



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 2013

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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 profit attributable to owners of the Company of approximately HK\$4.8 million and HK\$4.5 million for the three months and six months ended 31 December 2013 respectively.
- The Group's revenue was HK\$33.0 million for the six months ended 31 December 2013, an increase of HK\$15.6 million or 90.2% when compared to the same period of the previous financial year.
- Gross profit margin for the six months ended 31 December 2013 was approximately 37.0% which translates into gross profit of HK\$12.2 million.
- The Group's net assets and net current assets as at 31 December 2013 reached HK\$269.4 million and HK\$186.2 million respectively.
- The Board (as defined below) does not recommend the payment of any dividend for the six months ended 31 December 2013.

INTERIM RESULTS

For the six months ended 31 December 2013

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 2013 together with the comparative unaudited figures for the corresponding period in 2012 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 31 December 2013

		Three months ended 31 December		Six months ended 31 December	
		2013	2012	2013	2012
	Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue	3	21,966	11,301	32,961	17,328
Cost of sales		<u>(13,352)</u>	<u>(3,974)</u>	<u>(20,766)</u>	<u>(7,335)</u>
Gross profit		8,614	7,327	12,195	9,993
Other income and gain		171	52	653	61
Selling and distribution expenses		(1,703)	(3,917)	(1,816)	(4,768)
Administrative expenses		(5,595)	(4,200)	(9,803)	(7,377)
Finance costs	5	(33)	(7)	(34)	(35)
Other expenses		–	(3,655)	–	(3,805)
Share of results of an associate		<u>3,555</u>	<u>–</u>	<u>3,555</u>	<u>–</u>
Profit/(loss) before tax		5,009	(4,400)	4,750	(5,931)
Income tax expense	6	<u>(239)</u>	<u>–</u>	<u>(239)</u>	<u>–</u>
Profit/(loss) for the period attributable to owners of the Company	7	4,770	(4,400)	4,511	(5,931)
Other comprehensive expenses					
Share of exchange difference of an associate		<u>(14)</u>	<u>–</u>	<u>(14)</u>	<u>–</u>
Other comprehensive expenses for the period		<u>(14)</u>	<u>–</u>	<u>(14)</u>	<u>–</u>
Total comprehensive income/(expenses) for the period attributable to owners of the Company		<u>4,756</u>	<u>(4,400)</u>	<u>4,497</u>	<u>(5,931)</u>
Earnings/(loss) per share	8				
Basic (HK cents)		<u>1.0</u>	<u>(1.2)</u>	<u>1.0</u>	<u>(1.8)</u>
Diluted (HK cents)		<u>1.0</u>	<u>N/A</u>	<u>1.0</u>	<u>N/A</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

		31 December 2013	30 June 2013
	<i>Notes</i>	HK\$'000	HK\$'000
		(Unaudited)	(Audited)
Non-current assets			
Property, plant and equipment		1,566	1,839
Interest in an associate	9	57,541	–
Prepayment to an artiste		24,000	30,000
Deferred tax asset		99	99
		<u>83,206</u>	<u>31,938</u>
Current assets			
Film rights		28,382	33,241
Film/drama production in progress		57,050	26,668
Investments in film/drama production		35,971	35,577
Trade and other receivables	10	46,272	24,274
Prepayment to an artiste		11,000	10,000
Tax recoverable		–	35
Pledged bank deposit	11	30,122	30,055
Bank balances and cash		20,110	29,973
		<u>228,907</u>	<u>189,823</u>
Current liabilities			
Other payables		6,987	7,850
Receipts in advance		22,281	9,251
Amounts due to related companies		857	3,335
Tax payable		291	7,405
Bank overdrafts		12,287	–
		<u>42,703</u>	<u>27,841</u>
Net current assets		<u>186,204</u>	<u>161,982</u>
Net assets/Total assets less current liabilities		<u>269,410</u>	<u>193,920</u>
Capital and reserves			
Share capital	12	4,800	4,000
Reserves		264,610	189,920
		<u>269,410</u>	<u>193,920</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2013

