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

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1326)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

FINANCIAL HIGHLIGHTS

- The Group recorded revenue of approximately HK$126.8 million for the six months ended 31 December 2017, a decrease of approximately HK$4.8 million or approximately 3.7% when compared to the corresponding period last year.
- Gross profit margin increased by 9.6 percentage points from approximately 51.4% for the corresponding period last year to approximately 61.0% for the six months ended 31 December 2017 which translates into gross profit of approximately HK$77.3 million recorded in this period.
- The Group reported a loss attributable to owners of the Company of approximately HK$28.9 million for the six months ended 31 December 2017, as compared to a profit from the corresponding period last year of approximately HK$7.1 million.
- The Group's net assets and net current assets as at 31 December 2017 amounted to approximately HK$277.4 million and approximately HK$36.2 million respectively.
- The Board does not recommend the payment of any dividend for the six months ended 31 December 2017.

INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

The board (the "**Board**") of directors (the "**Directors**") of Pegasus Entertainment Holdings Limited (the "**Company**") is pleased to announce the unaudited results of the Company and its subsidiaries (collectively, the "**Group**") for the six months ended 31 December 2017 together with the comparative unaudited figures for the corresponding period in 2016 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 31 December 2017

		Six months ended 31 December	
		2017	2016
	Notes	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)
Revenue	*3*	**126,766**	131,583
Cost of sales		**(49,419)**	(63,962)
Gross profit		**77,347**	67,621
Other income		**3,392**	3,665
Selling and distribution expenses		**(92,298)**	(47,953)
Administrative expenses		**(22,180)**	(20,633)
Net foreign exchange gain (loss)		**1,742**	(2,634)
Finance costs	*5*	**(133)**	–
Share of results of associates		**290**	(1,102)
Share of results of a joint venture		**331**	8,097
(Loss) profit before tax		**(31,509)**	7,061
Income tax credit (expense)	*6*	**2,456**	(528)
(Loss) profit for the period	*7*	**(29,053)**	6,533
Other comprehensive (expense) income			
Items that may be reclassified subsequently to profit or loss			
Share of exchange difference of an associate		**(57)**	90
Share of exchange difference of a joint venture		**47**	45
Exchange difference arising on translating foreign operations		**(1,304)**	1,675
		(1,314)	1,810
Total comprehensive (expense) income for the period		**(30,367)**	8,343

	Note	Six months ended 31 December **2017** ***HK$'000*** **(Unaudited)**	2016 *HK$'000* (Unaudited)
(Loss) profit for the period attributable to:			
Owners of the Company		**(28,898)**	7,063
Non-controlling interests		**(155)**	(530)
		(29,053)	6,533
Total comprehensive (expense) income for the period attributable to:			
Owners of the Company		**(30,212)**	8,873
Non-controlling interests		**(155)**	(530)
		(30,367)	8,343
(Loss) earnings per share	*8*		
Basic (HK cents)		**(1.1)**	0.3
Diluted (HK cent)		**N/A**	0.3

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	Notes	31 December 2017 HK$'000 (Unaudited)	30 June 2017 HK$'000 (Audited)
Non-current assets			
Property, plant and equipment		**142,714**	62,058
Goodwill		**–**	–
Intangible assets		**5,600**	5,600
Interests in associates		**50,607**	53,454
Interest in a joint venture		**109**	459
Prepayment to an artiste		**6,000**	12,000
Rental deposits		**29,013**	24,833
Deposits for acquisition of property, plant and equipment		**–**	15,229
Deferred tax assets		**14,102**	10,832
		248,145	184,465
Current assets			
Film rights		**–**	9,264
Film production in progress		**176,838**	122,521
Available-for-sale investment		**4,056**	4,056
Investments in film/drama production		**25,693**	27,417
Inventories		**892**	579
Trade and other receivables	*9*	**14,186**	9,143
Prepayment to an artiste		**12,000**	12,000
Rental deposits		**20,010**	19,944
Tax recoverable		**908**	245
Pledged bank deposits		**10,660**	31,250
Bank balances and cash		**57,434**	31,998
		322,677	268,417
Current liabilities			
Trade and other payables	*10*	**116,116**	59,676
Receipts in advance		**162,965**	71,849
Tax payable		**2,848**	11,479
Amounts due to related companies		**3**	26
Amount due to a joint venture		**2,116**	2,116
Bank borrowings		**2,404**	–
		286,452	145,146
Net current assets		**36,225**	123,271
Total assets less current liabilities		**284,370**	307,736

