent Shareholders should note that the business, scale of operation, trading prospect, target market, product mix and capital structure of the Company are not exactly the same as those of the Comparables and we have not conducted any in-depth investigation into business and operations of the Comparables save for the aforesaid selection criteria. Our relevant findings are summarised in the following table.

Stock code	Company name	Principal activities	Market capitalisation <i>(Note 1)</i> HK\$'000	Net profit/ (loss) <i>(Note 2)</i> HK\$'000	Net asset value <i>(Note 2)</i> HK\$'000	P/B Ratio <i>(Note 3)</i>
8220	Bingo Group Holdings Ltd.	Cinema investment and management, filmed entertainment new media exploitations and licensing businesses.	321,625	(59,616)	100,053	3.21
491	Emperor Culture Group Limited	Film and TV programme production and investment, cinema operation, event investment, and investment in securities.	931,869	(69,078)	904,179	1.03
8075	Media Asia Group Holdings Ltd.	TV and film production and distribution, music and events and artiste management.	489,157	(178,461)	638,309	0.77
8228	National Arts Entertainment and Culture Group Ltd.	Film production and distribution, sales of travel related products, artiste management and event coordination, film studio operation and hotel operation.	980,669	(327,092)	668,151	1.47

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Stock code	Company name	Principal activities	Market capitalisation <i>(Note 1)</i> HK\$'000	Net profit/ (loss) <i>(Note 2)</i> HK\$'000	Net asset value <i>(Note 2)</i> HK\$'000	P/B Ratio <i>(Note 3)</i>
1132	Orange Sky Golden Harvest Entertainment (Holdings) Ltd.	Film exhibition, film & TV programme distribution and production, and advertising & consultancy services.	1,492,504	(65,237)	1,434,769	1.04
					Maximum	3.21
					Mean	1.50
					Median	1.03
					Minimum	0.77
1326	The Company	Film and TV series production, distribution and licensing of film rights, film exhibitions, post-production, advertising, marketing and publication	828,000 <i>(Note 4)</i>	(40,880)	311,214	2.66 <i>(Note 4)</i>

Source: the website of the Stock Exchange (www.hkex.com.hk)

Notes:

1. Calculated based on the closing share price and number of Shares in issue as at the Last Trading Day sourced from the website of the Stock Exchange.
2. The net asset values attributable to owners and net profit/(loss) of the Comparables are extracted from their respective latest published annual/interim reports prior to the Last Trading Day.
3. P/B Ratios of the Comparables are calculated based on their respective closing prices as at the Last Trading Day and the net asset values attributable to owners of the Comparables as at their latest year/period end dates as extracted from their latest annual/interim reports published on the Stock Exchange's website, divided by the total number of issued Shares as at the Last Trading Day.
4. The implied market capitalisation and P/B Ratio of the Company are calculated based on the Offer Price.

As illustrated in the above table, the historical P/B Ratios of the Comparables ranged from approximately 0.77 times to 3.21 times. The average P/B Ratios of the Comparables are approximately 1.50 times. The implied P/B Ratio of the Company, based on the Offer Price of HK\$0.319 per Offer Share, is approximately 2.66 times, which falls within the range of P/B ratios of the Comparables and is above both the mean and median of those recorded by the Comparables.

Moreover, whilst the price-to-earnings ratio is also a common parameter in assessing the value of a company, given that the Group, together with all the Comparables had recorded losses, we were unable to perform a meaningful analysis based on the price-to-earnings ratio.

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RECOMMENDATION

Having considered the principal factors and reasons as discussed above, in particular,

- (i) the Company had consecutively incurred net losses in FY2016 and FY2017;
- (ii) the Company had not declared nor distributed any dividends since its listing on GEM in 2012 and its transfer to the Main Board of the Stock Exchange in 2015;
- (iii) the Offer Price represents a premium to the closing price of the Shares for a substantial period during the Review Period and particularly for the five, ten, 30 and 90 trading days up to and including the Last Trading Day;
- (iv) the trading volume of the Shares during the Review Period had generally been thin and the historical liquidity of the Shares was low, subsequent to the announcement regarding the 2016 Proposed Sale and prior to the Rule 3.7 Announcement, Independent Shareholders may find it difficult to dispose of a significant number of Shares in the open market without exerting downward pressure and thus adversely affecting the market price of the Shares; and
- (v) the Offer Price represents an implied P/B Ratio of approximately 2.66 times, which is toward the high end of the range of, and above both the mean and median of the P/B Ratio of the Comparables,

we consider the terms of the Offer are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Board Committee to recommend the Independent Shareholders to accept the Offer.

The Independent Shareholders, in particular those who intend to accept the Offer, are reminded to note the recent fluctuations in the price of the Shares. There is no guarantee that the current market price will or will not sustain, and will or will not be higher than the Offer Price, during and after the close of the Offer Period. The Independent Shareholders who intend to accept the Offer are reminded to closely monitor the market price and the liquidity of the Shares during the Offer Period for acceptance and shall, having regard to their own circumstances and investment objectives, consider selling the Shares in the open market, instead of accepting the Offer, if the net proceeds from the sale of such Shares would be higher than that receivable under the Offer.

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The Independent Shareholders should read carefully the procedures for accepting the Offer as detailed in the Offer Document and the Response Document, the appendices and the Form of Acceptance, if they wish to accept the Offer.

Yours faithfully,
For and on behalf of
Altus Capital Limited

Jeanny Leung
Executive Director

Charlotte Khoo
Assistant Director

*Ms. Jeanny Leung (“**Ms. Leung**”) is a Responsible Officer of Altus Capital Limited licensed to carry on Type 6 (advising on corporate finance) regulated activity under the SFO and permitted to undertake work as a sponsor. She is also a Responsible Officer of Altus Investments Limited licensed to carry on Type 1 (dealing in securities) regulated activity under the SFO. Ms. Leung has about 30 years of experience in corporate finance advisory and commercial field in Greater China, in particular, she has participated in sponsorship work for initial public offerings and acted as financial adviser or independent financial adviser in various corporate finance transactions.*

*Ms. Charlotte Khoo (“**Ms. Khoo**”) is a Responsible Officer of Altus Capital Limited licensed to carry on Type 6 (advising on corporate finance) regulated activity under the SFO and permitted to undertake work as a sponsor. Ms. Khoo has over six years of experience in corporate finance and advisory in Hong Kong, in particular, she has participated in sponsorship work for initial public offerings and acted as financial adviser or independent financial adviser in various corporate finance transactions. Ms. Khoo is a certified public accountant of the Hong Kong Institute of Certified Public Accountants.*

1. SUMMARY OF FINANCIAL INFORMATION OF THE GROUP

The following is a summary of the financial information of the Group for each of the three financial years ended 30 June 2017, as extracted from the audited consolidated financial statements of the Group set forth in the published annual reports of the Company for the relevant years.

	For the year ended 30 June		
	2017	2016	2015
	HK\$'000	HK\$'000	HK\$'000
	(audited)	(audited)	(audited)
Revenue	225,631	446,381	155,240
Loss before tax	(39,914)	(73,809)	(226,621)
Income tax (expense)/credit	(966)	(10,343)	9,637
Loss for the year	(40,880)	(84,152)	(216,984)
Loss for the year attributable to:			
Owners of the Company	(39,984)	(72,591)	(215,258)
Non-controlling interests	(896)	(11,561)	(1,726)
Loss per share attributable to owners of the Company			
— Basic and diluted (HK cents)	(1.56)	(2.90)	(9.10)
Dividend per Share	—	—	—

Notes:

- (1) No qualified or modified opinion (including emphasis of matter, adverse opinion and disclaimer of opinion) in respect of the audited consolidated financial statements of the Group for each of the three financial years ended 30 June 2017 had been issued by Deloitte Touche Tohmatsu, the auditor of the Company.
- (2) The Company had no items which are exceptional or extraordinary because of size, nature or incidence in the audited consolidated financial statements of the Group for each of the three years ended 30 June 2017.

2. AUDITED CONSOLIDATED FINANCIAL INFORMATION OF THE GROUP

The following is the full text of the audited consolidated financial statements of the Group for the year ended 30 June 2017 as extracted from the annual report of the Company for the year ended 30 June 2017.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2017

	<i>Notes</i>	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Revenue	5	225,631	446,381
Cost of sales		<u>(109,370)</u>	<u>(259,552)</u>
Gross profit		116,261	186,829
Other gains	7	5,353	—
Other income	7	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	14	—	(43,084)
Impairment loss on intangible asset	15	—	(20,514)
Impairment loss on interest in an associate	16	(20,351)	—
Impairment loss on other receivable	23	—	(2,011)
Financial costs		(9)	(170)
Share of results of associates		(1,757)	(234)
Share of results of a joint venture		<u>13,494</u>	<u>(2,090)</u>
Loss before tax		(39,914)	(73,809)
Income tax expense	8	<u>(966)</u>	<u>(10,343)</u>
Loss for the year	9	(40,880)	(84,152)
Other comprehensive expense			
<i>Items that may be reclassified subsequently to profit or loss</i>			
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		<u>1,116</u>	<u>1,503</u>
		<u>(1,249)</u>	<u>(953)</u>
Total comprehensive expense for the year		<u><u>(42,129)</u></u>	<u><u>(85,105)</u></u>

	<i>Note</i>	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Loss for the year attributable to:			
Owners of the Company		(39,984)	(72,591)
Non-controlling interests		<u>(896)</u>	<u>(11,561)</u>
		<u>(40,880)</u>	<u>(84,152)</u>
Total comprehensive expense for the year attributable to:			
Owners of the Company		(41,233)	(73,544)
Non-controlling interests		<u>(896)</u>	<u>(11,561)</u>
		<u>(42,129)</u>	<u>(85,105)</u>
Loss per share			
Basic and diluted (<i>HK cents</i>)	<i>12</i>	<u>(1.56)</u>	<u>(2.90)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

	<i>Notes</i>	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment	13	62,058	39,259
Goodwill	14	—	—
Intangible assets	15	5,600	5,600
Interests in associates	16	53,454	53,887
Interest in a joint venture	17	459	47,504
Prepayment to an artiste	18	12,000	12,000
Rental deposits	24	24,833	—
Deposits for acquisition of property, plant and equipment		15,229	—
Available-for-sale investment	19	—	4,056
Deferred tax assets	32	10,832	7,878
		<u>184,465</u>	<u>170,184</u>
Current assets			
Film rights	20	9,264	3,175
Film production in progress	20	122,521	80,050
Available-for-sale investment	19	4,056	—
Investments in film/drama production	21	27,417	33,401
Inventories	22	579	801
Trade and other receivables	23	9,143	35,716
Prepayment to an artiste	18	12,000	12,000
Rental deposits	24	19,944	19,989
Amount due from non-controlling interest	28	—	146
Tax recoverable		245	—
Pledged bank deposits	25	31,250	31,165
Bank balances and cash	26	31,998	72,177
		<u>268,417</u>	<u>288,620</u>
Current liabilities			
Trade and other payables	27	59,676	45,582
Receipts in advance	27	71,849	69,037
Tax payable		11,479	7,555
Amounts due to related companies	29	26	402
Amount due to a joint venture	30	2,116	3,918
		<u>145,146</u>	<u>126,494</u>
Net current assets		<u>123,271</u>	<u>162,126</u>
Total assets less current liabilities		<u>307,736</u>	<u>332,310</u>
Capital and reserves			
Share capital	31	6,489	6,309
Reserves		304,725	327,718
Equity attributable to owners of the Company		311,214	334,027
Non-controlling interests		<u>(3,478)</u>	<u>(1,717)</u>
Total equity		<u>307,736</u>	<u>332,310</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2017

	Attributable to owners of the Company							Sub-total HK\$'000	Non- controlling interests HK\$'000	Total HK\$'000
	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			
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 (note 31)	269	25,040	—	—	—	(200)	—	25,109	—	25,109
Recognition of equity-settled share based payments (note 33)	—	—	25,272	—	—	—	—	25,272	—	25,272
Transfer upon share options lapsed (note 33)	—	—	(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 (note 40)	—	—	—	—	—	—	53	53	(865)	(812)
Share of reserve movement of an associate	—	—	—	—	—	—	1,627	1,627	—	1,627
Issue of shares upon exercise of warrants (note 31)	180	16,693	—	—	—	(133)	—	16,740	—	16,740
Transfer upon warrants expired (note 31)	—	—	—	—	—	(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 (the “Reorganisation”) 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”).

