Pegasus Entertainment Holdings Limited
天馬娛樂控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8039)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 31 DECEMBER 2012

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This announcement, for which the directors (the "Directors") of Pegasus Entertainment Holdings Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to the Company.

The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

HIGHLIGHTS

- The Group (as defined below) reported a loss attributable to owners of the Company of approximately HK$5.9 million for the six months ended 31 December 2012 as opposed to the approximately HK$10.7 million profit for the corresponding period in 2011 mainly due to (i) the film released by the Group, namely "Love is... Pyjamas" (男人如衣服) is of smaller scale compared to that released in the corresponding period in 2011; and (ii) the recognition of one-off expenses relating to the Listing (as defined below)

- The Group's revenue was HK$17.3 million for the six months ended 31 December 2012

- Gross profit margin for the six months ended 31 December 2012 was approximately 57.7% which translates into gross profit of HK$10.0 million

- The Group's net assets and net current assets as at 31 December 2012 reached HK$168.8 million and HK$138.0 million respectively

- The Board (as defined below) does not recommend the payment of any dividend for the six months ended 31 December 2012

INTERIM RESULTS

For the six months ended 31 December 2012

The Board of Directors of the Company (the "Board") is pleased to announce the unaudited results of the Company and its subsidiaries (collectively referred to as the "Group") for the three months and six months ended 31 December 2012 together with the comparative unaudited figures for the corresponding period in 2011 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 31 December 2012

		Three months ended 31 December		**Six months ended 31 December**	
		2012	2011	**2012**	2011
	Notes	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Revenue	*3*	**11,301**	56,973	**17,328**	57,650
Cost of sales		**(3,974)**	(37,929)	**(7,335)**	(37,929)
Gross profit		**7,327**	19,044	**9,993**	19,721
Other income and gain	*5*	**52**	1,962	**61**	2,464
Selling and distribution expenses		**(3,917)**	(5,239)	**(4,768)**	(6,076)
Administrative expenses		**(4,200)**	(1,779)	**(7,377)**	(3,448)
Finance costs	*6*	**(7)**	(61)	**(35)**	(121)
Other expenses		**(3,655)**	–	**(3,805)**	–
(Loss)/profit before tax		**(4,400)**	13,927	**(5,931)**	12,540
Income tax expense	*7*	**–**	(1,840)	**–**	(1,840)
(Loss)/profit and total comprehensive (expense)/ income for the period attributable to owners of the Company	*8*	**(4,400)**	12,087	**(5,931)**	10,700
(Loss)/earnings per share Basic *(HK cents)*	*9*	**(1.2)**	4.1	**(1.8)**	3.6

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	Notes	**As at 31 December 2012 *HK$'000* (Unaudited)**	As at 30 June 2012 *HK$'000* (Audited)
Non-current assets			
Property, plant and equipment		**797**	909
Prepayment to an artiste		**30,000**	30,000
		30,797	30,909
Current assets			
Film rights		**9,071**	8,560
Film production in progress		**154,742**	122,186
Trade and other receivables	*10*	**12,425**	5,553
Prepayment to an artiste		**10,000**	10,000
Amounts due from related companies		**–**	342
Tax recoverable		**37**	–
Bank balances and cash		**63,555**	15,937
		249,830	162,578
Current liabilities			
Trade and other payables	*11*	**10,774**	3,240
Receipts in advance		**94,472**	85,953
Amounts due to related companies		**3,429**	1,702
Amount due to a director		**–**	50,000
Tax payable		**3,107**	9,544
Unsecured bank borrowings		**–**	1,957
		111,782	152,396
Net current assets		**138,048**	10,182
Net assets/Total assets less current liabilities		**168,845**	41,091
Capital and reserves			
Share capital	*12*	**4,000**	10
Reserves		**164,845**	41,081
		168,845	41,091

NOTES TO THE INTERIM RESULTS

1. GENERAL INFORMATION AND REORGANISATION

1.1 General information

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

The shares of the Company were listed on GEM of the Stock Exchange on 31 October 2012. The Company is an investment holding company. The Group is principally engaged in film production, distribution and licensing of film rights.

1.2 Reorganisation

Under a group reorganisation exercise (the "Reorganisation") on 5 October 2012 to rationalise the structure of the Group in preparation for the listing of the Company's shares on GEM of the Stock Exchange (the "Listing"), the Company became the holding company of the companies now comprising the Group.