	Note	31 December 2017 HK$'000 (Unaudited)	30 June 2017 HK$'000 (Audited)
Non-current liability			
Bank borrowings	*11*	**7,001**	–
Net assets		**277,369**	307,736
Capital and reserves			
Share capital		**6,489**	6,489
Reserves		**274,513**	304,725
Equity attributable to owners of the Company		**281,002**	311,214
Non-controlling interests		**(3,633)**	(3,478)
Total equity		**277,369**	307,736

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2017

	Attributable to owners of the Company								
	Share capital *HK$'000* (Unaudited)	Share premium *HK$'000* (Unaudited)	Other reserve *HK$'000* (Unaudited) *(Note)*	Exchange reserve *HK$'000* (Unaudited)	Warrants reserve *HK$'000* (Unaudited)	Accumulated losses *HK$'000* (Unaudited)	Sub-total *HK$'000* (Unaudited)	Non-controlling interests *HK$'000* (Unaudited)	Total *HK$'000* (Unaudited)
At 1 July 2016 (Audited)	6,309	504,353	10	(974)	295	(175,966)	334,027	(1,717)	332,310
Profit (loss) for the period	–	–	–	–	–	7,063	7,063	(530)	6,533
Share of exchange difference of an associate	–	–	–	90	–	–	90	–	90
Share of exchange difference of a joint venture	–	–	–	45	–	–	45	–	45
Exchange difference arising on translating foreign operations	–	–	–	1,675	–	–	1,675	–	1,675
Total comprehensive income (expense) for the period	–	–	–	1,810	–	7,063	8,873	(530)	8,343
Issue of shares upon exercise of warrants	180	16,693	–	–	(133)	–	16,740	–	16,740
Transfer upon warrants expired	–	–	–	–	(162)	162	–	–	–
At 31 December 2016 (Unaudited)	6,489	521,046	10	836	–	(168,741)	359,640	(2,247)	357,393
At 1 July 2017 (Audited)	6,489	521,046	10	(2,223)	–	(214,108)	311,214	(3,478)	307,736
Loss for the period	–	–	–	–	–	(28,898)	(28,898)	(155)	(29,053)
Share of exchange difference of an associate	–	–	–	(57)	–	–	(57)	–	(57)
Share of exchange difference of a joint venture	–	–	–	47	–	–	47	–	47
Exchange difference arising on translation of foreign operations	–	–	–	(1,304)	–	–	(1,304)	–	(1,304)
Total comprehensive expense for the period	–	–	–	(1,314)	–	(28,898)	(30,212)	(155)	(30,367)
At 31 December 2017 (Unaudited)	6,489	521,046	10	(3,537)	–	(243,006)	281,002	(3,633)	277,369

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

NOTES TO THE INTERIM RESULTS

1. GENERAL INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands on 8 March 2012. The Company's registered office is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and its principal place of business is located at Rooms 1801–2, Westlands Centre, 20 Westlands Road, Quarry Bay, Hong Kong. Its immediate and ultimate holding company is Nice Rich Group Limited, a company incorporated in the British Virgin Islands.

The Company is an investment holding company. The Group is principally engaged in film and television ("**TV**") series production, distribution and licensing of film rights, film exhibition, post-production, as well as advertising, marketing and publication.

2. BASIS OF PREPARATION

The unaudited consolidated financial statements for the six months ended 31 December 2017 (the "**Interim Financial Statements**") have been prepared in accordance with Hong Kong Accounting Standard ("**HKAS**") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**").