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2017

	<i>Notes</i>	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
OPERATING ACTIVITIES			
Loss before tax		(39,914)	(73,809)
Adjustments for:			
Finance costs		9	170
Interest income	7	(352)	(1,430)
Depreciation of property, plant and equipment	13	7,744	7,675
Gain on disposal of property, plant and equipment	7	(14)	—
Share-based payment expense	33	—	25,272
Amortisation of intangible asset	15	—	11,154
Impairment loss on goodwill	14	—	43,084
Impairment loss on other receivable	23	—	2,011
Impairment loss on intangible asset	15	—	20,514
Impairment loss on interest in an associate	16	20,351	—
Impairment loss on film production in progress	20	2,400	17,934
Share of results of associates	16	1,757	234
Share of results of a joint venture	17	(13,494)	2,090
		<hr/>	<hr/>
Operating cash flows before movements in working capital		(21,513)	54,899
Decrease (increase) in trade and other receivables		26,469	(24,898)
Increase in trade and other payables		14,159	107
Decrease (increase) in investments in film/drama production		5,609	(8,350)
Increase (decrease) in receipts in advance		3,058	(100,892)
Decrease in inventories		222	130
Decrease (increase) in amount due from non-controlling interest		146	(146)
(Increase) decrease in film rights and film production in progress		(50,960)	92,793
(Increase) decrease in rental deposits		(24,831)	51
(Decrease) increase in amount due to a joint venture		(1,802)	3,918
Decrease in amounts due to related companies		(376)	(292)
Decrease in amount due to non-controlling interest		—	(7)
		<hr/>	<hr/>
Cash (used in) generated from operations		(49,819)	17,313
Income tax paid		(590)	(925)
Income tax refunded		349	63
		<hr/>	<hr/>
NET CASH (USED IN) FROM OPERATING ACTIVITIES		(50,060)	16,451

	<i>Notes</i>	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(31,438)	(1,498)
Placement of pledged bank deposits		(31,250)	(31,165)
Investment in an associate	<i>16</i>	(20,000)	—
Deposits paid for acquisition of property, plant and equipment		(15,229)	—
Acquisition of additional interest in a subsidiary		—	(1,008)
Withdrawal of pledged bank deposits		31,165	31,066
Dividend received from a joint venture	<i>17</i>	58,126	—
Interest received	<i>7</i>	352	1,430
Proceeds from disposal of property, plant and equipment		89	—
Formation of a joint venture	<i>17</i>	<u>—</u>	<u>(52,079)</u>
NET CASH USED IN INVESTING ACTIVITIES		<u>(8,185)</u>	<u>(53,254)</u>
FINANCING ACTIVITIES			
Proceeds from issue of shares upon exercise of warrants		16,740	25,109
Interest paid		(9)	(170)
Capital contribution from non-controlling interests		<u>—</u>	<u>200</u>
NET CASH FROM FINANCING ACTIVITIES		<u>16,731</u>	<u>25,139</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS		(41,514)	(11,664)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		72,177	81,750
Effect of foreign exchange rate changes		<u>1,335</u>	<u>2,091</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash		<u><u>31,998</u></u>	<u><u>72,177</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS*For the year ended 30 June 2017***1. GENERAL**

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 ("Honour Grace"), a company incorporated in the British Virgin Islands ("BVI").

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 40.

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

2. 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 notes 35 and 36, respectively, 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.

As disclosed in note 34, 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.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the Hong Kong Institute of Certified Public Accountants. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") and by the Hong Kong Companies Ordinance ("CO").

The consolidated financial statements have been prepared on the historical cost basis at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 *Share-based Payment*, leasing transactions that are within the scope of HKAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 *Inventories or value in use in HKAS 36 Impairment of Assets*.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity including reserves and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted after re-attribution of the relevant equity component, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 *Income Taxes* and HKAS 19 *Employee Benefits* respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date (see the accounting policy below); and
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after re-assessment, the net amount of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments made against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured to fair value at subsequent reporting dates, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units).

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

The Group's policy for goodwill arising on the acquisition of associates and a joint venture is described below.

Investments in associates and a joint venture

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

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

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

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair

value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

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

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

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed.

Income from the distribution of own produced films is recognised when the production is completed, the film has been released and distributed to the cinema circuit and the amount can be measured reliably, which is generally when the cinema circuit confirms to the Group its share of box office receipts.

Income from the licensing of the distribution rights over films is recognised when the Group's entitlement to such payments has been established which, subject to the terms of the relevant agreements, is usually upon delivery of the film negatives to the customers.

Amounts received for the distribution rights over films before completion and delivery of production are accounted for as receipts in advance.

Income from advertising service is recognised upon the provision of the services. Service income is recognised when services are provided.

Income from box office takings for film exhibition is recognised upon the sale of tickets and when the film is released.

Income from the screen advertising is recognised when relevant advertisements and programme are exhibited pursuant to the terms of the relevant agreements.

Membership income is recognised on a straight-line basis over the membership period.

Income from investments in film/drama production is recognised when the Group's entitlement to such payments has been established which, subject to the terms of the relevant agreements.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefit costs and termination benefits

Payments to state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

*Equity-settled share-based payment transactions**Share options granted to consultants*

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service. The fair values of the goods or services received are recognised as expenses.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the consolidated statement of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Construction in progress are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such construction in progresses are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of assets other than construction in progress less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Film rights and film production in progress

Film rights are stated at cost less accumulated amortisation and accumulated impairment losses (if any). The Group amortises costs of film rights in the same ratio that current period actual revenue (numerator) bears to estimated total projected revenue (denominator). The Group begins amortisation of the capitalised costs of film rights when a film is released and it begins to recognise revenue from that film.

The Group reviews and revises estimates of total projected revenue and total production costs of film rights at the end of each reporting period. If estimates are revised, the Group adjusts the amount of total projected revenue (denominator) from the period when such changes in estimates take place and re-calculated the ratio for amortisation of film rights. The effect from changes in estimates is recognised on a prospective basis.

Film production in progress is stated at cost less any provision for impairment losses. Cost includes all costs associated with the production of films including remuneration for the film director, casts and production crew, costumes, insurance, makeup and hairdressing as well as rental of camera and lighting equipment. Film production in progress is transferred to film rights when the film is released.

Joint arrangements***Joint operations***

When a group entity undertakes film production activities under joint venture arrangements (which do not involve the establishment of a corporate entity) and shares the ownership of the film rights upon completion of the production with other ventures, such film rights are classified as joint operation. The Group recognises its share of the joint operation and its share of liabilities incurred jointly with other ventures in the consolidated statement of financial position, classified according to their nature.

The Group recognises the income derived from the joint operation (in accordance with its revenue recognition policy set out above), together with its share of any expenses incurred in respect of its interest in the joint operation in its consolidated statement of profit or loss and other comprehensive income.

Intangible assets*Intangible assets acquired separately*

Intangible assets with finite useful lives that are acquired separately are carried at costs, being their fair value at the date of the revaluation less subsequent accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Impairment on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a first-in, first-out method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

Financial assets are classified into available-for-sale (“AFS”) financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

AFS financial assets

AFS financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at FVTPL.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period (see the accounting policy in respect of impairment loss on financial assets below).

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including investments in film/drama production, trade and other receivables, amount due from non-controlling interest, pledged bank deposits and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment (see accounting policy on impairment loss on financial assets below).

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods (see the accounting policy below).

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Interest expense is recognised on an effective interest basis.

Financial liabilities at amortised cost

Financial liabilities (including trade and other payables, amounts due to related companies and amount due to a joint venture) are subsequently measured at amortised cost, using the effective interest method.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the Directors are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgements, apart from those involving estimates (see below), that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Estimated impairment loss on film rights and film production in progress

Management of the Company ("Management") regularly reviews the recoverability of the Group's film rights and film production in progress with reference to its intended use and current market environment. Appropriate impairment for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired.

In determining whether impairment on film rights and film production in progress is required, the Group takes into consideration the distribution and license agreements entered into by the Group and the current market environment to project cash flows expected to be received through box office receipts and distribution and licensing income. Impairment is recognised in the period in which the recoverable amount is less than the carrying amount. The carrying amount of film rights and film production in progress as at 30 June 2017 are HK\$9,264,000 (2016: HK\$3,175,000) and HK\$122,521,000 (2016: HK\$80,050,000), respectively. An impairment loss of HK\$2,400,000 (2016: HK\$17,934,000) has been recognised in respect of film production in progress for the year ended 30 June 2017. Details are set out in note 20.

Estimated impairment loss in interests in associates

The Group determines the recoverable amount which is the higher of value in use and fair value less costs of disposal. The value in use is based on the estimations of future expected cash flows from the associates and a suitable discount rate which is performed by independent professional valuer. The discount rate represents rate that reflects current market assessments of time value of money. Where the actual future cash flows are less than expected or there is a downward revision of future estimated cash flows due to unfavourable changes in facts and circumstances, a material impairment loss may arise. The carrying amount of interests in associates as at 30 June 2017 is HK\$53,454,000 (2016: HK\$53,887,000). An impairment loss of HK\$20,351,000 (2016: nil) has been recognised in respect of interests in associates for the year ended 30 June 2017. Details of the recoverable amount calculation for interests in associates are set out in note 16.

Estimated impairment loss on investments in film/drama production

In assessing the recoverability of investments in film/drama production, Management assessed the credibility of the counterparties, the progress of the related film/drama production and the market condition. Management determines the provision for impairment of investments in film/drama production taking into account the estimation of future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. The carrying amount of investments in film/drama production as at 30 June 2017 is HK\$27,417,000 (2016: HK\$33,401,000). Details are set out in note 21.

Amortisation of film rights

The Group is required to estimate the projected revenue of the film rights based on their economic lives in order to ascertain the amount of amortisation charges for each reporting period. The appropriateness of the amortisation estimate requires the use of judgement and assumptions with reference to the prevailing and future market conditions to estimate total projected revenue over their economic lives. Changes in these estimates and assumptions could have a material effect on the amortisation expenses. The carrying amount of the film rights as at 30 June 2017 is HK\$9,264,000 (2016: HK\$3,175,000). Details are set out in note 20.

5. REVENUE

	2017	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>
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
	<u>225,631</u>	<u>446,381</u>

6. 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.

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. 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.

Segment revenue and results

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

For the year ended 30 June 2017

	Film and TV series production and distribution <i>HK\$'000</i>	Film exhibition <i>HK\$'000</i>	Post- production <i>HK\$'000</i>	Advertising, marketing and publication <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment revenue — External customers	<u>83,867</u>	<u>137,291</u>	<u>1,957</u>	<u>2,516</u>	<u>225,631</u>
Segment profit (loss)	<u>22,122</u>	<u>(25,575)</u>	<u>(3,155)</u>	<u>(1,892)</u>	(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					<u>(1,757)</u>
Loss before tax					<u>(39,914)</u>

For the year ended 30 June 2016

	Film and TV series production and distribution <i>HK\$'000</i>	Film exhibition <i>HK\$'000</i>	Post- production <i>HK\$'000</i>	Advertising, marketing and publication <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment revenue — External customers	<u>300,237</u>	<u>137,489</u>	<u>1,992</u>	<u>6,663</u>	<u>446,381</u>
Segment profit (loss)	<u>56,766</u>	<u>(12,876)</u>	<u>(3,769)</u>	<u>(79,870)</u>	(39,749)
Unallocated other income					1,754
Unallocated head office and corporate expenses					(35,410)
Finance costs					(170)
Share of results of an associate					<u>(234)</u>
Loss before tax					<u>(73,809)</u>

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	Film exhibition	Post- production	Advertising, marketing and publication	Unallocated	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
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	Film exhibition	Post- production	Advertising, marketing and publication	Unallocated	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
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 costs	—	—	—	—	(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 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
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	<u>4,543</u>	<u>16,187</u>
	<u><u>225,631</u></u>	<u><u>446,381</u></u>

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

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
The PRC	15,482	273
Hong Kong	<u>168,983</u>	<u>169,911</u>
	<u><u>184,465</u></u>	<u><u>170,184</u></u>

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 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Customer A ¹	26,460	N/A ²
Customer B ¹	N/A ²	87,753
Customer C ¹	<u>N/A²</u>	<u>78,159</u>

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.

7. OTHER GAINS AND OTHER INCOME

	2017 HK\$'000	2016 HK\$'000
Other gains		
Compensation income (<i>note i</i>)	5,339	—
Gain on disposal of property, plant and equipment	14	—
	<u>5,353</u>	<u>—</u>
Other income		
Handling service income	2,526	2,335
Investment income from investments in film/drama production	1,353	—
Government subsidies (<i>note ii</i>)	571	—
Membership income	485	505
Interest income	352	1,430
Franchise income	228	—
Others	1,078	468
	<u>6,593</u>	<u>4,738</u>

Notes:

- (i) During the year ended 30 June 2017, the Group received a compensation of approximately RMB4,684,000 (equivalent to HK\$5,339,000) from the landlord of a cinema leased in the PRC due to the delay in handover of the leased cinema to the Group. The compensation income was unconditional and paid to the Group in according to the lease agreement entered into with the landlord.
- (ii) During the year ended 30 June 2017, one of the Group's subsidiaries in the PRC received approximately RMB501,000 (equivalent to HK\$571,000) subsidies from the local authority for the purpose of encouraging the development of group entity in science and technology park. The subsidies received are giving immediate financial support to the Group's entity with no future related cost or without any conditions and accordingly recognised in profit or loss during the year ended 30 June 2017.