Details of the Reorganisation are set out in the paragraph headed "Reorganisation" in Appendix IV to the prospectus dated 9 October 2012 issued by the Company (the "Prospectus").

The Reorganisation involved business combinations of entities under common control. Accordingly, the unaudited consolidated financial statements for the six months ended 31 December 2012 (the "Interim Financial Statements") and the related notes thereto have been prepared on a combined basis by applying the principles of merger accounting in accordance with the Accounting Guideline 5 "Merger accounting for common control combinations" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). On this basis, the Interim Financial Statements, including comparative figures, are presented as if the current group structure had been in existence throughout the six months ended 31 December 2011 and 2012, or since the respective dates of incorporation of entities under common control, where this is a shorter period.

2. BASIS OF PREPARATION

The Interim Financial Statements have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the HKICPA and with the applicable disclosure requirements of Chapter 18 to the GEM 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 combined financial statements for the year ended 30 June 2012 except in relation to the new and revised Hong Kong Financial Reporting Standards, amendments and interpretations ("new and revised HKFRSs") issued by the HKICPA that are adopted for the first time for the current period's financial statements. The adoption of these new and revised HKFRSs has had no material impact on the Interim Financial Statements.

The Group has not early adopted any new and revised HKFRSs that have been issued but are not yet effective, the Group is in the process of accessing their impact on the Group's results and financial position.

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

3. REVENUE

	Three months ended 31 December		Six months ended 31 December	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Film production, distribution and licensing income	**10,615**	56,603	**16,571**	56,603
Advertising income	**211**	235	**211**	235
Service income	**475**	135	**546**	812
	11,301	56,973	**17,328**	57,650

4. SEGMENT INFORMATION

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

The Group is principally engaged in the film production, distribution and licensing of film in Hong Kong, the People's Republic of China (the "PRC"), South East Asia Region, Europe and the United States of America (the "U.S."). Information reported to the CODM for the purpose of resources allocation and performance assessment focus on the film production, distribution and licensing of the Group as a whole as the Group's resources are integrated. Accordingly, the Group has only one single operating segment – film production, distribution and licensing and no further analysis of this single segment is presented.

Segment profit represents the gross profits of the Group without allocation of other income and gain, selling and distribution expenses, administrative expenses, finance costs and other expenses. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

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

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 is as below:

	Six months ended 31 December	
	2012	2011
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Hong Kong and Macau	**6,922**	4,020
The PRC	**7,293**	48,139
South East Asia Region	**1,397**	4,732
Others	**1,716**	759
	17,328	57,650

Information about major customers

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

	Six months ended 31 December	
	2012	2011
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Customer A	**–**	48,139
Customer B	**7,293**	–
Customer C	**2,806**	–

5. OTHER INCOME AND GAIN

	Three months ended 31 December		Six months ended 31 December	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Bank interest income	**52**	16	**61**	23
Interest income from loan receivable from a related company	**–**	12	**–**	31
Net exchange gain	**–**	1,335	**–**	1,761
Income from making-of	**–**	599	**–**	649
	52	1,962	**61**	2,464

6. FINANCE COSTS

	Three months ended 31 December		Six months ended 31 December	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	***HK$'000***
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Interest on bank borrowings wholly repayable within five years	**7**	37	**35**	77
Interest on bank overdraft	**–**	1	**–**	5
Interest on advances from a director and a related company	**–**	23	**–**	39
Effective interest expense on a loan financing	**–**	224	**–**	224
	7	285	**35**	345
Less: Interest capitalised in film production in progress	**–**	(224)	**–**	(224)
	7	61	**35**	121

Borrowing cost capitalised during the prior period arose from a loan financing that was used to finance the production of a specific film.

7. INCOME TAX EXPENSE

No provision for Hong Kong Profits Tax is required as the Group has no estimated assessable profit for the three months and six months ended 31 December 2012.

Income tax expense represented Hong Kong Profits Tax payable by the Group for the three months and six months ended 31 December 2011.

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 subsidiary is 25% from 1 January 2008 onwards. The PRC subsidiary had incurred loss for the three months and six months ended 31 December 2011 and 2012 and no provision for PRC Enterprise Income Tax was made during these periods.