The Interim Financial Statements have been prepared under the historical cost basis. The principal accounting policies used in the preparation of the Interim Financial Statements are consistent with those used in the annual consolidated financial statements for the year ended 30 June 2017.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards ("**HKFRS(s)**"). For those which are effective for accounting period beginning on 1 July 2017, the application has no material impact on the reported results and the financial position of the Group for the current and/or prior accounting periods. Additional disclosures about changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes on application of amendments to HKAS 7 "Disclosure Initiative" will be provided in the consolidated financial statements for the year ending 30 June 2018. The Group has not applied any new and revised standard or interpretation that is not yet effective for the current and/or prior accounting periods.

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

3. REVENUE

	Six months ended 31 December	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Film production, distribution and licensing income	**31,845**	61,702
Film exhibition income	**91,520**	66,570
Post-production income	**1,478**	797
Advertising, marketing and publication income	**1,923**	2,514
	126,766	131,583

4. SEGMENT INFORMATION

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

(i) Film and TV series production and distribution;

(ii) Film exhibition;

(iii) Post-production; and

(iv) Advertising, marketing and publication.

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

Segment revenue and results

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

For the six months ended 31 December 2017:

	Film and TV series production and distribution *HK$'000* **(Unaudited)**	**Film exhibition** *HK$'000* **(Unaudited)**	**Post-production** *HK$'000* **(Unaudited)**	**Advertising, marketing and publication** *HK$'000* **(Unaudited)**	**Total** *HK$'000* **(Unaudited)**
Segment revenue — External customers	**31,845**	**91,520**	**1,478**	**1,923**	**126,766**
Segment profit (loss)	**9,484**	**(36,160)**	**(982)**	**(376)**	**(28,034)**
Unallocated other income					**253**
Unallocated head office and corporate expenses					**(3,885)**
Finance costs					**(133)**
Share of results of associates					**290**
Loss before tax					**(31,509)**

For the six months ended 31 December 2016:

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

Geographical information

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

	Six months ended 31 December	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Hong Kong and Macau	**97,948**	82,562
The People's Republic of China (the "**PRC**")	**27,754**	42,838
South East Asia region	**–**	3,080
Others	**1,064**	3,103
	126,766	131,583

5. FINANCE COSTS

	Six months ended 31 December	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Interest on bank borrowings wholly repayable within five years	**96**	–
Interest on bank overdrafts	**37**	–
	133	–

6. INCOME TAX CREDIT (EXPENSE)

	Six months ended 31 December	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
The income tax credit (expense) comprises:		
Hong Kong Profits Tax		
— current	**(419)**	(1,792)
PRC Enterprise Income Tax ("**EIT**")		
— current	**(394)**	(252)
Deferred taxation	**3,269**	1,516
	2,456	(528)

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the six months ended 31 December 2016 and 2017.

Under the Law of the PRC on EIT (the "**EIT Law**") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

7. (LOSS) PROFIT FOR THE PERIOD

	Six months ended 31 December	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
(Loss) profit for the period has been arrived at after charging:		
Directors' emoluments	**3,695**	3,355
Other staff costs	**13,463**	9,785
Retirement benefit scheme contributions, excluding those of Directors	**597**	445
Total staff costs	**17,755**	13,585
Depreciation of property, plant and equipment	**7,514**	3,853
Cost of film rights recognised as an expense	**9,264**	33,549
Cost of services provided	**38,540**	29,346
Cost of inventories sold	**1,615**	1,067
Minimum lease payments under operating leases in respect of:		
Premises	**1,889**	1,899
Cinemas	**57,828**	30,266
Contingent rents incurred for cinemas	**731**	670
and after crediting (those are included in other income):		
Bank interest income	**253**	184
Handling service income	**1,456**	1,204
Investment income from investments in film/drama production	**531**	990

8. (LOSS) EARNINGS PER SHARE

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

	Six months ended 31 December	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
(Loss) earnings		
(Loss) profit for the period attributable to owners of the Company for the purpose of basic and diluted (loss) earnings per share	**(28,898)**	7,063

	Six months ended 31 December	
	2017	2016
	(Unaudited)	(Unaudited)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	**2,595,613,733**	2,540,992,068
Effect of dilutive ordinary shares arising from issue of warrants	**–**	41,260,047
Weighted average number of ordinary shares for the purpose of diluted (loss) earnings per share	**2,595,613,733**	2,582,252,115

No diluted loss per share for the six months ended 31 December 2017 is presented as the Company did not have any potential ordinary shares outstanding during the period.