8. INCOME TAX EXPENSE

	2017 HK\$'000	2016 HK\$'000
The income tax expense comprises:		
Hong Kong Profits Tax		
— current	706	7,746
— underprovision in prior years	265	78
	<u>971</u>	<u>7,824</u>
PRC Enterprise Income Tax ("EIT")		
— current	2,315	808
— underprovision in prior years	634	9
	<u>2,949</u>	<u>817</u>
	3,920	8,641
Deferred taxation (<i>note 32</i>)	(2,954)	1,702
	<u>966</u>	<u>10,343</u>

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.

The tax charge for the year can be reconciled to the loss before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Loss before tax	<u>(39,914)</u>	<u>(73,809)</u>
Tax at the domestic income tax rate of 16.5% (2016: 16.5%)	(6,586)	(12,178)
Tax effect of income not taxable for tax purpose	(247)	(521)
Tax effect of expenses not deductible for tax purpose	1,295	7,827
Tax effect of tax losses not recognised	4,714	2,055
Tax effect of utilisation of tax losses previously not recognised	(1,884)	(804)
Tax effect of impairment loss on goodwill	—	7,109
Tax effect of impairment loss on intangible asset	—	3,385
Tax effect of impairment loss on interest in an associate	3,358	—
Tax effect of impairment loss on film production in progress	396	2,464
Tax effect of impairment loss on other receivable	—	332
Tax effect of share of results of associates	290	39
Tax effect of share of results of a joint venture	(2,227)	345
Effect of different tax rates of subsidiaries operating in other jurisdictions	958	313
Underprovision in prior years	899	87
Others	—	(110)
Tax charge for the year	<u>966</u>	<u>10,343</u>

Details of deferred taxation are set out in note 32.

9. LOSS FOR THE YEAR

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
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	<u>1,243</u>	<u>1,171</u>
Total staff costs	<u>28,748</u>	<u>34,680</u>
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	<u>—</u>	<u>25,272</u>

10. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

Directors and the chief executive's emoluments

Directors' and chief executive's remuneration for the year, disclosed pursuant to the applicable Listing Rules and CO, is as follows:

	Directors' fees HK\$'000	Bonus HK\$'000 (Note c)	Salaries and other allowances HK\$'000	Retirement benefit scheme contributions HK\$'000	Total HK\$'000
For the year ended					
30 June 2017					
Executive Directors (Note a)					
Mr. Wong Pak Ming	—	—	3,600	—	3,600
Ms. Wong Yee Kwan, Alvina	—	—	1,440	18	1,458
Mr. Wong Chi Woon, Edmond	—	—	1,200	18	1,218
Independent non-executive Directors (Note b)					
Mr. Lam Kam Tong	144	—	—	—	144
Mr. Lo Eric Tien-cheuk	144	—	—	—	144
Mr. Tang Kai Kui, Terence	144	—	—	—	144
	<u>432</u>	<u>—</u>	<u>6,240</u>	<u>36</u>	<u>6,708</u>
For the year ended					
30 June 2016					
Executive Directors (Note a)					
Mr. Wong Pak Ming	—	5,000	2,850	—	7,850
Ms. Wong Yee Kwan, Alvina	—	500	1,175	18	1,693
Mr. Wong Chi Woon, Edmond	—	500	900	18	1,418
Independent non-executive Directors (Note b)					
Mr. Lam Kam Tong	144	—	—	—	144
Mr. Lo Eric Tien-cheuk	144	—	—	—	144
Mr. Tang Kai Kui, Terence	144	—	—	—	144
	<u>432</u>	<u>6,000</u>	<u>4,925</u>	<u>36</u>	<u>11,393</u>

Notes:

- (a) The executive directors' emoluments shown above were mainly for their services in connection with the management of the affairs of the Company and the Group.
- (b) The independent non-executive directors' emoluments shown above were mainly for their services as directors of the Company.
- (c) The amounts represented discretionary bonuses paid to the Directors for their contributions to the Group's business expansion in prior year.

No emoluments of chief executive disclosed as the Group has no appointment of chief executive during the year ended 30 June 2017 and 2016.

Employees

Of the five highest paid individuals of the Group, the number of directors and employees were as follows:

	2017	2016
Directors	3	3
Employees	<u>2</u>	<u>2</u>
	<u>5</u>	<u>5</u>

The remuneration of the Directors are set out above. The emoluments of the remaining individuals were as follows:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Salaries and other allowances	2,407	3,310
Retirement benefit scheme contributions	<u>36</u>	<u>36</u>
	<u>2,443</u>	<u>3,346</u>

Their emoluments were within the following bands:

	Number of employee	
	2017	2016
HK\$1,500,001 to HK\$2,000,000	1	1
HK\$1,000,001 to HK\$1,500,000	—	1
Less than HK\$1,000,000	<u>1</u>	<u>—</u>

During the year, no emoluments were paid by the Group to any of the Directors or the five highest paid individuals (including Directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. No Directors waived any emoluments for the years ended 30 June 2017 and 2016.

11. DIVIDENDS

No dividend was paid or proposed for the year ended 30 June 2017, nor has any dividend been proposed since the end of the reporting period (2016: nil).

12. 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 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Loss		
Loss for the year attributable to owners of the Company for the purpose of basic and diluted loss per share	<u>39,984</u>	<u>72,591</u>
	2017	2016
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	<u>2,568,078,428</u>	<u>2,493,134,663</u>

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.

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Computer equipment <i>HK\$'000</i>	Construction in progress <i>HK\$'000</i>	Total <i>HK\$'000</i>
COST						
At 1 July 2015	29,413	7,567	1,717	12,915	—	51,612
Exchange adjustments	—	—	(27)	—	—	(27)
Additions	—	14	619	865	—	1,498
	<u>29,413</u>	<u>7,581</u>	<u>2,309</u>	<u>13,780</u>	<u>—</u>	<u>53,083</u>
At 30 June 2016	29,413	7,581	2,309	13,780	—	53,083
Exchange adjustments	—	—	(13)	(1)	—	(14)
Additions	20	22	—	681	30,715	31,438
Disposals	—	(30)	—	(1,849)	—	(1,879)
	<u>29,433</u>	<u>7,573</u>	<u>2,296</u>	<u>12,611</u>	<u>30,715</u>	<u>82,628</u>
At 30 June 2017	29,433	7,573	2,296	12,611	30,715	82,628
DEPRECIATION						
At 1 July 2015	2,946	697	720	1,791	—	6,154
Exchange adjustments	—	—	(5)	—	—	(5)
Provided for the year	3,045	1,499	391	2,740	—	7,675
	<u>5,991</u>	<u>2,196</u>	<u>1,106</u>	<u>4,531</u>	<u>—</u>	<u>13,824</u>
At 30 June 2016	5,991	2,196	1,106	4,531	—	13,824
Exchange adjustments	—	—	(5)	(1)	—	(6)
Provided for the year	3,041	1,501	459	2,743	—	7,744
Eliminated on disposals	—	(15)	—	(97)	—	(92)
	<u>9,032</u>	<u>3,682</u>	<u>1,560</u>	<u>6,296</u>	<u>—</u>	<u>20,570</u>
At 30 June 2017	9,032	3,682	1,560	6,296	—	20,570
CARRYING AMOUNTS						
At 30 June 2017	<u>20,401</u>	<u>3,891</u>	<u>736</u>	<u>6,315</u>	<u>30,715</u>	<u>62,058</u>
At 30 June 2016	<u>23,422</u>	<u>5,385</u>	<u>1,203</u>	<u>9,249</u>	<u>—</u>	<u>39,259</u>

The above items of property, plant and equipment, except for construction in progress, are depreciated on a straight-line basis at the following rates per annum:

Leasehold improvements	10% to 20%
Furniture, fixtures and equipment	20%
Motor vehicles	20%
Computer equipment	20%

14. GOODWILL

	Goodwill <i>HK\$'000</i>
COST	
At 1 July 2015, 30 June 2016 and 2017	<u>181,084</u>
IMPAIRMENT	
At 1 July 2015	(138,000)
Impairment loss recognised for the year	<u>(43,084)</u>
At 30 June 2016 and 2017	<u>(181,084)</u>
CARRYING AMOUNTS	
At 30 June 2017	<u><u>—</u></u>
At 30 June 2016	<u><u>—</u></u>

For the purpose of impairment testing, goodwill (before impairment loss) of HK\$181,084,000 (2016: HK\$181,084,000) has been allocated to the groups of cash-generating unit(s) (“CGU(s)”) of Chili Advertising & Promotions Limited (“Chili”) and its subsidiaries (collectively referred to as “Chili Group”) which included Chili and Chili Platinum Advertising and Magazine Publishing Limited (“Chili Platinum”) acquired by the Group in 2015.

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

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

During the year ended 30 June 2016, Management intended to terminate its publishing cooperation agreement with an independent third party and planned to cease the publication of a magazine operated by Chili Platinum under Chili Group due to its unsatisfactory operating results which was mainly due to decrease in demand for advertising market for luxury products and services in the PRC arising from the slowdown of the growth of the PRC economy and conspicuous spending. In August 2016, the Group eventually entered into a termination agreement with the independent third party regarding the publishing cooperation agreement and ceased the publication of the magazine operated by Chili Platinum. As a result, Management had taken the termination of the publishing cooperation agreement into consideration for the purpose of impairment assessment of Chili Group for the year ended 30 June 2016.

As at 30 June 2016, the recoverable amount of Chili Platinum had been determined based on fair value less costs of disposal calculations. The recoverable amount of Chili had been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a five-year period and a discount rate of 12.40%. Cash flows beyond the five-year period are extrapolated using a steady 3% growth rate. The estimation of the budgeted sales and gross margins is based on past performance of Chili and Management's expectations for the market development. The estimated recoverable amount of Chili Group was below its carrying amount, accordingly the Group recognised an impairment loss of HK\$43,084,000, representing the difference between recoverable amount and the carrying amount of Chili Group, in relation to goodwill and charged to profit or loss during the year ended 30 June 2016.

15. INTANGIBLE ASSETS

	Brand <i>HK\$'000</i>	Publishing cooperation agreement <i>HK\$'000</i>	Total <i>HK\$'000</i>
COST			
At 1 July 2015, 30 June 2016 and 2017	5,600	31,900	37,500
ACCUMULATED AMORTISATION AND IMPAIRMENT			
At 1 July 2015	—	232	232
Provided for the year	—	11,154	11,154
Impairment loss recognised for the year	—	20,514	20,514
At 30 June 2016 and 2017	—	31,900	31,900
CARRYING AMOUNTS			
At 30 June 2017	<u>5,600</u>	<u>—</u>	<u>5,600</u>
At 30 June 2016	<u>5,600</u>	<u>—</u>	<u>5,600</u>

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

Brand

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

As at 30 June 2017, the recoverable amount of Chili has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by Management covering a five-year period and a discount rate of 12.61% (2016: 12.40%). Cash flows beyond the five-year period are extrapolated using a steady 3% (2016: 3%) growth rate. The estimation of the budgeted sales and gross margins is based on past performance of Chili and Management's expectations for the market development.

Publishing cooperation agreement

During the year ended 30 June 2015, Chili Platinum entered into a publishing cooperation agreement that used to publish the magazine, namely “Platinum of UnionPay” for a term of four years which can be renewed if not objected by the parties entered into the publishing cooperation agreement. Amortisation is provided to write off the cost of the publishing cooperation agreement using the straight-line method over the estimated useful life of 2.86 years' representing the remaining contractual life at the completion date of acquisition of Chili Platinum.

The Group had ceased publication of the magazine operated by Chili Platinum in August 2016 due to its unsatisfactory operating results. For the year ended 30 June 2016, Management had taken the termination of the publishing cooperation agreement into consideration for the purpose of impairment assessment of Chili Platinum. The recoverable amount of Chili Platinum had been determined based on fair value less costs of disposal calculations. Accordingly, the Group recognised an impairment loss of HK\$20,514,000 in relation to intangible asset and charged to profit or loss during the year ended 30 June 2016.