	Attributable to owners of the Company						Total HK\$'000 (Unaudited)
	Share capital HK\$'000 (Unaudited)	Share premium HK\$'000 (Unaudited)	Warrants reserve HK\$'000 (Unaudited)	Exchange reserve HK\$'000 (Unaudited)	Other reserve* HK\$'000 (Unaudited)	Retained profits HK\$'000 (Unaudited)	
At 1 July 2012 (Audited)	10	-	-	-	-	41,081	41,091
Loss and total comprehensive expenses for the period	-	-	-	-	-	(5,931)	(5,931)
Arising on Reorganisation (as defined below)	(10)	-	-	-	10	-	-
Issue of shares upon the loan capitalisation issue	-	50,000	-	-	-	-	50,000
Issue of shares upon capitalisation issue	3,000	(3,000)	-	-	-	-	-
Issue of new shares	1,000	89,000	-	-	-	-	90,000
Cost of issuing new shares	-	(6,315)	-	-	-	-	(6,315)
At 31 December 2012	<u>4,000</u>	<u>129,685</u>	<u>-</u>	<u>-</u>	<u>10</u>	<u>35,150</u>	<u>168,845</u>
At 1 July 2013 (Audited)	4,000	129,685	-	-	10	60,225	193,920
Profit for the period	-	-	-	-	-	4,511	4,511
Other comprehensive expenses for the period: Share of exchange difference of an associate	-	-	-	(14)	-	-	(14)
Total comprehensive income for the period	-	-	-	(14)	-	4,511	4,497
Issue of new shares	800	71,200	-	-	-	-	72,000
Cost of issuing new shares	-	(1,717)	-	-	-	-	(1,717)
Issue of warrants	-	-	960	-	-	-	960
Cost of issuing warrants	-	-	(250)	-	-	-	(250)
At 31 December 2013	<u>4,800</u>	<u>199,168</u>	<u>710</u>	<u>(14)</u>	<u>10</u>	<u>64,736</u>	<u>269,410</u>

* 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 exercise on 5 October 2012 ("Reorganisation") to rationalise the structure of the Group in preparation for the listing of the Company's shares on the GEM of the Stock Exchange (the "Listing").

NOTES TO THE INTERIM RESULTS

1. GENERAL INFORMATION

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

2. BASIS OF PREPARATION

The unaudited consolidated financial statements for the six months ended 31 December 2013 (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 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 consolidated financial statements for the year ended 30 June 2013 except for the adoption of the following new significant policy used in the preparation of the Interim Financial Statements.

Interest in an associate

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not contract or joint control over those policies.

The results and assets and liabilities of associates are incorporated in the Interim Financial Statements using the equity method of accounting. Under the equity method, investments in associates are 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. When the Group's share of losses of an associate exceeds the Group's in that associate (which includes any long-term interest that, in substance, form part of the Group's net investment in the associate), 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 that associate.

On acquisition of the investment in an associate, any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate 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, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

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 to sell) 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 "Impairment of Assets" to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Interim Financial Statements only to the extent of interest in associate that are not related to the Group.

In the current interim period, the Group has applied the following 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 interim period’s financial statements which are or have become effective.

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009 – 2011 Cycle
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities Transition Guidance
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Order Entities
HKFRS 13	Fair Value Measurement
HKAS 19 (as revised in 2011)	Employee Benefit
HKAS 27 (as revised in 2011)	Separate Financial Statement
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Venture
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine

The application of these new and revised HKFRSs in the current interim period has had no material impact on the amounts and on disclosures reported in 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		Six months ended	
	31 December		31 December	
	2013	2012	2013	2012
	HK\$’000	HK\$’000	HK\$’000	HK\$’000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Film production, distribution and licensing income	21,519	10,615	31,782	16,571
Advertising income	–	211	–	211
Service income	447	475	1,179	546
	<u>21,966</u>	<u>11,301</u>	<u>32,961</u>	<u>17,328</u>

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 Directors, 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 production, distribution and licensing of films and television series in Hong Kong, the People’s Republic of China (the “PRC”), South East Asia Region, Europe and the United States of America (the “USA”). Information reported to the CODM for the purpose of resources allocation and performance assessment focus on the Group’s films and television series production, distribution and licensing as a whole as the Group’s resources are integrated. Accordingly, the Group has only one single operating segment – films and television series production, distribution and licensing and no further analysis of this single segment is presented.

Segment profit represents the gross profit 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 are as below:

	Six month ended 31 December	
	2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)
Hong Kong and Macau	1,655	6,922
The PRC	18,014	7,293
South East Asia Region	3,755	1,397
Others	9,537	1,716
	<u>32,961</u>	<u>17,328</u>

Information about major customers

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

	Six month ended 31 December	
	2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)
Customer A	12,688	–
Customer B	6,000	–
Customer C	5,292	–
Customer D	–	7,293
Customer E	–	2,806
	<u>23,980</u>	<u>10,105</u>

5. FINANCE COSTS

	Three months ended 31 December		Six months ended 31 December	
	2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)
Interest on bank borrowings wholly repayable within five years	–	7	–	35
Interest on bank overdrafts	33	–	34	–
	<u>33</u>	<u>7</u>	<u>34</u>	<u>35</u>

6. INCOME TAX EXPENSE

Income tax expense represented Hong Kong Profits Tax payable by the Group for the three months and six months ended 31 December 2013. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both periods.

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

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 2012 and 2013 and no provision for Enterprise Income Tax were made for these periods.