9. TRADE AND OTHER RECEIVABLES

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

	31 December 2017	30 June 2017
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade receivables:		
0–30 days	**1,969**	2,307
31–60 days	**206**	2
61–90 days	**59**	3
91–180 days	**671**	39
181–365 days	**–**	6
Over 365 days	**9**	9
	2,914	2,366
Other receivables, deposits and prepayments	**4,300**	3,740
Other deposits and prepayments for cinema operation	**6,972**	3,037
	14,186	9,143

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.

10. TRADE AND OTHER PAYABLES

	31 December 2017	30 June 2017
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade payables	**31,637**	18,765
Other payables and accruals	**83,592**	39,667
Deposits received	**887**	1,244
	116,116	59,676

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:

	31 December 2017	30 June 2017
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Within 60 days	**30,887**	18,233
91 to 365 days	**750**	532
	31,637	18,765

11. BANK BORROWINGS

At 31 December 2017, bank borrowings of approximately HK$9,405,000 represent a bank loan which was secured by pledged bank deposits of HK$10,000,000 for a term of 48 months (30 June 2017: Nil). The bank loan carries interest at 2% per annum over the Hong Kong Interbank Offered Rate as quoted in the Hong Kong Interbank Hong Kong Dollar Market. The effective interest rate of the bank loan approximates 2.6% per annum. The bank loan is denominated in HK$.

DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 31 December 2017 (31 December 2016: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

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

Film and TV series production and distribution

During the period under review, film and TV series production and distribution operations have remained the core business of the Group with reported revenue of approximately HK$31.8 million, representing a decrease of 48.4% compared to the corresponding period last year. This was because no film has been released during the period under review, while the Group had released two films, namely "Bounty Hunters" (賞金獵人) and "S Storm" (S風暴) during the corresponding period last year.

Currently, the Group has a number of films and TV series in the production pipeline which have been scheduled for release during this financial year. These include two films that are in the pre-release stage namely: (i) "Lucid Dreams" (八步半喜怒哀樂), a general-scale drama film starring Kevin Cheng (鄭嘉穎), Louis Cheung (張繼聰), Dada Chan (陳靜) and Stephy Tang (鄧麗欣) and directed by Teddy Robin (泰廸羅賓); and (ii) "Tomorrow Is Another Day" (黃金花), a general-scale drama film starring Teresa Mo (毛舜筠) and Ling Man Lung (凌文龍) and directed by Chan Tai Lee (陳大利). The latter film has commenced trial screening, in particular as a special presentation film in the Hong Kong Asian Film Festival 2017, and had received positive market response from the audience. "Tomorrow is Another Day" (黃金花) is a film which has been financed by the Film Development Fund Scheme for Financing Film Production set up by The Hong Kong Government. Its main casts and director, Ling Man Lung (凌文龍), Chan Tai Lee (陳大利) and Teresa Mo (毛舜筠) have been nominated to The 37th Hong Kong Film Awards (2018) to rival in the Best Actor and Best New Performer Awards, the Best New Director Award and the Best Actress Award respectively. These nominations prove the recognition by the public of the Group's high quality production and development. The Group will continue to look for new promising actors and directors in order to mature the new flock of talents and boost the development of the Hong Kong film industry. The film entitled "The Invincible Dragon" (九龍不敗), a large-scale action film starring Max Zhang (張晉) and Anderson Silva, a former UFC middleweight champion, and directed by Fruit Chan (陳果) and "L Storm" (L風暴), another large-scale action film which is the sequel to the Group's previously released films entitled "Z Storm" (Z風暴) and "S Storm" (S風暴), starring Louis Koo (古天樂) and Julian Cheung (張智霖), have now entered into the final stage of post-production.

The Group has extended its scope of film development by investing in a number of movies across different genres and from different countries in order to cater to wider audience interests. The Group invested in the distribution of a meaningful French animated film "Ballerina" (天使愛芭蕾) that was released during the period under review. Moreover, the Group's investment in an international blockbuster movie entitled "Inversion" is underway with filming and worldwide theatrical distribution tentatively scheduled to take place in 2018 and by 2019, respectively. Based on the outstanding pre-sale performance track record, the Group expects the film will receive a positive market response upon its release.