16. INTERESTS IN ASSOCIATES

	2017 HK\$'000	2016 HK\$'000
Cost of unlisted investments in associates	74,000	54,000
Impairment loss recognised (<i>Note</i>)	<u>(20,351)</u>	<u>—</u>
	53,649	54,000
Share of post-acquisition losses and other comprehensive expenses	<u>(195)</u>	<u>(113)</u>
	<u>53,454</u>	<u>53,887</u>

On 22 November 2013, the Group had completed the acquisition of JDH at a consideration of HK\$54,000,000. The Group is able to exercise significant influence over JDH because it has power to appoint 2 out of 5 directors of the associate under the Articles of Association of JDH. Therefore, JDH is accounted for as an associate of the Group.

JDH is an investment holding company incorporated in the BVI with limited liability and its subsidiaries (collectively known as “JDH Group”), are principally engaged in comic publication and owns the intellectual property rights of a database of comic stories and comic heroes. Management anticipates that the Group would make use of the intellectual property rights of the associate (including but not limited to the comic stories and comic characters) that the Group considers they are suitable for reproduction as films.

Note: The recoverable amount of the CGU arising from JDH Group was determined based on value in use calculations which was performed by an independent valuer as at 30 June 2017. For impairment purpose, the calculation uses cash flow projections of the associate based on the financial budgets attributable to the equity interest of the Group approved by Management covering five-year period and a post-tax discount rate of 21.94% (2016: 22.58%). Cash flows beyond the 5-year period are extrapolated using a steady 2% (2016: 2%) growth rate for the CGU. The key assumption is budgeted revenue determined based on the associate’s past performance and the Management’s view of future business prospects.

During the year ended 30 June 2017, the Group recognised an impairment loss of HK\$20,351,000 of JDH Group due to the intense competition in the market of comic publication and licencing the copyrights of comic which resulted in a decrease in sales revenue for the year ended 30 June 2017 as compared to the budget and the expected future cashflows is decreased accordingly. As a result, the difference of recoverable amount, which is the value in use, and the carrying amount (containing goodwill) is recognised as an impairment loss and charged to profit or loss.

For the year ended 30 June 2017

On 11 July 2016, the Group acquired 40% equity interest of Supreme Art Entertainment Limited (“Supreme Art”) at a consideration of HK\$20,000,000 which is referenced to a valuation report prepared by an independent valuer to the Group at the completion date of acquisition. The Group is able to exercise significant influence over Supreme Art because it has power to appoint 1 out of 3 directors of the associate under the Articles of Association of Supreme Art. Therefore, Supreme Art is accounted for as an associate of the Group.

Supreme Art is a private entity incorporated in Hong Kong with limited liability which is engaged in provision of artiste management and agency services. Management anticipates that the artiste of Supreme Art could be participated in the film production of the Group.

The carrying amount of the Group's interest in Supreme Art is also tested for impairment by comparing the respective recoverable amount. The recoverable amount of the Group's investment in Supreme Art has been determined based on value in use calculations which was performed by an independent valuer as at 30 June 2017. For impairment purpose, the calculation uses cash flow projections of the associate based on the financial budgets attributable to the equity interest of the Group approved by Management covering five-year period and a post-tax discount rate of 20.85%. Cash flows beyond the 5-year period are extrapolated using a steady 3% growth rate for the CGU. Other key assumptions for the value in use calculations relate to the cash flow projections which include the artiste management fee received, such estimation is based on the Management's view of future business prospects.

As at 30 June 2017, the recoverable amount of Supreme Art is higher than the respective carrying amount and thus no impairment loss is recognised regarding to the Group's interest in Supreme Art.

The details of the Group's associates at 30 June 2017 and 2016 are as follows:

Name of associate	Place of incorporation/ registration	Principal place of business	Proportion of ownership held by the Group		Proportion of voting rights held by the Group		Principal activities
			2017	2016	2017	2016	
Jade Dynasty Holdings Limited	BVI	Hong Kong	40%	40%	40%	40%	Comic publication and owns the intellectual property rights of a data base of comic stories and comic heroes
Supreme Art	Hong Kong	Hong Kong	40%	N/A	33.33%	N/A	Artiste management and agency services

These associates are accounted for using the equity method in these consolidated financial statements.

The summarised financial information in respect of the Group's associates is set out below and was prepared in accordance with HKFRSs.

JDH Group

	2017 HK\$'000	2016 HK\$'000
Non-current assets	79,052	77,766
Current assets	16,335	24,566
Current liabilities	(16,869)	(18,491)
Net assets	<u>78,518</u>	<u>83,841</u>
	Year ended 30 June 2017 HK\$'000	Year ended 30 June 2016 HK\$'000
Revenue	<u>17,156</u>	<u>23,979</u>
Loss for the year attributable to owners of the associate	<u>(9,541)</u>	<u>(584)</u>
Group's share of loss	<u>(3,816)</u>	<u>(234)</u>
Other comprehensive income for the year	<u>119</u>	<u>72</u>
Group's share of other comprehensive income	<u>48</u>	<u>29</u>

JDH Group

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Net assets of JDH Group	78,518	83,841
Non-controlling interests of JDH Group	<u>(31)</u>	<u>—</u>
	78,487	83,841
Proportion of the Group's ownership interest in JDH Group	<u>40%</u>	<u>40%</u>
Goodwill	31,395	33,536
	<u>—</u>	<u>20,351</u>
Carrying amount of the Group's interest in JDH Group	<u><u>31,395</u></u>	<u><u>53,887</u></u>

Supreme Art

	2017 <i>HK\$'000</i>
Non-current assets	20,371
Current assets	13,464
Current liabilities	<u>(3,688)</u>
Net assets	<u><u>30,147</u></u>
	Period from 12 July 2016 to 30 June 2017 <i>HK\$'000</i>
Revenue	<u><u>13,080</u></u>
Profit for the period attributable to owners of the associate	<u><u>5,148</u></u>
Group's share of profit	<u><u>2,059</u></u>

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

	2017 <i>HK\$'000</i>
Net assets of Supreme Art	30,147
Proportion of the Group's ownership interest in Supreme Art	<u>40%</u>
	12,059
Goodwill	<u>10,000</u>
Carrying amount of the Group's interest in Supreme Art	<u><u>22,059</u></u>

17. INTEREST IN A JOINT VENTURE

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
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	<u>(58,126)</u>	<u>—</u>
	<u>459</u>	<u>47,504</u>

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 Yooohanwesa (“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.

The details of the Group’s joint venture at 30 June 2017 and 2016 are as follows:

Name of joint venture	Place of incorporation/ registration	Principal place of business	Proportion of ownership interest held by the Group		Proportion of voting rights held by the Group		Principal activities
			2017	2016	2017	2016	
Bounty Productions Limited	Hong Kong	PRC	40%	40%	33.33%	33.33%	Production and distribution of the film

The joint venture is accounted for using the equity method in these consolidated financial statements.

The summarised financial information in respect of the Group’s joint venture is set out below and were prepared in accordance with HKFRSs.

BPL

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Current assets	9,179	223,451
Current liabilities	<u>(8,032)</u>	<u>(104,690)</u>
Net assets	<u>1,147</u>	<u>118,761</u>
The above amounts of assets include the following:		
Cash and cash equivalents	<u>7,279</u>	<u>91,880</u>

	Year ended 30 June 2017 <i>HK\$'000</i>	Year ended 30 June 2016 <i>HK\$'000</i>
Revenue	<u>152,570</u>	<u>—</u>
Profit (loss) for the year attributable to owners of the joint venture	<u>33,734</u>	<u>(5,226)</u>
Group's share of profit (loss)	<u>13,494</u>	<u>(2,090)</u>
Other comprehensive expense for the year	<u>(6,033)</u>	<u>(6,213)</u>
Group's share of other comprehensive expense	<u>(2,413)</u>	<u>(2,485)</u>
Dividends received from BPL during the year	<u>58,126</u>	<u>—</u>
The above profit (loss) for the year includes the following:		

	Year ended 30 June 2017 <i>HK\$'000</i>	Year ended 30 June 2016 <i>HK\$'000</i>
Interest income	<u>(269)</u>	<u>(117)</u>
Income tax expense	<u>7,933</u>	<u>—</u>

Reconciliation of the above summarised financial information to the carrying amount of the interest in a joint venture recognised in the consolidated financial statements:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Net assets of BPL	1,147	118,761
Proportion of the Group's ownership interest in BPL	<u>40%</u>	<u>40%</u>
Carrying amount of the Group's interest in BPL	<u>459</u>	<u>47,504</u>

18. PREPAYMENT TO AN ARTISTE

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Non-current portion	12,000	12,000
Current portion	<u>12,000</u>	<u>12,000</u>
	<u>24,000</u>	<u>24,000</u>

During the year ended 30 June 2010, the Group entered into a contract with an artiste for his participation in nine of the Group's film productions at a total contract fee of HK\$48,000,000 with a contract term of six years from 2010 to 2016. In 2014, the contract term was mutually agreed to be extended to eight years from 2010 to 2018. During the year ended 30 June 2017, the Group has entered a supplementary agreement with the artiste and the contract term was mutually agreed to be further extended from 2018 to 2020.

Management anticipates that the artiste would participate in one to two film productions of the Group each year and therefore, based on the service fee schedule of the artiste for each film stated in the contract, an amount of HK\$12,000,000 (2016: HK\$12,000,000) was classified as current assets and the remaining carrying amount of HK\$12,000,000 (2016: HK\$12,000,000) was classified as non-current assets as at 30 June 2017.

During the year ended 30 June 2017, the artiste had not participated any film production for the Group (2016: one film).

19. AVAILABLE-FOR-SALE INVESTMENT

On 16 April 2014, the Group entered into an agreement with an independent third party, for the investment in an animation production project held by an entity incorporated in Hong Kong, with an amount of HK\$4,056,000 as capital injection which entitled to 30% profit sharing in the project upon completion. Based on the terms of the agreement, the Group is entitled to have the profit sharing from the distribution of animation rights based on the percentage of capital invested into the animation production project. The animation production was originally expected to be completed in April 2017. On 15 April 2016, the Group and the independent third party agreed in writing to extend the completion date of the animation production project to April 2018. Therefore, it is classified as current assets as at 30 June 2017 (2016: non-current assets).

It is measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is not ascertain that the directors of the Company are of the opinion that its fair value cannot be measured reliably. In the opinion of Management, no impairment was identified on this investment in animation production project at the end of the reporting period.

20. FILM RIGHTS AND FILM PRODUCTION IN PROGRESS

	Film rights <i>HK\$'000</i>	Film production in progress <i>HK\$'000</i>
COST		
At 1 July 2015	419,793	181,753
Exchange adjustments	—	(981)
Additions (<i>note i</i>)	281	84,241
Transfer	<u>167,278</u>	<u>(167,278)</u>
At 30 June 2016	587,352	97,735
Additions (<i>note i</i>)	1,160	86,981
Transfer	<u>42,110</u>	<u>(42,110)</u>
At 30 June 2017	<u>630,622</u>	<u>142,606</u>
ACCUMULATED AMORTISATION AND IMPAIRMENT		
At 1 July 2015	412,862	—
Exchange adjustments	—	(249)
Charged for the year	171,315	—
Impairment loss recognised for the year (<i>note ii</i>)	<u>—</u>	<u>17,934</u>
At 30 June 2016	584,177	17,685
Charged for the year	37,181	—
Impairment loss recognised for the year (<i>note ii</i>)	<u>—</u>	<u>2,400</u>
At 30 June 2017	<u>621,358</u>	<u>20,085</u>
CARRYING AMOUNTS		
At 30 June 2017	<u>9,264</u>	<u>122,521</u>
At 30 June 2016	<u>3,175</u>	<u>80,050</u>

Notes:

- (i) The additions in film production in progress for the current year of approximately HK\$1,206,000 (2016: HK\$10,890,000) and the carrying amounts of approximately HK\$13,290,000 (2016: HK\$12,084,000) as at 30 June 2017 represented the Group's share of film production in progress relating to film rights which are jointly controlled by the Group and independent third parties in Hong Kong.

- (ii) Included in an impairment loss recognised for the year ended 30 June 2016 was an impairment loss on a TV production in progress amounting to HK\$14,934,000. On 11 April 2014, the Group entered into a contract with an independent third party in the PRC for the TV series production. The TV series were jointly controlled by the Group and the independent third party upon completion of the production. As of 30 June 2016, the Group in total paid RMB12,445,000 (equivalent to approximately HK\$14,934,000) for the production, in which the production was still in progress. Management was in a view that the quality of the production in progress produced by the independent third party was not satisfactory. Management intended to terminate the contract with the independent third party and obtained the ownership of the TV series production in progress. Subsequent to the year ended 30 June 2016, the Group had entered into a termination agreement with the independent third party. In January 2017, the Group had paid RMB380,000 to the independent third party to terminate the contract and eventually obtained the ownership of the TV series production in progress. Given that the unsatisfactory quality of the production in progress and the uncertain future returns of the TV series, the Directors were in an opinion that the carrying amount of the production in progress of HK\$14,934,000 was fully impaired.