8. (LOSS)/PROFIT FOR THE PERIOD

	Three months ended 31 December		**Six months ended 31 December**	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
(Loss)/profit for the period has been arrived at after charging:				
Directors' remuneration	**818**	2,158	**1,576**	2,240
Other staff costs	**1,035**	738	**2,034**	1,239
Retirement benefit scheme contributions, excluding those of directors	**79**	38	**147**	59
Total staff costs	**1,932**	2,934	**3,757**	3,538
Depreciation of property, plant and equipment	**85**	80	**170**	156
Net exchange loss	**61**	–	**168**	–
Cost of film rights recognised as expenses	**3,974**	37,929	**7,335**	37,929
Minimum lease payments under operating leases	**309**	327	**618**	678
Listing expenses (included in other expenses)	**3,655**	–	**3,805**	–

9. (LOSS)/EARNINGS PER SHARE

The calculation of the basic (loss)/earnings per share attributable to owners of the Company for the three months and six months ended 31 December 2011 and 2012 is based on the following data:

	Three months ended 31 December		Six months ended 31 December	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
(Loss)/earnings				
(Loss)/profit for the period attributable to owners of the Company for the purposes of basic (loss)/earnings per share	**(4,400)**	12,087	**(5,931)**	10,700
Number of shares				
weighted average number of ordinary shares for the purpose of basic (loss)/earnings per share	**366,053,748**	297,029,703	**331,353,135**	297,029,703

The number of ordinary shares for the purpose of calculating basic loss per share for the three months and six months ended 31 December 2012 and basic earnings per share for the three months and six months ended 31 December 2011 has been adjusted for the effect of the Reorganisation and the capitalisation issue in preparation for the Listing.

In addition to the above, the number of ordinary shares for the purpose of calculating basic loss per share for the three months and six months ended 31 December 2012 has also been adjusted for the effect of the loan capitalisation issue of which the Directors were authorised to capitalise a loan due from the Company to Mr. Wong Pak Ming ("Mr. Wong"), a director of the Company, in an aggregate sum of HK$50,000,000 by the allotment and issue of 100 ordinary shares of the Company to Honour Grace (at the direction of Mr. Wong) at an aggregate subscription price of HK$50,000,000 and the issuance of 100,000,000 ordinary shares pursuant to the placing of the Company's share upon the Listing.

No diluted (loss)/earnings per share is presented for the three months and six months ended 31 December 2011 and 2012 as there were no potential ordinary shares outstanding.

10. TRADE AND OTHER RECEIVABLES

The aged analysis of the Group's trade receivables, based on the invoice date at the respective reporting dates is as follows:

	31 December 2012	30 June 2012
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade receivables:		
0 – 90 days	**2,034**	5,380
> 90 days	**4,125**	–
	6,159	5,380
Other receivables, deposits and prepayments	**6,266**	173
	12,425	5,553

Generally 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. These trade receivables relate to a number of independent customers that have a good repayment history.

11. TRADE AND OTHER PAYABLES

The aged analysis of the Group's trade payables, based on the invoice date at the respective reporting dates is as follows:

	31 December 2012	30 June 2012
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade payables:		
0 – 90 days	**560**	300
> 90 days	**1,000**	–
	1,560	300
Other payables and accruals	**9,214**	2,940
	10,774	3,240

12. SHARE CAPITAL

	Number of shares	**Amount**
		HK$'000
		(Unaudited)
Ordinary shares of HK$0.01 each		
Authorised:		
On 8 March 2012 (date of incorporation) *(note (i))*	38,000,000	380
At 30 June 2012 and 1 July 2012	38,000,000	380
Increase in authorised share capital *(note (ii))*	7,962,000,000	79,620
At 31 December 2012	8,000,000,000	80,000
Issued and fully paid:		
Issue of share on 8 March 2012 (date of incorporation) *(note (i))*	1	–
At 30 June 2012 and 1 July 2012	1	–
Issue of shares upon the Reorganisation *(note (iii))*	9,999	–
Issue of shares upon the loan capitalisation issue *(note (iv))*	100	–
Issue of shares upon the capitalisation issue *(note (v))*	299,989,900	3,000
Issue of shares upon the Listing *(note (vi))*	100,000,000	1,000
At 31 December 2012	400,000,000	4,000

Notes:

(i) The Company was incorporated on 8 March 2012 with an authorised share capital of HK$380,000 divided into 38,000,000 shares with a par value of HK$0.01 each and one nil-paid subscriber share at par value of HK$0.01 was issued to Codan Trust Company (Cayman) Limited on the same day. The share was transferred to Mr. Wong on the same day. On 15 March 2012, the one nil-paid subscriber share was transferred from Mr. Wong to Honour Grace.