In the future, the Group will continue to identify quality investment opportunities in film and TV series projects worldwide, not only to strengthen the Group's revenue base, but also to enrich its knowledge and experience for entering the global market. Following the cooperation with 華策影業(天津)有限公司 (in English, for identification purpose only, Huace Pictures (Tianjin) Co., Ltd.) ("**Huace Pictures**") to "S Storm" (S風暴) and "L Storm" (L風暴), the Group will further make use of the 3-year strategic cooperation framework with Huace Pictures since June 2016 to strengthen the Group's capabilities in and to further extend penetration into the PRC film market.

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

Film exhibition

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

According to the statistics from Hong Kong Box Office Limited, the Hong Kong box office receipts posted a slight decline of approximately 4.8% in 2017 to approximately HK$1.85 billion mainly attributable to the number of the films exhibited in cinemas decreased by approximately 5.2% in the same period. As the only cinema in Hong Kong equipped with "4Dx" exclusive viewing technology, which provides an advanced, sophisticated cinematic experience for audiences, Cinema City Langham Place has maintained its leading position as the highest box office receipts and the largest number of admissions cinema in Hong Kong.

During the period under review, the Group successfully expanded its film exhibition business in Hong Kong and the PRC. Cinema City Chai Wan and Cinema City JP, located in Causeway Bay, officially opened in August 2017 and October 2017, respectively. Candy Park by Cinema City, the first kid's theme cinema in Hong Kong located in Tsuen Wan, and Cinema City Victoria, located in Causeway Bay, first opened for trial operation in December 2017 and January 2018, respectively. In addition, the Group's first cinema in the PRC, located in "Vivo City" (怡豐城), Shanghai, commenced its operation in late September 2017. Up to the date of this announcement, the Group has five cinemas in Hong Kong providing 23 screens and over 3,000 seats (as at 31 December 2016 only Cinema City Langham Place in operation providing 6 screens and about 1,100 seats) and one cinema in the PRC providing 9 screens and over 1,400 seats.

Film exhibition was another key revenue driver for the Group. Notwithstanding the decline of market performance, the Group's film exhibition had outperformed the market to record a promising increase in revenue. During the period under review, revenue from film exhibition amounted to approximately HK$91.5 million, representing an increase of 37.5% compared to the corresponding period last year, mainly resulted from the Group's new cinemas commenced operations, while loss of this business segment increased significantly from HK$7.4 million during the corresponding period last year to HK$36.2 million this period, mainly attributable to the accounting treatment relating to the lease recognition and the amortisation of the rent-free period as compensation for the renovation period offered by the landlords of all new cinemas were not in operation during the period under review. Pursuant to the lease agreements entered into between the Group and the landlords of these new cinemas (excluding Cinema City Chai Wan as the lease term was commenced in the corresponding period last year), rent-free periods ranging from 3 to 9 months have been offered by the landlords to compensate for the loss of business during the renovation period. These rental incentives were treated as a uniform reduction of overall rental expenses on a straight-line or systematic basis over the entire lease term. Despite the fact that the lease terms of these new cinemas have already begun and no rental is required to be paid during the rent-free periods, rental expenses were immediately recognised under the aforementioned accounting treatment while revenues only began to generate when these new cinemas started operations during the period from August 2017 to January 2018. Consequently, the performance of the film exhibition business for the period under review was adversely affected.

Notwithstanding the short-term losses as mentioned above, the Group believes that these new cinemas will bring steady and continual cash returns for the Group and further expand the overall revenue base of the Group following the commencement of operation of the new cinemas. The Group is confident that the performance of film exhibition will be further improved going forward.

Post-production

The Group operates its own post-production house to facilitate the Group's overall integrated film production process and to serve external customers if capacity available. In spite of a loss of HK$1.0 million recorded during the period under review, the amount of loss has been reduced when compared with the loss of HK$1.7 million in the corresponding period last year. Going forward, the post-production business is poised to maintain its small-scale operation to mainly support the Group's overall profitability in the film production, and more importantly to benefit the Group's film production business in terms of efficiency and cost control.