The remaining portion of an impairment loss of HK\$3,000,000 represented an impairment loss on the pre-production costs for a film production in progress. During the year ended 30 June 2016, Management was in a view that the expected return for the film production in progress should be loss making and the Group ceased the production on those film production in progress. The Directors were of the opinion that the carrying amount of the film production in progress of HK\$3,000,000 was fully impaired.

During the year ended 30 June 2017, an impairment loss of HK\$2,400,000 was recognised on the pre-production costs for a film production in progress. Management is in a view that the production plan on the pre-production costs incurred for a film production in progress was postponed and considered that the amount may not be fully recovered. The Directors are of opinion that the carrying amount of HK\$2,400,000 is fully impaired.

21. INVESTMENTS IN FILM/DRAMA PRODUCTION

	2017 HK\$'000	2016 HK\$'000
Investments at amortised cost		
— film (<i>note i</i>)	19,513	19,398
— animations (<i>note ii</i>)	7,904	11,053
— TV programme (<i>note iii</i>)	—	2,950
	<u>27,417</u>	<u>33,401</u>

The amount represents investments in an international and PRC production houses for co-financing of the production of film, TV programme and animations.

During the year ended 30 June 2017, the Group has three (2016: four) agreements with production houses, which are independent third parties, at a total contract amounts of HK\$27,417,000 (2016: HK\$33,401,000). The investments are governed by the relevant agreements entered into between the Group and the production houses whereby the Group is entitled to benefits generated from the distribution of the related film/television programme/animations productions.

Notes:

- (i) Based on the terms of the agreement signed by Pegasus Motion Pictures Investment Limited (“PMPIL”), an indirect wholly-owned subsidiary of the Company, with Inversion Productions Limited (“Inversion”) (previously known as TNC Productions Limited), an amount of US\$2,500,000 (equivalent to HK\$19,513,000) (2016: US\$2,500,000 (equivalent to HK\$19,398,000)) was invested and would be fully repaid to PMPIL upon the commencement of principal photography of the film tentatively scheduled to take place in August 2013 or upon the close of bank financing tentatively scheduled to take place before November 2013, whichever occurs earlier. In addition, PMPIL is entitled to a return of 20% of the investment amount upon the theatrical release of the relevant film in the United States of

America tentatively scheduled to take place in 2014 and a certain percentage of the profit to be derived from the release of the film worldwide in any media and in any format. As a security, Inversion created a pledge in favor of PMPIL for another international film to be launched by Inversion, which should be exercisable in the event that the principal photography of the film did not commence by 30 November 2013 or if the production of the film was abandoned, PMPIL was entitled to exercise its right prior to 31 December 2013.

Pursuant to an announcement of the Company dated 13 September 2013, PMPIL and Inversion agreed in writing to extend the date for Inversion to start principal photography of the film to 30 April 2014. As a result, the date before which PMPIL could exercise its right to seek full repayment under the agreement has been extended to 31 May 2014. In addition, in the event that the principal photography of the film did not commence by 30 April 2014 or if the production of the film was abandoned, PMPIL was entitled to exercise its rights prior to 31 May 2014 to seek full recoupment from another international film as additional security.

Pursuant to the announcements of the Company dated 28 January 2014 and 29 August 2014, PMPIL and Inversion agreed in writing to further extend the date for Inversion to start principal photography and worldwide theatrical distribution of the film to on or before 30 April 2015 and in the second half of 2016, respectively. Due to the extension of time, the amount of the agreed fully repayment and the agreed amount of return to which PMPIL were entitled have also been increased from 20% to 23%. Save for the amendments have been made and disclosed above, all the other terms and conditions of the agreements, including but not limited to a pledge of security that created by Inversion in favour of PMPIL over the rights of the film, have remained unchanged and continue in full force and effect.

Pursuant to the announcement of the Company dated 30 April 2015, PMPIL and Inversion agreed in writing to further extend the date for Inversion to start principal photography of the film from on or before 30 April 2015 to 31 October 2015 without a further delay in world theatrical distribution. In addition, due to the extension of time, the agreed amount of priority return to which PMPIL was entitled upon the theatrical release of the film in the United States of America has also been increased. Besides, the Company has been notified by Inversion that the director, producers, production designers and visual effect supervisor of the film have been confirmed and the first location for shooting was expected to be in New Zealand. The film was in the pre-production stage which involves, among others, casting, formulation of the filming schedule, refinement of the script and location scouting and the principal photography and worldwide theatrical distribution of the film were tentatively scheduled to take place on or before September 2015 and in the second half of 2016, respectively.

Pursuant to the announcements of the Company dated 7 December 2015, PMPIL and Inversion agreed in writing to further extend the date for Inversion to start principal photography of the film from on or before 31 October 2015 to 30 June 2016. In addition, due to the extension of time, the agreed amount of recoupment to which PMPIL was entitled upon the commencement of principal photography of the film or upon the close of bank financing, whichever is earlier, has also been increased. The principal photography and worldwide theatrical distribution of the film were rescheduled to take place tentatively on or before 30 June 2016 and in the first half of 2017 respectively.

Pursuant to the announcements of the Company dated 20 May 2016, PMPIL and Inversion agreed in writing to further extend the date for Inversion to start principal photography of the film from on or before 30 June 2016 to 30 September 2016. In addition, due to the extension of time, the agreed amount of recoupment to which PMPIL was entitled upon the commencement of principal photography of the film or upon the close of bank financing, whichever is earlier, has also been increased. Besides, the Company has been notified that Travis Fimmel, who starred in the television series “Vikings” and the movie to be released named “Warcraft”, has joined the main cast of the film. The principal photography and worldwide theatrical distribution of the film are rescheduled to take place tentatively on or before 30 September 2016 and in the second half of 2017, respectively.

On 14 February 2017, PMPIL and Inversion agreed in writing to further extend the date for Inversion to start principal photography of the film from on or before 30 June 2017. Due to the extension of time, the amount of the agreed fully repayment and the agreed amount of return to which PMPIL were entitled have also been increased to 33%. Besides, the Company has been notified that Crystal Liu, a

famous Chinese actress is part of the main cast. The production of Inversion is underway with filming and worldwide theatrical distribution tentatively scheduled to take place in early 2018 and 2019, respectively.

As at 30 June 2017 and 2016, the film has not yet started its principal photography.

- (ii) During the year ended 30 June 2015, based on the terms of the agreement signed by 北京天馬聯合影視文化有限公司 (“北京天馬”), an amount of RMB4,867,000 (equivalent to HK\$5,743,000) was invested and would be fully repaid to 北京天馬 on 8 April 2016. In addition, 北京天馬 was entitled to a minimum rate of return at 10% per annum on the principal amount and share of profit generated from the distribution of the related animation production based on the percentage of capital invested into the production of animation production.

During the year ended 30 June 2017, the investment cost of RMB4,867,000 (equivalent to HK\$5,743,000) and an investment income of RMB487,000 (equivalent to HK\$555,000) was received by the Group.

During the year ended 30 June 2016, based on the terms of the agreement signed by 北京天馬, an amount of RMB4,500,000 (equivalent to HK\$5,130,000) and was invested and would be fully repaid to 北京天馬 on 15 July 2016. In addition, 北京天馬 is entitled to a minimum rate of return at 10% per annum on the principal amount and share of profit generated from the distribution of the related animation production based on the percentage of capital invested into the production of animation production.

During the year ended 30 June 2017, an investment income of RMB450,000 (equivalent to HK\$513,000) was received by the Group. In addition, 北京天馬 and the independent third party agreed in writing to extend the date of principal repayment from 15 July 2016 to 15 July 2017 and the minimum rate of return to which 北京天馬 is entitled has also been increased from 10% to 20% per annum. On 11 September 2017, 北京天馬 and independent third party agreed in writing of which the principal repayments of RMB1,500,000 each will be settled on 12 September 2017, 15 November 2017 and 15 January 2018, respectively.

During the year ended 30 June 2017, based on the terms of the agreement signed by 北京天馬, an amount of RMB2,434,000 (equivalent to HK\$2,774,000) was invested and will be fully repaid to 北京天馬 upon the theatrical release of the animation or on 30 April 2018, whichever is earlier. In addition, 北京天馬 is entitled to a minimum rate of return at 15% per annum on the principal amount and share of profit generated from the distribution of the related animation production based on the percentage of capital invested into the production of animation production.

- (iii) During the year ended 30 June 2016, based on the terms of the agreement signed by Star Pictures Entertainment (Hong Kong) Limited (“Star Pictures HK”), an indirect wholly-owned subsidiary of the Company, an amount of RMB2,500,000 (equivalent to HK\$2,950,000) was invested and would be fully repaid to Star Pictures HK on 9 December 2016. In addition, Star Pictures HK is entitled to a minimum rate of return at 10% per annum on the principal amount and share of profit generated from the distribution of the related TV programme production based on the percentage of capital invested into the production of TV programme production. During the year ended 30 June 2017, the investment cost of RMB2,500,000 (equivalent to HK\$2,950,000) was fully repaid to the Group and an investment income of RMB250,000 (equivalent to HK\$285,000) was received by the Group.

Since the initial investments are expected to be recovered by the Group within one year, the amount of HK\$27,417,000 (2016: HK\$33,401,000) is classified as current assets at 30 June 2017.

The investments in film/drama production contain embedded derivatives which are not closely related to the host contract. The debt components of the investments in film/drama production are measured at amortised cost subsequent to initial recognition. At initial recognition and 30 June 2017, the fair value of embedded derivatives is considered insignificant.

The Group's investments in film/drama production that are not denominated in the functional currencies of the relevant group entities are as follows:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
RMB	—	2,950
USD	<u>19,513</u>	<u>19,398</u>

22. INVENTORIES

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Raw materials and consumable	111	160
Finished goods	<u>468</u>	<u>641</u>
Total	<u>579</u>	<u>801</u>

23. 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 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
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	<u>9</u>	<u>14</u>
	<u>2,366</u>	<u>29,343</u>
Other receivables, deposits and prepayments	3,740	7,718
Less: Allowance for doubtful debts	<u>—</u>	<u>(2,011)</u>
	<u>3,740</u>	<u>5,707</u>
Other deposits and prepayments for cinema operation	<u>3,037</u>	<u>666</u>
	<u>9,143</u>	<u>35,716</u>

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 HK\$'000	2016 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
	<u>59</u>	<u>38</u>

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.

The Group's trade and other receivables that are not denominated in the functional currencies of the relevant group entities are as follows:

	2017 HK\$'000	2016 HK\$'000
USD	<u>—</u>	<u>2,575</u>

24. RENTAL DEPOSITS

	2017 HK\$'000	2016 HK\$'000
Current assets (<i>note 1</i>)	19,944	19,989
Non-current assets (<i>note 2</i>)	<u>24,833</u>	<u>—</u>
	<u>44,777</u>	<u>19,989</u>

Notes:

- (1) Cinema City (Langham Place) Limited, an indirect wholly-owned subsidiary of the Company, had entered into a lease agreement on 27 December 2013 to rent a cinema situated in Langham Place ("the Lease Premises"), a prime location in Hong Kong and to take the cinema operation for a term of ten years commencing on 23 July 2014 and expiring on 22 July 2024 (the "Lease"). Based on the terms of the Lease, the Company is obliged to pay a deposit in a sum equivalent to the aggregate of three months' base rent for the tenth year, three months' management charges for the first year, three months' promotional levy for the first year and one quarter's government rates in respect of the Lease Premises. The operation of cinema and related operations in the cinema could provide a platform for the development of the film distribution business of the Group. As the landlord of the Lease Premises has the right to terminate lease unilaterally, the rental deposit was classified as current assets at 30 June 2017 and 2016.
- (2) During the year ended 30 June 2017, the indirect wholly-owned subsidiaries of the Company have entered into several lease agreements to rent the cinema premises situated in Chai Wan, Causeway Bay and Tsuen Wan for terms ranging from five to fifteen years. As the deposits are refundable at the expiry of the leases, the amounts were classified as non-current assets as at 30 June 2017.

25. PLEDGED BANK DEPOSITS

At 30 June 2017, the amounts represent bank deposits of HK\$31,250,000 (2016: HK\$31,165,000) in which an amount of HK\$30,591,000 (2016: HK\$30,507,000) pledged to a bank to secure short-term banking facilities granted to the Group and the remaining amount of HK\$659,000 (2016: HK\$658,000) pledged to a bank to secure for the 4Dx's equipment rental fees payable to a supplier of 4Dx equipment for the Group's operation in the Lease Premises in accordance with the 4Dx Equipment Rental Agreement dated on 20 August 2015. The bank deposits are carried interests at a fixed rate of 0.10%-0.30% (2016: 0.10%-0.30%) per annum and they will be matured on 5 July 2017 and 13 July 2017 (2016: 5 July 2016 and 5 July 2016), respectively.