(ii) Pursuant to the written resolutions of the then sole shareholder of the Company passed on 5 October 2012, the authorised share capital of the Company was increased from HK$380,000 to HK$80,000,000 by the creation of a further 7,962,000,000 shares.

(iii) On 5 October 2012, the Company acquired the entire issued share capital of Green Riches Holdings Limited ("Green Riches") from Honour Grace in consideration of which the Company allotted and issued 9,999 fully paid up shares to Honour Grace and credited as fully paid at par the one nil-paid subscriber share then held by Honour Grace. After the share transfer, Green Riches became a wholly-owned subsidiary of the Company.

(iv) On 31 October 2012, the Directors were authorised to capitalise a loan due from the Company to Mr. Wong, in an aggregate sum of HK$50,000,000 by the allotment and issue of 100 shares to Honour Grace (at the direction of Mr. Wong) at an aggregate subscription price of HK$50,000,000.

(v) On 31 October 2012, the Company capitalised an amount of HK$2,999,899 standing to the credit of its share premium account to allot and issue 299,989,900 shares credited as fully paid to Honour Grace.

(vi) On 31 October 2012, the Company issued 100,000,000 shares pursuant to the Listing by way of placing at a price of HK$0.90 per share.

13. RELATED PARTY TRANSACTIONS

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

Name of related parties	*Notes*	Nature of transaction	**Three months ended 31 December**		**Six months ended 31 December**	
			2012	2011	**2012**	2011
			HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
			(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
PM Motion Pictures Limited	*(a)*	Service income	**474**	135	**546**	812
Pegasus Laboratory (International) Limited ("Pegasus Laboratory")	*(b)*	Loan receivable interest income	**–**	12	**–**	31
		Film processing services fee	**679**	969	**685**	969
Pure Project Limited	*(c)*	Rental expense	**90**	90	**180**	180
Prime Moon International Limited	*(d)*	Co-ordinator and producer fee	**–**	225	**–**	225
Chili Advertising & Promotions Limited ("Chili")	*(e)*	Advertising and promotion services fee	**174**	298	**224**	325
天馬影聯影視文化(北京)有限公司 ("Pegasus Ying Lian")	*(f)*	Management fee	**56**	210	**111**	441
杭州天馬影視文化有限公司 ("Hangzhou Pegasus")	*(g)*	Management fee	**37**	–	**74**	–
Ms. Wong Yee Kwan Alvina ("Ms. Alvina Wong")	*(h)*	Loan interest expense	**–**	17	**–**	28
Starbright Communications Limited ("Starbright")	*(i)*	Loan interest expense	**–**	6	**–**	11
EC Production House	*(j)*	Script writing fee	**–**	619	**–**	619
Richel Corporation Limited	*(k)*	Actor and executive producer fee	**–**	1,400	**–**	1,400

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. Alvina Wong (collectively referred to as the "Controlling Shareholders"), all being the directors of the Company, have controlling interest over this company.

(b) The film processing services fee was paid to Pegasus Laboratory in which the Controlling Shareholders have controlling interest.

The loan interest income was received from Pegasus Laboratory for the loan receivable from Pegasus Laboratory. The loan was settled by Pegasus Laboratory during the six months ended 31 December 2011.

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

(d) The co-ordinator and producer fee was paid to Prime Moon International Limited, a company in which Ms. Wong Kit Chun, Jenny, sister of Mr. Wong has controlling interest.

(e) The advertising and promotion services fee was paid to Chili in which Mr. Lam Sze Ho, Owen, spouse of Ms. Alvina Wong, has controlling interest.

(f) The management fee was paid to Pegasus Ying Lian in which a member of key management of the Group has controlling interest.

(g) The management fee was paid to Hangzhou Pegasus in which a member of key management of the Group has controlling interest.