Advertising, marketing and publication

The film advertising and marketing business has allowed the Group to benefit from sophisticated advertising and promotion strategies as well as cost reductions during the period under review. As for the publication business, the Group ceased the publication of the monthly luxury lifestyle magazine — "Platinum of UnionPay" (銀聯白金) in August 2016 in view of its unsatisfactory performance and in order to save costs and to reallocate the Group's resources to make further investments in other business segments. As a result, the losses in this business segment narrowed from HK$0.7 million during the corresponding period last year to approximately HK$0.4 million this period.

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

Outlook

During the period under review, Mr. Zhang Liang, Johnson ("**Mr. Zhang**") became the controlling shareholder of the Company and was appointed as the chairman of the Board to lead the Group. Following these changes, the Board intends to continue the Group's principal business and at the same time continue to review the strategic directions and operation of the Group in order to formulate solid plans to explore other business or investment opportunities for the future business development of the Group.

After the explosive growth in terms of total national box office receipts over the past few years, the pace of growth for the entire film industry in the PRC has slowed down since 2016. However, as compared to the growth rate of the national box office receipts in 2016 of 3.7%, the growth rate in 2017 of 13.5% has regained an upward momentum, the Group believes that the film market in 2016 is just a healthy adjustment and the industry by and large still has great potential growth in the long run.

In addition, on-going favourable policies have been issued by the PRC government to support and regulate the development of the film business operations. The Film Industry Promotion Law of the PRC (中國電影產業促進法) which aims at promoting investment in film production and encouraging the long-term development of the film industry came into force on 1 March 2017. The Group believes that such favourable policies would continue to provide better guidance for the industry participants and healthy environment of the film market.

In Hong Kong, the government has also clearly demonstrated its continue support in promoting the development of the film industry. To this end, the Hong Kong Government will organise promotion to Belt and Road countries to attract film producers to come to Hong Kong for post-production, location filming and production facilitation services. In March 2017, the Hong Kong Government announced that two commercial sites have been slated for sale in Kai Tak and in Sha Tin. The announcement stated that in the land lease there are clauses which specify the required minimum number of cinema seats. These new measures aim to promote the long-term growth of the Hong Kong's film industry and to facilitate local cinema development with a view to attracting audiences. With the support of the Hong Kong Government, the Group remains optimistic about the future prospects of the film industry.

The PRC became the second largest film market in the world in 2016; and according to Deloitte's *Prospects of China's Culture and Entertainment Industry*, the culture and entertainment industry in the PRC is expected to reach RMB1 trillion in terms of market size by 2020, therefore has great market potential, and the industry is where the Company will focus on in the future. The Company announced on 12 February 2018 that it proposed to change its name to Transmit Entertainment Limited, which signifies the intention of the Company's new management to develop the Company into a major market player in the culture and entertainment industry in the PRC, providing culture and entertainment products which feature traditional culture and reflect social realities, and transmiting entertainment at various levels through various media to all walks of life. Looking forward, the Company will aggressively increase its market share within a short period of time through acquisitions of companies engaging in related businesses, as to enhance profitability of the Group and maximise the value of shareholders of the Company ("**Shareholders**").

Financial Review

Revenue and Gross profit

Revenue of the Group was approximately HK$126.8 million for the six months ended 31 December 2017, representing a decrease of approximately HK$4.8 million or 3.7% compared to the corresponding period last year. This was mainly due to the decrease in revenue from film and TV series production and distribution of HK$29.9 million as no film has been released during the period under review, while two films, namely "Bounty Hunters" (賞金獵人) and "S Storm" (S風暴), were released during the corresponding period last year. The decrease of revenue was compensated by the increase in revenue from film exhibition of HK$25.0 million as the Group's new cinemas commenced operations during the period under review. Gross profit of the Group was approximately HK$77.3 million for the six months ended 31 December 2017, representing an increase of approximately HK$9.7 million or 14.4% compared to the corresponding period last year. The overall gross profit margin for the six months ended 31 December 2017 was approximately 61.0%, which showed a significant increase from that of approximately 51.4% for the corresponding period last year. The increase was mainly due to the additional income from distribution of "S Storm" (S風暴) in the PRC cinema circuits which outperformed the Group's estimation leading to the increase of gross profit margin of film and TV series production and distribution from 45.6% during the corresponding period last year to 70.9% during the period under review. The gross profit margin for the film exhibition remained stable at approximately 58.0% for both the six months ended 31 December 2016 and 2017.