The Group's pledged bank deposits that are not denominated in the functional currencies of the relevant group entities are as follows:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
USD	<u>659</u>	<u>658</u>

26. BANK BALANCES AND CASH

Bank balances and cash of the Group carry interest at market rates which are as follows:

	2017	2016
Interest rate per annum	<u>0.01% to 0.29%</u>	<u>0.01% to 0.30%</u>

The Group's bank balances and cash that are not denominated in the functional currencies of the relevant group entities are as follows:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Australian Dollar ("AUD")	212	15
Renminbi ("RMB")	13,582	1,308
United States Dollar ("USD")	553	9,457
Euro ("EUR")	5	5
HK\$	1,319	1,352
Singapore Dollar ("SGD")	<u>21</u>	<u>21</u>

27. TRADE AND OTHER PAYABLES/RECEIPTS IN ADVANCE

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

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 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Within 60 days	18,233	19,496
Within 91 to 365 days	<u>532</u>	<u>—</u>
	<u><u>18,765</u></u>	<u><u>19,496</u></u>

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.

The Group's trade and other payables that are not denominated in the functional currencies of the relevant group entities are as follows:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
USD	<u>408</u>	<u>1,026</u>

28. AMOUNT DUE FROM NON-CONTROLLING INTEREST

The amount was unsecured, interest free and fully repaid during the year ended 30 June 2017.

29. AMOUNTS DUE TO RELATED COMPANIES

Members of the key management of the Group have controlling interest over the related companies.

The amounts are unsecured, interest-free and repayable on demand.

30. AMOUNT DUE TO A JOINT VENTURE

The amount is unsecured, interest free and repayable on demand.

31. 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 (<i>Note</i>)	<u>24,000,000,000</u>	<u>—</u>
At 30 June 2016 and 2017	<u><u>32,000,000,000</u></u>	<u><u>80,000</u></u>
Issued and fully paid:		
At 1 July 2015	604,000,000	6,040
Effect of share subdivision (<i>Note</i>)	1,812,000,000	—
Issue of shares upon exercise of warrants	<u>107,768,239</u>	<u>269</u>
At 30 June 2016	2,523,768,239	6,309
Issue of shares upon exercise of warrants	<u>71,845,494</u>	<u>180</u>
At 30 June 2017	<u><u>2,595,613,733</u></u>	<u><u>6,489</u></u>

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 places.

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 were expired.

32. DEFERRED TAX ASSETS

The followings are the deferred tax asset (liability) recognised by the Group and movements thereon during the current and prior years:

	Tax losses <i>HK\$'000</i>	Accelerated tax depreciation <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 July 2015	11,866	(2,286)	9,580
(Charge) credit to profit or loss	<u>(2,455)</u>	<u>753</u>	<u>(1,702)</u>
At 30 June 2016	9,411	(1,533)	7,878
Credit to profit or loss	<u>2,192</u>	<u>762</u>	<u>2,954</u>
At 30 June 2017	<u>11,603</u>	<u>(771)</u>	<u>10,832</u>

Under the EIT Law, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to undistributed earnings of the Group's PRC subsidiaries as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

At the end of the reporting period, the Group has unused tax losses of HK\$115,529,000 (2016: HK\$83,938,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK\$70,326,000 (2016: HK\$57,040,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK\$45,203,000 (2016: HK\$26,898,000) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of HK\$4,759,000 (2016: HK\$2,758,000 would expire in 2020) that will expire in 2021. Other losses may be carried forward indefinitely.

33. SHARE-BASED PAYMENT TRANSACTIONS

Share option scheme

The Company's share option scheme (the "Scheme"), was approved and adopted by the sole shareholder on 5 October 2012 for the primary purpose to grant options to eligible persons as incentives or rewards for their contribution to the Group.

Under the Scheme, the Board of the Directors may, at its discretion, grant options pursuant to the Scheme to the Directors (including executive directors, non-executive directors and independent non-executive directors), employees, advisors and consultants of the Company and its subsidiaries who the Board of the Directors considers, in its absolute discretion, have contributed or will contribute to the Group (the "Participants").

The total numbers of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

The Scheme shall be valid and effective for a period of 10 years commencing on 5 October 2012. Options granted during the life of the Scheme shall continue to be exercisable in accordance with their terms of grant. The exercise price is determined by the Directors, and will not be less than the highest of (i) the closing price of the shares as stated in the daily quotation sheets issued by the Stock Exchange on the date of grant, which must be a trading day; (ii) the average closing price of the shares as stated in the daily quotation

sheets issued by the Stock Exchange for the five trading days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares. Upon acceptance of the option, the Participants shall pay HK\$1.00 to the Company by way of consideration for the grant. The option will be offered for acceptance for a period of 28 days from the date of grant.

For the year ended 30 June 2017, there was no share options granted under the Scheme by the Company. There was no share options outstanding as at 30 June 2017.

Details of the share options granted under the Scheme for the year ended 30 June 2016 are as follows:

Category of participant	Date of grant	Exercisable period	Exercise price	Number of share options*					
				Outstanding at 1 July 2015	Granted during the year	Adjustment during the year*	Exercised during the year	Lapsed during the year**	Outstanding at 30 June 2016
Consultants	13 July 2015	13 January 2016-12 July 2017	2.18	—	12,000,000	36,000,000	—	(48,000,000)	—
	13 July 2015	13 July 2015-12 July 2017	2.18	—	28,000,000	84,000,000	—	(112,000,000)	—
				—	40,000,000	120,000,000	—	(160,000,000)	—
				—	40,000,000	120,000,000	—	(160,000,000)	—

* As a result of the Share Subdivision, based on the relevant terms of the Scheme, the exercise price and number of shares falling to be issued upon exercise of the share options were adjusted from HK\$2.18 per share to HK\$0.545 per subdivided share and 40,000,000 shares to 160,000,000 subdivided shares, where such adjustments were effective from the date on which the Share Subdivision became effective.

** The share options were lapsed during the period between 13 November 2015 and 18 November 2015.

For share options granted during the year ended 30 June 2016, the Binomial Model had been used to estimate the fair value of the share options. The variables and assumptions used in computing the fair value of the share options are based on the Company's best estimate. The value of an option varies with different variables of certain subjective assumptions. The significant inputs into the model are as follows:

Date of grant	13 July 2015
Closing price of share at grant date	HK\$2.18
Exercise price	HK\$2.18
Expected volatility	64.65%
Risk-free rate	0.36%
Expected dividend yield	0%

Included in administrative expenses, the Group recognised the total expense of HK\$25,272,000 for the year ended 30 June 2016 in relation to share options granted by the Company.

34. OPERATING LEASE COMMITMENTS

The Group as lessee

As at 30 June 2017, the Group leased certain of its office premises and cinemas under operating lease arrangements.

At the end of the reporting period, the Group had committed for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Within one year	116,238	66,104
In the second to fifth year inclusive	511,082	283,890
Over five years	<u>576,283</u>	<u>290,282</u>
	<u>1,203,603</u>	<u>640,276</u>

Operating lease payments represent rentals payable for the Group's office premises and cinemas. Leases are negotiated for terms ranging from one to fifteen years (2016: one to fifteen years).

Certain non-cancellable operating leases included in the above are subject to contingent rent payments, which are charged at progressive rates from 10% to 39% (2016: 12% to 38%) of the excess of the annual gross box-office takings of the related cinema premise over certain level of box-office income as determine is the respective lease agreement.

35. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to the shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of cash and cash equivalents and equity attributable to owners of the Company, comprising share capital and accumulated losses.

Management reviews the capital structure on a regular basis. As part of this review, Management considers the cost of capital and the risks associates with each class of capital. Based on recommendations of Management, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt.

36. FINANCIAL INSTRUMENTS

36a. Categories of financial instruments

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Financial assets		
Loans and receivables (including cash and cash equivalents)	93,917	166,687
Available-for-sale investment	<u>4,056</u>	<u>4,056</u>
Financial liabilities		
Amortised cost	<u>29,828</u>	<u>27,048</u>

36b. Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investment, investments in film/drama production, trade and other receivables, amount due from non-controlling interest, pledged bank deposits, bank balances and cash, trade and other payables, amounts due to related companies and amount due to a joint venture. Details of these financial instruments are disclosed in the respective notes. The risks associated with the Group's financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk*Currency risk*

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in foreign exchange rates.

The functional currency of all group companies is HK\$ except for 北京天馬, 上海翠裕電影院管理有限公司 (“上海翠裕”), 上海家喜文化傳播有限公司 (“上海家喜”) and 勝馬文化傳播(上海)有限公司 (“勝馬文化”) of which their functional currency is RMB. At the end of each reporting period, the carrying amount of the monetary assets and liabilities of the group companies, which are denominated in foreign currencies, are as follows:

	2017		2016	
	Assets HK\$'000	Liabilities HK\$'000	Assets HK\$'000	Liabilities HK\$'000
AUD	212	—	15	—
RMB	13,582	—	4,258	—
USD	20,725	408	32,088	1,026
EUR	5	—	5	—
HK\$	1,319	—	1,352	—
SGD	21	—	21	—
	<u>21</u>	<u>—</u>	<u>21</u>	<u>—</u>

The Group is mainly exposed to the foreign currency risk of RMB and USD against HK\$. Since HK\$ is pegged to USD, the Group does not expect any significant movement in USD/HK\$ exchange rate and this is excluded from the sensitivity analysis below. No sensitivity analysis for AUD, EUR and SGD are presented as Management considered the exposure is insignificant. Management will monitor foreign exchange exposure to mitigate the foreign currency risk.

At the end of each reporting period, certain group companies, of which their functional currency is HK\$, had amounts due from the PRC subsidiaries which are denominated in RMB. These intra-group balances are approximately HK\$46,011,000 (2016: HK\$66,548,000) as at 30 June 2017.

The following table details the Group's sensitivity to a 5% increase and decrease in HK\$ against RMB. 5% is the sensitivity rate used which represents Management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items including the above intra-group balances and adjusts their translation at the end of the reporting period for a 5% change in foreign currency rates. A negative number below indicates a decrease in post-tax loss where HK\$ weaken 5% against RMB. For a 5% strengthening of HK\$ against the relevant currency, there would be an equal and opposite impact on the loss and the balances below would be positive.

	2017 HK\$'000	2016 HK\$'000
Profit or loss (<i>note</i>)	<u>(2,488)</u>	<u>(2,956)</u>

Note: This is mainly attributable to the exposure outstanding on bank balances, investments in film/drama production and intra-group balances at the end of the respective reporting period.

Management considered the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the exposure at the end of each reporting period does not reflect the exposure during the year.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group is exposed to fair value interest rate risk in relation to investments in film/drama production and fixed rate pledged bank deposits (see notes 21 and 25 for details of these balances respectively).

In addition, the Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances.

If interest rate had been 50 basis points higher for bank balances, and all other variables were held constant, the impact to the Group's loss for the year is as follows:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Decrease in loss for the year	<u>133</u>	<u>296</u>

No sensitivity analysis for the decrease in interest rate of bank balances is presented as Management considered that it is not meaningful to assume a decrease of 50 basis points lower for the interest rate because the bank balances carried interest ranged from 0.01% to 0.29% (2016: 0.01% to 0.3%) per annum during the current year.

Credit risk

At the end of each reporting period, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, Management reviews the recoverable amount of each individual debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, Management considers that the Group's credit risk is significantly reduced.

The credit risk on liquid funds including pledged bank deposits and bank balances is limited because the counterparties are banks with good reputation.

The Group was exposed to concentration of credit risk on one of its trade customers which accounted for 34% (2016: 75%) of its trade receivables as at 30 June 2017. The top customer has a good repayment history and long-term working relationship with the Group.

The Group was exposed to concentration of credit risk on a production house which accounted for 71% (2016: 58%) of its investments in film/drama production as at 30 June 2017. The production house is an independent third party, which is well-known film/drama production house in United States.

Except for the above, the Group does not have any other significant concentration of credit risk.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by Management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. Management monitors the utilisation of bank borrowings and other sources of funding and considers the risk is minimal.

The following tables provide details of the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest dates on which the Group can be required to pay. The tables include principal cash flows only.