(h) The loan interest expense was paid to Ms. Alvina Wong for a loan principal of HK$2,500,000, carrying an interest at 2.5% per annum, advanced to the Group in July 2011 and the loan had been fully settled during the six months ended 31 December 2011.

(i) The loan interest expense was paid to Starbright in which Ms. Alvina Wong was the then beneficial owner of Starbright for a loan principal of HK$1,000,000, carrying an interest at 2.5% per annum, advanced to the Group in July 2011 and the loan had been fully settled during the six months ended 31 December 2011.

(j) The script writing fee was paid to EC Production House in which Mr. Wong Chi Woon Edmond has controlling interest.

(k) The actor and executive producer fee was paid to Richel Corporation Limited in which Mr. Wong has controlling interest.

14. SIGNIFICANT EVENT AFTER THE REPORTING PERIOD

On 28 January 2013, an indirect wholly-owned subsidiary of the Company entered into a provisional agreement with a film production company in relation to an investment of United States dollars ("US$") 2,500,000 (equivalent to approximately HK$19,400,000) in a motion picture to be produced for worldwide theatrical distribution. Further details of the investment were disclosed in the announcement of the Company dated 28 January 2013.

DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 31 December 2012 (2011: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

We are principally engaged in the production and distribution of films in Hong Kong, the PRC and South East Asia through our established distribution channels. We have been producing films in Chinese language with the PRC as our major market.

During the period under review, the principal business activities of the Group comprised (a) production of films; (b) distribution and licensing of our films to regions including Taiwan, Japan, the U.S. and Europe in addition to our major markets of Hong Kong, the PRC and South East Asia; (c) offering product placement and sponsorship opportunities in our films to derive advertising income; and (d) distribution of films and television ("TV") series in the film library owned by our controlling shareholders (the "Personal Library"). The Group's business model and the principal business activities remain the same that as disclosed in the Prospectus.

During the period under review, we generated revenue by licensing films we produced to co-producers in the PRC and film distributors and licencees in Hong Kong and overseas. We also derived advertising income by offering production placement and sponsorship opportunities in our films. In addition, we recognised income from commission received for distributing films and TV series in the Personal Library.

The Group has released one film, namely "Love is... Pyjamas" (男人如衣服), during the six months ended 31 December 2012 and one film, namely "Magic To Win" (開心魔法), during the corresponding period in 2011. As disclosed in the Prospectus, due to the limited number of films distributed by the Group, the scale, schedule of release and the result of one film could have significant impact on the Group's results. Given the distinctive business model of the Group, the Group's quarterly and 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.

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

Financial review

Revenue

Revenue and gross profit of the Group were approximately HK$17.3 million and HK$10.0 million respectively for the six months ended 31 December 2012, representing decreases of approximately HK$40.4 million or 69.9% and HK$9.7 million or 49.3% respectively compared to the same period of the previous financial year. This was mainly due to (i) the film, namely "Love is... Pyjamas" (男人如衣服), released during the period under review, is of comparatively smaller scale to that released in the corresponding period in 2011; and (ii) as "Love is... Pyjamas" (男人如衣服) is jointly controlled by the Group and the PRC co-producer, the Group recognises revenue based on the income and expenses derived in respect of the Group's share of the distribution rights. Gross profit margin for the six months ended 31 December 2012 was approximately 57.7%, which was an improvement from approximately 34.2% for the corresponding period in 2011. This was mainly due to the significant decrease in cost of sales contributed by the Group's implementation of stricter control over the film production budget and progress.

Other income and gain

Other income and gain was approximately HK$61,000 for the six months ended 31 December 2012, representing a decrease of approximately HK$2.4 million or 97.5% compared to the same period of the previous financial year, mainly due to the net exchange gain of approximately HK$1.8 million recorded in the previous period from the appreciation of Renminbi ("RMB") against HK$ when we settled the film production expenses incurred during the shooting of "Saving General Yang" (忠烈楊家將) in the PRC at the prevailing transaction rate, whilst no such gain was recognised for the six months ended 31 December 2012. In addition, no income from making-of was recorded during the period under review as the Group continued to focus on its core business of film production.

During the same period in the previous financial year, the Group granted a loan to a related party, Pegasus Laboratory and received interest income. The loan has been settled during the six months ended 31 December 2011 and no such loan was granted during the six months ended 31 December 2012.