Other income

Other income was approximately HK$3.4 million for the six months ended 31 December 2017, representing a decrease of approximately HK$0.3 million or 7.4% compared to the corresponding period last year. This was mainly due to the decrease of investment income from investments in film/drama production of certain PRC film and TV animation programmes distributed by independent PRC production houses of approximately HK$0.5 million during the period under review.

Selling and distribution expenses

Selling and distribution expenses increased by approximately HK$44.3 million or 92.5% from approximately HK$48.0 million for the six months ended 31 December 2016 to approximately HK$92.3 million for the six months ended 31 December 2017. This was mainly due to (i) the increase of rental related expenses of cinema operations of approximately HK$28.7 million in aggregate during the period under review attributable to the accounting treatment relating to the lease recognition and the amortisation of the rent-free period offered by the landlords of the new cinemas were not in operation as mentioned in the film exhibition section of the Business Review; and (ii) the increase of expenses in relation to cinema operations of the Group's four new cinemas including staff costs and depreciation of approximately HK$14.8 million during the period under review.

Administrative expenses

Administrative expenses increased by approximately HK$1.5 million or 7.5% from approximately HK$20.6 million for the six months ended 31 December 2016 to approximately HK$22.2 million for the six months ended 31 December 2017. This was mainly due to (i) the increase of legal and professional fees by approximately HK$1.8 million in relation to certain corporate actions and transactions during the period under review, whilst no such costs were recorded for the corresponding period last year; and (ii) a general increment to staff costs under administrative function by approximately HK$0.3 million, such increases set off the decrease of general administrative expenses by approximately HK$0.6 million during the period under review.

Net foreign exchange gain (loss)

During the six months ended 31 December 2017, the Group recorded net foreign exchange gain amounted to approximately HK$1.7 million compared to the net foreign exchange loss of approximately HK$2.6 million during the corresponding period last year was primarily due to the appreciation of Renminbi ("**RMB**") against HK$ by the prevailing rate at the end of the reporting period.

Share of results of associates

During the six months ended 31 December 2017, the Group had two associates, Jade Dynasty Holdings Limited ("**JDH**") and Supreme Art Entertainment Limited ("**Supreme Art**").

The operation of JDH and its subsidiaries (collectively, "**JDH Group**") had recorded a profit attributable to the Group of approximately HK$0.3 million. JDH Group generated revenue from the businesses of comic publication and licensing of its database of comic stories and comic heroes for films, TV series, theme park development, merchandising products and online games and mobile games. As compared to a loss from the corresponding period last year of approximately HK$1.0 million, the increase in profit attributable to the Group for the period under review was mainly due to the increase in the licensing income derived from its database of comic stories and comic heroes for film and TV series production.

The operation of Supreme Art recorded a profit attributable to the Group of approximately HK$0.03 million. Supreme Art is principally engaged in the provision of artiste management and agency services which benefited the Group's film production business. As compared to a loss from the corresponding period last year of approximately HK$0.1 million, the increase in profit attributable to the Group for the period under review was mainly due to the increase in commission income received from its artiste management and agency services.

Share of results of a joint venture

"Bounty Hunters" (賞金獵人) is a film jointly produced by the Group and production companies from Korea and the PRC and was released in July 2016. Its results has been reflected in share of results of a joint venture. This joint venture has been set up solely for the production and distribution of this film and recorded a profit attributable to the Group of approximately HK$0.3 million. As compared to a profit of approximately HK$8.1 million when the film was released during the corresponding period last year, the decrease in profit attributable to the Group for the period under review was mainly due to the decrease in distribution and licensing income derived from this film.