	On demand or 0–90 days	91–365 days	Over 1 year	Total undiscounted cash flows	Carrying amount
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 30 June 2017					
Trade and other payables	27,197	489	—	27,686	27,686
Amounts due to related companies	26	—	—	26	26
Amount due to a joint venture	2,116	—	—	2,116	2,116
	<u>29,339</u>	<u>489</u>	<u>—</u>	<u>29,828</u>	<u>29,828</u>
At 30 June 2016					
Trade and other payables	22,728	—	—	22,728	22,728
Amounts due to related companies	402	—	—	402	402
Amount due to a joint venture	3,918	—	—	3,918	3,918
	<u>27,048</u>	<u>—</u>	<u>—</u>	<u>27,048</u>	<u>27,048</u>

36c. Fair value

The fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

Management considers that the carrying amounts of financial assets and liabilities recorded at amortised cost in the consolidated statement of financial position approximate their fair values.

37. RETIREMENT BENEFIT PLANS

(i) Plans for Hong Kong employees

The Group operates a Mandatory Provident Fund Scheme ("MPF Scheme") for all its qualifying employees in Hong Kong under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of trustees. Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect of MPF Scheme is to make the required contributions under the MPF Scheme. No forfeited contribution is available to reduce the contribution payable in the future years.

The contribution to the MPF Scheme is calculated based on the rules set out in the MPF Ordinance which is 5% on the monthly basic salary of the relevant employee subject to a specific ceiling of HK\$1,500.

(ii) Plans for PRC employees

The employees employed in the PRC are members of the state-managed retirement benefits scheme operated by the PRC government. The PRC subsidiary is required to contribute a certain percentage of its payroll to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme.

The total cost of HK\$1,279,000 (2016: HK\$1,207,000) charged to profit or loss represents contributions paid or payable to the above schemes by the Group for the year ended 30 June 2017.

38. RELATED PARTY DISCLOSURES**(I) Transactions**

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

Name of related parties	<i>Notes</i>	Nature of transaction	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
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	<u>500</u>	<u>2,510</u>

Notes:

- (a) The service income was received from PM Motion Pictures Limited for the Group’s provision of film distribution services. Mr. Wong, Mr. Wong Chi Woon Edmond and Ms. Wong Yee Kwan Alvina (collectively referred to as the “Controlling Shareholders”) all being the Directors, collectively have controlling interests over this company.
- (b) The film processing services fee was paid to Pegasus Laboratory in which it is beneficiary owned by a company collectively controlled by the Controlling Shareholders at 30 June 2017 and 2016.
- (c) The rental expense 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 and in notes 28, 29 and 30, respectively.

(III) Compensation of key management personnel

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

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Salaries and other allowances	9,413	13,817
Retirement benefit scheme contributions	<u>104</u>	<u>103</u>
	<u><u>9,517</u></u>	<u><u>13,920</u></u>

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.

39. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Assets		
Investment in a subsidiary	97,196	97,196
Other receivables	145	145
Amounts due from subsidiaries	311,313	203,060
Bank balances	<u>20</u>	<u>177</u>
Total assets	<u><u>408,674</u></u>	<u><u>300,578</u></u>
Liability		
Amounts due to subsidiaries	<u>110,555</u>	<u>—</u>
Total assets less liability	<u><u>298,119</u></u>	<u><u>300,578</u></u>
Capital and reserves		
Share capital (<i>note 31</i>)	6,489	6,309
Share premium and reserves (<i>Note</i>)	<u>291,630</u>	<u>294,269</u>
	<u><u>298,119</u></u>	<u><u>300,578</u></u>

The amounts due from (to) subsidiaries are unsecured, interest-free and repayable on demand.

Note:

	Share premium HK\$'000	Share option reserve HK\$'000	Special reserve HK\$'000	Warrants reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 July 2015	479,313	—	47,196	495	(178,561)	348,443
Loss for the year and total comprehensive expenses for the year	—	—	—	—	(104,286)	(104,286)
Recognition of equity-settled share based payment	—	25,272	—	—	—	25,272
Transfer upon share options lapsed	—	(25,272)	—	—	25,272	—
Issue of shares upon exercise of warrants (note 31)	25,040	—	—	(200)	—	24,840
At 30 June 2016	504,353	—	47,196	295	(257,575)	294,269
Loss for the year and total comprehensive expenses for the year	—	—	—	—	(19,199)	(19,199)
Issue of shares upon exercise of warrants (note 31)	16,693	—	—	(133)	—	16,560
Transfer upon warrants expired (note 31)	—	—	—	(162)	162	—
At 30 June 2017	521,046	—	47,196	—	(276,612)	291,630

Special reserve represented the capital contribution from Honour Grace which is based on the total equity of Green Riches at the date of the Reorganisation.

40. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

a. The Company had the following subsidiaries as at 30 June 2017 and 2016

Name of subsidiary	Place of incorporation/ establishment/ operations	Issued and fully paid ordinary share capital/ registered capital	Attributable equity interest held by the Company		Proportion of voting power held by the Company		Principal activities
			2017	2016	2017	2016	
Green Riches (Note i)	BVI	US\$1	100%	100%	100%	100%	Investment holding
Pegasus Motion Pictures Production Limited	Hong Kong	HK\$1	100%	100%	100%	100%	Film production
Pegasus Motion Pictures (Hong Kong) Limited	Hong Kong	HK\$1	100%	100%	100%	100%	Film distribution
Pegasus Motion Pictures Distribution Limited	BVI	US\$1	100%	100%	100%	100%	Film distribution and production
北京天馬 (Note ii)	The PRC	HK\$1,500,000	100%	100%	100%	100%	Service provider of the Group for facilitating the establishment and expansion of the Group's business in the PRC

Name of subsidiary	Place of incorporation/ establishment/ operations	Issued and fully paid ordinary share capital/ registered capital	Attributable equity interest held by the Company		Proportion of voting power held by the Company		Principal activities
			2017	2016	2017	2016	
Star Pictures Entertainment Limited	BVI	US\$1	100%	100%	100%	100%	Representing the Group in entering into actors' and film directors' contracts and film distribution
Star Pictures HK	Hong Kong	HK\$10,000	100%	100%	100%	100%	Representing the Group in entering into actors' and production crew's contracts and film distribution
PMFIL	Hong Kong	HK\$1	100%	100%	100%	100%	Film investment
Cinema City Group Limited	Hong Kong	HK\$1	100%	100%	100%	100%	Cinema operations and management
Cinema City (Langham Place) Limited	Hong Kong	HK\$3,000,000	100%	100%	100%	100%	Cinema operations
Cinema City (Chai Wan) Limited (Note iii)	Hong Kong	HK\$1	100%	N/A	100%	N/A	Cinema operations
Cinema City (Hong Kong) Limited (Note iii)	Hong Kong	HK\$1	100%	N/A	100%	N/A	Cinema operations
Cinema City (TW) Limited (Note iii)	Hong Kong	HK\$1	100%	N/A	100%	N/A	Cinema operations
Screen Media & Promotion Limited	Hong Kong	HK\$1	100%	100%	100%	100%	Film distribution, advertising and promotion
Skywork Media Limited ("Skywork") (Note iv)	Hong Kong	HK\$100	100%	80%	100%	80%	Post-production
Chili	Hong Kong	HK\$10,000	100%	100%	100%	100%	Provision of advertising and marketing services
Powerful Target Investment Group Limited	BVI	US\$1	100%	100%	100%	100%	Investment holding
Favourable On Global Investment Limited ("Favourable On")	BVI	US100	70%	70%	70%	70%	Investment holding
Chili Platinum	Hong Kong	HK\$1	70%	70%	70%	70%	Provision of printed and digital media publication business
上海翠裕	The PRC	RMB10,000,000	100%	100%	100%	100%	Cinema management and operation in the PRC
上海家喜	The PRC	RMB5,000,000	100%	100%	100%	100%	Film distribution in the PRC
勝馬文化	The PRC	RMB4,000,000	100%	100%	100%	100%	Cinema operation in the PRC
上海新馬電影院發展有限公司 (Notes ii & iii)	The PRC	RMB7,500,000	100%	N/A	100%	N/A	Cinema operation in the PRC

Notes:

- (i) Except Green Riches, all other subsidiaries are indirectly owned by the Company.
- (ii) It is a wholly-foreign owned enterprise established in the PRC.
- (iii) These subsidiaries were newly incorporated during the year ended 30 June 2017.

- (iv) On 30 June 2017, Green Riches, a wholly-owned subsidiary of the Company has acquired the remaining 20% equity interest in Skywork from the non-controlling shareholder at a consideration of approximately HK\$935,000, in which the consideration was agreed to be settled by transferring certain of the Group's property, plant and equipment at a net gain of HK\$123,000 (being the difference of the carrying amount of property, plant and equipment being transferred of HK\$872,000 and the agreed fair value of HK\$995,000). As a result, the net consideration paid for the acquisition of 20% equity interest in Skywork is HK\$812,000 and a credit balance to other reserve of HK\$53,000 is resulted. Upon the completion of acquisition, Skywork became an indirect wholly-owned subsidiary of the Company.

None of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year.

b. Details of non-wholly owned subsidiaries that have material non-controlling interests

The table below shows details of the non-wholly owned subsidiaries of the Company that has material non-controlling interests:

Name of subsidiary	Place of incorporation and principal place of business	Proportion of ownership interests and voting rights held by non-controlling interests		Loss allocated to non-controlling interests		Accumulated non-controlling interests	
		2017	2016	2017	2016	2017	2016
				HK\$'000	HK\$'000	HK\$'000	HK\$'000
Favourable On Individual immaterial subsidiary with non-controlling interests	BVI	30%	30%	485	11,070	(3,478)	(2,993)
				411	491	—	1,276
				<u>896</u>	<u>11,561</u>	<u>(3,478)</u>	<u>(1,717)</u>

Summarised financial information in respect of the Group's subsidiary that has a material non-controlling interest is set out below. The summarised financial information below represents amounts before intra group eliminations.

Favourable On

	2017 HK\$'000	2016 HK\$'000
Current assets	<u>205</u>	<u>511</u>
Current liabilities	<u>(12,679)</u>	<u>(11,760)</u>
Non-current assets	<u>881</u>	<u>1,273</u>
Deficit attributable to owners of the Company	<u>(8,115)</u>	<u>(6,983)</u>
Non-controlling interests	<u>(3,478)</u>	<u>(2,993)</u>

	Year ended 30 June 2017 <i>HK\$'000</i>	Year ended 30 June 2016 <i>HK\$'000</i>
Revenue	<u>40</u>	<u>1,544</u>
Expenses	<u>(1,655)</u>	<u>(38,443)</u>
Loss for the year	<u>(1,615)</u>	<u>(36,899)</u>
Loss and total comprehensive expense attributable to owners of the Company	(1,130)	(25,829)
Loss and total comprehensive expense attributable to non-controlling interests	<u>(485)</u>	<u>(11,070)</u>
Loss and total comprehensive expense for the year	<u>(1,615)</u>	<u>(36,899)</u>
Net cash (outflow) inflow from operating activities	<u>(257)</u>	<u>770</u>
Net cash outflow from investing activities	<u>—</u>	<u>(784)</u>
Net cash inflow from financing activities	<u>—</u>	<u>—</u>
Net cash outflow	<u>(257)</u>	<u>(14)</u>

41. COMMITMENTS

At the end of reporting period, the Group had outstanding commitments as follows:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Capital commitments:		
Capital expenditure in respect of renovations of the lease contracted for but not provided in the consolidated financial statements	<u>46,582</u>	<u>15,340</u>

3. INDEBTEDNESS

As at the Latest Practicable Date, for the purpose of the indebtedness statement prior to the printing of this Response Document, save for (a) drawdowns by the Group from the China Construction Bank (Asia) Corporation Limited of (i) a term loan in the amount of HK\$10,000,000; and (ii) revolving loans in the total amount of HK\$5,000,000; (b) approximately HK\$664,000 bank deposits pledged to a bank to secure for the 4Dx's equipment rental fees payable to a supplier of 4Dx equipment for the Group's operation in a cinema situated in Langham Place in accordance with the 4Dx equipment rental agreement dated 20 August 2015; and (c) approximately HK\$10,050,000 bank deposits pledged to a bank to secure banking facilities granted to the Group as mentioned in (a) above, the Group did not have any outstanding borrowings, or any mortgages, charges, debentures, loan capital, bank overdrafts or loans, liabilities under acceptance (other than normal trade debts) or other similar indebtedness, hire purchase or finance lease obligations or any guarantees or other material contingent liabilities.