Selling and distribution expenses

Selling and distribution expenses decreased by approximately HK$1.3 million or 21.5% from approximately HK$6.1 million for the six months ended 31 December 2011 to approximately HK$4.8 million for the six months ended 31 December 2012. This was mainly due to (i) the decrease of costs related to advertising and promotion events as the film released during the period under review is of smaller scale than the film released during in the corresponding period in 2011; and (ii) decrease of processing costs related to the digitalisation of film exhibition in Hong Kong.

Administrative expenses

Administrative expenses increased by approximately HK$4.0 million or 114.0% from approximately HK$3.4 million for the six months ended 31 December 2011 to approximately HK$7.4 million for the six months ended 31 December 2012. This was mainly due to the increase of the total staff costs by approximately HK$2.2 million as a result of (a) a change of arrangement to the directors' remuneration structure in respect of the Listing, as disclosed in the Prospectus; and (b) the average number of employees increasing from 14 for the six months ended 31 December 2011 to 27 for the six months ended 31 December 2012 as well as the increase of expenses by approximately HK$1.8 million in relation to corporate promotion and marketing expenses, other professional fees paid to compliance adviser, lawyers and other professional parties for providing professional services since the Listing.

Other expenses

During the six months ended 31 December 2012, other expenses represented the professional fees and expenses directly relating to the Listing.

Loss for the period

The Group's loss and total comprehensive expense attributable to owners of the Company for the six months ended 31 December 2012 amounted to approximately HK$5.9 million (2011: profit and total comprehensive income attributable to owners of the Company amounted to approximately HK$10.7 million). The loss for the period under review compared to profit in the corresponding period in 2011 was primarily as a result of the decrease in gross profit, other income and gain and increase in administrative and other expenses of which set off against the decrease of selling and distribution expenses and income tax expense as aforesaid.

Outlook

During the first half of the year 2012/13, the Group has continued to carry out its business plan disclosed in the Prospectus. The PRC continues to be our major market and co-production arrangement remains an expedient way for us to gain access to the PRC film market. During the year of 2012, the PRC total box office receipts recorded a notable increase from RMB13.1 billion in the year of 2011 to RMB17.1 billion in the year of 2012 which represented an annual growth of 30.5% during the year of 2012. Due to the continued growth of the PRC film industry as well as the encouragement of the PRC Government to the film industry from its issuance of guidelines on promoting the development of the film industry and implementation of the Mainland and Hong Kong Closer Economic Partnership Arrangement, we believe that the outlook for the PRC film industry is positive and encouraging to industry participants.

Having established a presence in the PRC film market, we have been well positioned to capture these prospects and the rapid development of the PRC film market and will further develop the source of income by expanding our production capacities and the range of films in various genres to be produced.

"Hotel Deluxe" (百星酒店) is now showing in the PRC and Hong Kong cinemas, which is the latest instalment of our well-known comedy series for Chinese New Year. Our first large-scale film "Saving General Yang" (忠烈楊家將), which is directed by Ronny Yu, a renowned Hollywood film director, with total investment over RMB100 million, is scheduled to be released simultaneously in the PRC and Hong Kong on 4 April 2013. Our 3-D thriller film, "Baby Blues" (詭眼), is currently in post production and is expected to be released within the financial year 2012/13. We believe that these films will contribute significantly to the Group's results for the second half of the year 2012/13. In addition, we are currently in the process of identifying PRC co-producers and recruitment of production crew for a film in the romance genre. It is expected to be produced in the second half of the year 2012/13 and released in the first half of the year 2013/14 respectively.

Beginning in 2013, the Group has taken an important step to expand our film related business activities. As disclosed in our announcement on 28 January 2013, the Group has entered into a provisional agreement with a film production company in relation to an investment in an international film to be produced for worldwide theatrical distribution. This investment is an excellent opportunity for the Group to participate in a Hollywood blockbuster production as well as to provide a platform for the Group's brand name to reach out to the international film market which will broaden the Group's scope to beyond the Chinese film market.

Owing to our established brand name in the PRC film market together with our insight in the comedy genre, the Group has successfully acquired the theatrical distribution right and arranged the showing, in Hong Kong and Macau for "Lost in Thailand" (人再囧途之泰囧), a wonderful comedy, who has grossed box office receipts over RMB1.2 billion in the PRC, setting the highest record of the PRC box office receipts by a Chinese language film.