(Loss) profit for the period

The Group's loss and total comprehensive expense attributable to owners of the Company for the six months ended 31 December 2017 amounted to approximately HK$28.9 million (31 December 2016: profit of HK$7.1 million) and HK$30.2 million (31 December 2016: total comprehensive income of HK$8.9 million), respectively. The change during the period under review was primarily resulted from the significant increase in selling and distribution expenses and decrease in share of results of a joint venture, being set off against the increase in gross profit and a turnaround position of net foreign exchange gain from loss as aforementioned.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2017, the Group's bank balances and cash amounted to approximately HK$68.1 million (30 June 2017: HK$63.2 million), which are denominated mainly in HK$, United States Dollar ("**US$**") and RMB.

As at 31 December 2017, the Group's bank borrowings amounted to approximately HK$9.4 million (30 June 2017: Nil). Details of the bank borrowings including the terms, interest rate, currency and security of the bank loan are disclosed in note 11 to the Notes to the Interim Results. As at 31 December 2017, the Group's gearing ratio, representing the ratio of the bank borrowings to the total equity of the Group, was approximately 3.4% (30 June 2017: 0%).

The Group had un-utilised credit facilities totaling HK$10.0 million as at 31 December 2017 (30 June 2017: HK$55.0 million). The Group has maintained these general banking facilities for flexibility.

As at 31 December 2017, the Group had total non-current assets of approximately HK$248.1 million (30 June 2017: HK$184.5 million), net current assets of approximately HK$36.2 million (30 June 2017: HK$123.3 million) and net assets of approximately HK$277.4 million (30 June 2017: HK$307.7 million). The current ratio of the Group, representing the ratio of current assets over current liabilities, was approximately 1.1 as at 31 December 2017 (30 June 2017: 1.8).

During the period under review, the Group mainly funded its liquidity by the net proceeds from the Listing, bank borrowings and resources generated internally. The Group's financial resources are sufficient to support its business and operations. The Group would also consider other financing activities when appropriate business opportunities arise under favourable market conditions.

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company during the six months ended 31 December 2017.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining a high standard of corporate governance practices. During the six months ended 31 December 2017, it met all the code provisions of the Corporate Governance Code (the "**Code**") set out in Appendix 14 of the Listing Rules, save as the deviations as mentioned in the following sections headed "Chairman and Chief Executive Officer" and "General Meetings" in this announcement.

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

Chairman and Chief Executive Officer

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

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

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

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

General Meetings

Code provision A.6.7 of the Code stipulates that the Independent Non-executive Directors should attend general meetings and develop a balanced understanding of the views of Shareholders. Mr. Lam Kam Tong was unable to attend the annual general meeting of the Company held on 23 November 2017 as he had other business engagement.

AUDIT COMMITTEE

The Audit Committee has three members comprising three Independent Non-executive Directors, Mr. Chang Eric Jackson (Chairman of the Audit Committee), Mr. Wang Bo and Mr. Xiang Feng, with written terms of reference in compliance with the Rules 3.21 to 3.23 of the Listing Rules and the Code. The primary duties of the Audit Committee are mainly to communicate with the external auditor; to review the remuneration, terms of engagement, independency and objectivity of the external auditor; to review the accounting policy, financial position and financial reporting procedures of the Company; and to review and assess the financial reporting, risk management and internal control systems of the Company and making recommendations thereof. The unaudited interim results of the Group for the six months ended 31 December 2017 has been reviewed by the Audit Committee.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

The interim results announcement is published on the websites of the Company (www.pegasusmovie.com) and the Stock Exchange (www.hkex.com.hk). The Interim Report 2017/18 will be dispatched to the Shareholders in due course.

On behalf of the Board
Pegasus Entertainment Holdings Limited
Zhang Liang, Johnson
Chairman

Hong Kong, 28 February 2018

As at the date of this announcement, the Executive Directors are Mr. Zhang Liang, Johnson, Mr. Wong Pak Ming and Mr. Lee Hin Kwong Patrick and the Independent Non-executive Directors are Mr. Wang Bo, Mr. Xiang Feng and Mr. Chang Eric Jackson.