4. MATERIAL CHANGE

The Directors confirm that save for:

- a. operational commencement for three cinemas under the Group's film exhibition segment as mentioned in its annual report for the financial year ended 30 June 2017, generating additional income under the Group's film exhibition segment whilst the segment's gross profit remained stable. The three cinemas are (i) Cinema City Chai Wan, which has officially commenced operations in mid-August 2017; (ii) the Group's first cinema in the PRC, located in "Vivo City", which has commenced trial operations in late September 2017; and (iii) Cinema City JP, which has officially commenced its operation in late October 2017; and
- b. ongoing renovation work in relation to the Group's fourth and fifth cinemas in Hong Kong (in Causeway Bay and Tsuen Wan respectively), relevant expenses of which is capitalised as leasehold improvement under its non-current assets. Trial operations for both cinemas are scheduled to commence in December 2017,

as at the Latest Practicable Date, there had been no material change in the financial or trading position or outlook of the Group subsequent to 30 June 2017, being the date to which the last published audited consolidated financial statements of the Company were made up.

1. RESPONSIBILITY STATEMENT

This Response Document includes particulars given in compliance with the Takeovers Code for the purpose of providing information to the Shareholders with regard to the Company and the Offer.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this Response Document (other than those relating to the Offeror) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Response Document have been arrived at after due and careful consideration and there are no other facts not contained in this Response Document, the omission of which would make any statement in Response Document misleading.

The information contained in this Response Document relating to the Offeror and the terms of the Offer has been extracted or derived from the Offer Document. The Directors jointly and severally accept full responsibility for the correctness and fairness of the reproduction or presentation of such information.

2. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date were as follows:

<i>Authorised</i>	<i>HK\$</i>
<u>32,000,000,000</u> Shares	<u>80,000,000.00</u>
<i>Issued and fully paid</i>	
<u>2,595,613,733</u> Shares	<u>6,489,034.33</u>

Since 30 June 2017 (being the date to which the Company's latest published audited consolidated financial statements were prepared) and up to the Latest Practicable Date, no new Shares had been issued or repurchased by the Company or any of its subsidiaries.

All of the Shares currently in issue are fully paid up and rank *pari passu* in all respects with each other, including, in particular, as to dividends, voting and capital.

All of the Shares in issue are listed on the Stock Exchange. None of the securities of the Company are listed on or dealt in any other Stock Exchange and no such listing or permission to deal is being or is proposed to be sought.

The Company did not have any other outstanding securities, options, derivatives, warrants or other convertible securities or rights affecting the Shares as at the Latest Practicable Date.

3. DISCLOSURE OF INTERESTS

(i) Interests of the Directors or chief executives of the Company

As at the Latest Practicable Date, so far as was known to the Directors, the interests and short positions of the Directors and the chief executives of the Company, including their respective associates in the equity or equity securities of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were deemed or taken to have under such provisions of the SFO) or which were required to section 352 of the SFO, to be entered in the register referred to therein or which were required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules to be notified to the Company and the Stock Exchange were as follows:

Name	Capacity	Number of Shares held	Approximate percentage of interest in the Company's issued share capital
Ms. Wong Yee Kwan Alvina	Beneficial owner	200,000	0.01%

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and the chief executives of the Company, including their respective associates had any interests or short positions in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are deemed or taken to have under such provisions of the SFO) or which were required to section 352 of the SFO, to be entered in the register referred to therein or which were required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules to be notified to the Company and the Stock Exchange.

(ii) Interests of the substantial Shareholders

As at the Latest Practicable Date, so far as was known to the Directors, the following persons (other than the Directors or chief executives of the Company) had, or were deemed to have, interests or short positions in the Shares or underlying Shares which would fall to be disclosed under the provisions of Divisions 2 and 3 of part XV of the SFO, or which were recorded in the register required to be kept by the Company under

section 336 of the SFO, or who were, directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Name	Capacity and nature of interest	Number of Shares held	Percentage of the Company's issued share capital (%)
Offeror	Beneficial owner	1,535,992,000 (Note 2)	59.18
Mr. Zhang (Note 1)	Interests held by controlled corporation	1,535,992,000	59.18

Notes:

- (1) As at the Latest Practicable Date, Mr. Zhang was the sole shareholder and the sole director of the Offeror.
- (2) The Shares were pledged to Kingston Securities as collaterals for the Loan Facility.

Save as disclosed above, the Directors or chief executive of the Company are not aware of any party who, as at the Latest Practicable Date, had, or were deemed to have, interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

(iii) Other interests

As at the Latest Practicable Date,

- (a) no shares or other securities of the Company carrying voting rights or any convertible securities, warrants, options and derivatives of the Company were owned or controlled by a subsidiary of the Company or by a pension fund (if any) of any member of the Group or by an adviser to the Company as specified in class (2) of the definition of associate under the Takeovers Code (including Altus Capital);
- (b) there were no Shares or other securities of the Company carrying voting rights or convertible securities, warrants, options or derivatives of the Company which the Company and any Directors had borrowed or lent;
- (c) no person who owned or controlled any Shares or other securities of the Company carrying voting rights or convertible securities, warrants, options or derivatives of the Company had irrevocably committed himself/herself to accept or not to accept the Offer;

- (d) no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of associate under the Takeovers Code;
- (e) no Shares or other securities of the Company carrying voting rights or any convertible securities, warrants, options or derivatives of Company were managed on a discretionary basis by fund managers connected with the Company;
- (f) Ms. Wong Yee Kwan Alvina, an executive Director, had indicated that she would not intend to accept the Offer in respect of her beneficial shareholding, being 200,000 Shares. The remaining Directors had no beneficial shareholding in any Shares;
- (g) Ms. Wong, one of the Vendors, had indicated that she would not intend to accept the Offer in respect of her beneficial shareholding, being 8,328,000 Shares;
- (h) other than the consideration to be paid under the Sale and Purchase Agreement, each of the Vendors or their respective concert parties had not received and would not receive any other consideration or benefits in whatever form from the Offeror, its ultimate beneficial owner (i.e. Mr. Zhang) or their respective concert parties; and
- (i) there was no special deal (as defined under Rule 25 of the Takeovers Code) between the Offeror and parties acting in concert with it on one hand and the Vendors and parties acting in concert with each of them on the other hand.

4. DEALING IN SECURITIES OF THE COMPANY

- (i) During the Relevant Period, save for Mr. Wong and Ms. Wong Yee Kwan Alvina, none of the Directors had dealt in any Shares or other securities of the Company carrying voting rights or convertible securities, warrants, options or derivatives of the Company. Details of dealings by Mr. Wong and Ms. Wong Yee Kwan Alvina during the Relevant Period in respect of any Shares or other securities of the Company carrying voting rights or convertible securities, warrants, options or derivatives of the Company are set out as follows:

- (a) Mr. Wong

Date of event	Number of Shares involved	Average price per Share	Reason for disclosure
27/10/2017	1,325,816,000	0.319	Note 1
22/10/2017	1,325,816,000	0.319	Note 1
03/07/2017	2,056,000	0.210	Note 2
28/06/2017	2,088,000	0.214	Note 2

Date of event	Number of Shares involved	Average price per Share	Reason for disclosure
27/06/2017	1,536,000	0.220	Note 2
26/06/2017	2,616,000	0.226	Note 2
20/06/2017	1,176,000	0.225	Note 2
19/06/2017	1,008,000	0.230	Note 2
15/06/2017	832,000	0.231	Note 2
14/06/2017	480,000	0.231	Note 2
12/06/2017	376,000	0.231	Note 2
08/06/2017	1,344,000	0.232	Note 2
07/06/2017	1,000,000	0.233	Note 2
06/06/2017	904,000	0.236	Note 2
02/06/2017	696,000	0.237	Note 2
01/06/2017	944,000	0.234	Note 2
31/05/2017	800,000	0.241	Note 2
29/05/2017	1,016,000	0.240	Note 2
26/05/2017	688,000	0.236	Note 2
16/05/2017	616,000	0.242	Note 2
12/05/2017	7,200,000	0.247	Note 2
11/05/2017	936,000	0.245	Note 2
10/05/2017	2,688,000	0.245	Note 2
09/05/2017	1,560,000	0.247	Note 2
08/05/2017	5,320,000	0.234	Note 2
05/05/2017	2,480,000	0.225	Note 2
04/05/2017	2,584,000	0.216	Note 2

(b) Ms. Wong Yee Kwan Alvina

Date of event	Number of Shares involved	Average price per Share	Reason for disclosure
03/07/2017	200,000	0.208	Note 3

Notes

- (1) Mr. Wong was one of the Vendors under the Sale and Purchase Agreement entered into between the Offeror, the Vendors and Mr. Wong on 22 October 2017. Upon Completion, Mr. Wong had sold 1,325,816,000 Shares of which he beneficially owned 125,816,000 Shares and a corporation controlled by him beneficially owned 1,200,000,000 Shares.
- (2) Mr. Wong acquired the relevant number of Shares.
- (3) Ms. Wong Yee Kwan Alvina acquired the relevant number of Shares.

- (ii) During the Relevant Period,
 - (a) the Company and the Directors did not deal in any interest in the equity share capital or any convertible securities, warrants, options and derivatives of the Offeror;
 - (b) none of the subsidiaries of the Company or a pension fund (if any) of any member of the Group or an adviser to the Company as specified in class (2) of the definition of associate under the Takeovers Code (including the Altus Capital) had dealt in any interest in the Shares or other securities of the Company carrying voting rights or any convertible securities, warrants, options and derivatives of the Company;
 - (c) no person, with whom the Company or any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of associate under the Takeovers Code has an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code had dealt in the Shares or other securities of the Company carrying voting rights or any convertible securities, warrants, options and derivatives of the Company; and
 - (d) no fund managers connected with the Company had dealt in the Shares or other securities of the Company carrying voting rights or any convertible securities, warrants, options and derivatives of the Company.

5. LITIGATION

As at the Latest Practicable Date, none of the Company nor any of its subsidiaries was engaged in any litigation or arbitration of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

6. MATERIAL CONTRACTS

There were no material contracts entered into after the date two years before commencement of the Offer Period, not being a contract entered into in the ordinary course of business carried on or intended to be carried on by the Group.

7. ARRANGEMENT AFFECTING DIRECTORS

As at the Latest Practicable Date,

- (i) none of the Directors had been given any benefit as compensation for loss of office or otherwise in connection with the Offer;
- (ii) there was no agreement or arrangement between any Directors and any other persons which is conditional on or dependent upon the outcome of the Offer or otherwise connected with the Offer; and

- (iii) save for the Sale and Purchase Agreement, there was no material contract entered into by the Offeror or any party acting in concert with it in which any Director had a material personal interest.

8. DIRECTORS' SERVICE AGREEMENTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with the Company or any of its subsidiaries or associated companies which:

- (i) (including both continuous and fixed term contracts) have been entered into or amended within six months before the commencement of the Offer Period;
- (ii) are continuous contracts with a notice period for 12 months or more; and
- (iii) are fixed term contracts with more than 12 months to run irrespective of the notice period.

9. EXPERT AND CONSENT

The following is the qualification of the expert who has given opinion or advice contained in this Response Document:

Name	Qualification
Altus Capital	a corporation licensed to carry out business in type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO

Altus Capital has given and has not withdrawn its written consent to the issue of this Response Document with the inclusion herein of its advice or report, as the case may be, and reference to its name in the form and context in which it is included.

10. GENERAL

- (i) The registered office of the Company is at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands;
- (ii) The Company's principal place of business in Hong Kong is at Rooms 1801-02, Westlands Centre, 20 Westlands Road, Quarry Bay, Hong Kong;
- (iii) The company secretary of the Company is Mr. Chan Chi Ming. Mr. Chan Chi Ming is a Certified Public Accountant in Hong Kong and a fellow member of the Association of Chartered Certified Accountants;
- (iv) The Hong Kong branch registrar and transfer office of the Company is Tricor Investor Services Limited, Level 22 Hopewell Centre, 183 Queen's Road East, Hong Kong;

- (v) The registered office of Altus Capital is at 21 Wing Wo Street, Central, Hong Kong; and
- (vi) The English texts of this Response Document shall prevail over the Chinese texts, in case of any inconsistency.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection (i) during normal business hours from 9:00 a.m. to 5:30 p.m. (other than Saturdays, Sundays and public holidays) at the principal place of business of the Company in Hong Kong at Rooms 1801-02, Westlands Centre, 20 Westlands Road, Quarry Bay, Hong Kong; (ii) on the website of the SFC (www.sfc.hk); and (iii) on the website of the Company (www.pegasusmovie.com) from the date of this Response Document onwards for so long as the Offer remains open for acceptance:

- (i) the memorandum and articles of association of the Company;
- (ii) the annual reports of the Company for each of the three financial years ended 30 June 2015, 2016 and 2017;
- (iii) the letter from the Board, the text of which is set out on pages 6 to 12 of this Response Document;
- (iv) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out on pages 13 to 14 of this Response Document;
- (v) the letter of advice from Altus Capital to the Independent Board Committee, the text of which is set out on pages 15 to 31 of this Response Document;
- (vi) the written consent referred to in the paragraph headed “Expert and Consent” of this appendix; and
- (vii) this Response Document.