Going forward, the Group will continue to focus on its core business and use all of our resources available to produce the best films in order to capture the demand for quality film of the PRC film market. Apart from this, the Group will also continue to explore business opportunities associated with its core business so to strengthen its revenue base and maximise the return to the shareholders and the value of the Company.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

At 31 December 2012, the Group's bank balances and cash amounted to approximately HK$63.6 million (30 June 2012: HK$15.9 million), which are denominated mainly in HK$, US$ and RMB.

At 31 December 2012, the Group did not have any interest-bearing loans and shareholders' loans (30 June 2012: interest-bearing loans and shareholders' loans of approximately HK$2.0 million and HK$50.0 million respectively). The gearing ratio, representing the ratio of the total interest-bearing loans and shareholders' loans over the total equity, was approximately 1.3 as at 30 June 2012.

The Group had unutilised credit facilities totaling HK$14.0 million and HK$12.0 million at 30 June 2012 and 31 December 2012 respectively. During the period under review and up to the date of this announcement, the credit facilities were not utilised by the Group. The Group has been in progress to release the credit facilities amounted to HK$12.0 million at 31 December 2012 secured by personal guarantees executed by certain Directors and a charge over leasehold land and buildings of a related company as disclosed in the Prospectus. The Group has maintained a new general banking facility amounted to HK$30.0 million for flexibility.

At 31 December 2012, the Group had total non-current assets of approximately HK$30.8 million (30 June 2012: HK$30.9 million), net current assets of approximately HK$138.0 million (30 June 2012: HK$10.2 million) and net assets of HK$168.8 million (30 June 2012: HK$41.1 million). The current ratio of the Group, representing the ratio of current assets over current liabilities, was approximately 2.2 as at 31 December 2012 (30 June 2012: 1.1).

During the period under review, the Group funds its liquidity by the net proceeds from the Listing 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 favorable market conditions.

EMPLOYEE INFORMATION

At 31 December 2012, the Group had 27 employees (30 June 2012: 24). Staff costs, including directors' remuneration, amounted to approximately HK$3.8 million for the six months ended 31 December 2012 (2011: HK$3.5 million, including script writing fee and actor and executive producer fee paid to certain Directors).

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

CHARGE ON ASSETS

At 30 June 2012 and 31 December 2012, the Group did not pledge any assets of the Group.

Subsequent to 31 December 2012 and up to the date of this announcement, the Group's bank deposits of HK$30.0 million were pledged to secure a general banking facility of HK$30.0 million available to the Group.

FOREIGN EXCHANGE EXPOSURE

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

The Group did not engage in any derivatives activities and did not commit to any financial instruments to hedge its statement of financial position exposure during the six months ended 31 December 2012.

CONTINGENT LIABILITIES

At 30 June 2012 and 31 December 2012, the Group did not have any significant contingent liabilities.

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company during the six months ended 31 December 2012.

CODE ON CORPORATE GOVERNANCE PRACTICES

Since the Company's shares were traded on the GEM on 31 October 2012 and up to 31 December 2012, the Company has complied with the code provisions in the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules.

INTERESTS OF THE COMPLIANCE ADVISER

As notified by the Company's compliance adviser, Altus Capital Limited (the "Compliance Adviser"), except for the compliance adviser agreement entered into between the Company and the Compliance Adviser dated 5 October 2012 effective on the date of the Listing, neither the Compliance Adviser nor its directors, employees or associates had any interests in relation to the Company as at 31 December 2012 which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules.

AUDIT COMMITTEE

The Audit Committee has three members comprising three independent non-executive directors, Mr. Lam Kam Tong (Chairman of the Audit Committee), Mr. Lo Eric Tien-cheuk and Mr. Tang Kai Kui Terence, with written terms of reference in compliance with the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control systems of the Group. The interim financial results of the Group for the six months ended 31 December 2012 has been reviewed by the Audit Committee.

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

Hong Kong, 14 February 2013

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

This announcement will remain on the "Latest Company Announcement" page of the GEM website (www.hkgem.com) for at least seven days from the date of its posting and on the Company's website at (www.pegasusmovie.com).