7. PROFIT/(LOSS) FOR THE PERIOD

	Three months ended		Six months ended	
	31 December		31 December	
	2013	2012	2013	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Profit/(loss) for the period has been arrived at after charging:				
Directors' emoluments	847	818	1,695	1,576
Other staff costs	1,560	1,035	3,059	2,034
Retirement benefit scheme contributions, excluding those of directors	104	79	228	147
Total staff costs	2,511	1,932	4,982	3,757
Depreciation of property, plant and equipment	155	85	309	170
Net exchange loss	162	61	–	168
Cost of film rights recognised as expenses	13,352	3,974	20,766	7,335
Minimum lease payments under operating leases	379	309	728	618
Listing expenses (included in other expenses)	–	3,655	–	3,805
and crediting:				
Bank interest income	54	52	92	61
Net exchange gain	–	–	252	–

8. EARNINGS/(LOSS) PER SHARE

The calculation of the basic and diluted earnings/(loss) per share attributable to owners of the Company for the three months and six months ended 31 December 2012 and 2013 is based on the following data:

	Three months ended 31 December		Six months ended 31 December	
	2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)
Earnings/(loss)				
Profit/(loss) for the period attributable to owners of the Company for the purposes of basic and diluted earnings/(loss) per share	<u>4,770</u>	<u>(4,400)</u>	<u>4,511</u>	<u>(5,931)</u>
Number of shares				
Weighted average number of ordinary shares for the purpose of basic earnings/(loss) per share	<u>476,847,826</u>	<u>366,053,748</u>	<u>459,728,261</u>	<u>331,353,135</u>
Effect of dilutive ordinary shares arising from issue of warrants	<u>2,730,597</u>		<u>1,365,299</u>	
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>479,578,423</u>		<u>461,093,560</u>	

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 had been adjusted for the effect of the Reorganisation and capitalisation issues in preparation for the Listing.

No diluted loss per share was presented for the three months and six months ended 31 December 2012 as there were no potential dilutive ordinary shares outstanding.

9. INTEREST IN AN ASSOCIATE

	31 December 2013 HK\$'000 (Unaudited)	30 June 2013 HK\$'000 (Audited)
Cost of investment in an associate, unlisted	<u>54,000</u>	–
Share of post-acquisition profit and other comprehensive expenses	<u>3,541</u>	–
	<u>57,541</u>	–

During the six months ended 31 December 2013, the Group had completed the acquisition of 40% of the entire issued share capital of Jade Dynasty Holdings Limited (“JDH”) at a consideration of HK\$54,000,000 on 22 November 2013. The Group held 40% of the entire issued share capital of JDH and voting power on the board of directors of JDH. Upon completion, JDH has become a 40%-owned associate company of the Group. Further details of the acquisition have been set out in the Company’s announcements dated 13 August 2013, 27 September 2013 and 15 November 2013.

JDH is an investment holding company incorporated in the British Virgin Islands with limited liability and the JDH Group, comprised by JDH and its subsidiaries, is principally engaged in comic publication and owns the intellectual property rights of a database of comic stories and comic heroes.

10. TRADE AND OTHER RECEIVABLES

The aged analysis of the Group's trade receivables, net of allowance for doubtful debts based on the invoice date at the respective reporting dates are as follows:

	31 December 2013 HK\$'000 (Unaudited)	30 June 2013 HK\$'000 (Audited)
Trade receivables:		
0 – 30 days	303	10,794
31 – 60 days	–	402
61 – 90 days	–	2,438
91 – 180 days	4,450	420
181 – 365 days	3,214	3,496
Over 365 days	1,954	–
	9,921	17,550
Other receivables, deposits and prepayments (note a)	36,351	6,724
	46,272	24,274

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.

Note:

- (a) Included in other receivables, deposits and prepayments were (i) prepayment of HK\$11,142,000 (30 June 2013: HK\$6,210,000) which the Group paid to independent third parties in the PRC for the purpose of films and television series production; and (ii) deposits and prepayments of HK\$24,129,000 (30 June 2013: Nil) which the Group paid as deposits and advance payment of rent and certain expenses in relation to the lease arrangement of the proposed cinema operation.

11. PLEDGED BANK DEPOSIT

As at 31 December 2013, the amount represented a bank deposit of HK\$30,122,000 pledged to a bank to secure short-term banking facilities granted to the Group and carried interest at a fixed rate of 0.50% per annum. The pledged bank deposit will be matured on 24 March 2014.

12. SHARE CAPITAL

	Notes	31 December 2013		30 June 2013	
		Number of shares	HK\$'000 (Unaudited)	Number of shares	HK\$'000 (Audited)
Ordinary share of HK\$0.01 each					
Authorised:					
At the beginning of the period		8,000,000,000	80,000	38,000,000	380
Increase in authorised share capital	(a)	—	—	7,962,000,000	79,620
At the end of the period		8,000,000,000	80,000	8,000,000,000	80,000
Issued and fully paid:					
At the beginning of the period		400,000,000	4,000	1	—
Issue of shares pursuant to Reorganisation	(b)	—	—	9,999	—
Issue of shares upon the loan capitalisation	(c)	—	—	100	—
Issue of shares upon capitalisation issue	(d)	—	—	299,989,900	3,000
Issue of new shares	(e)	80,000,000	800	100,000,000	1,000
At the end of the period		480,000,000	4,800	400,000,000	4,000

Notes:

- (a) 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 ordinary shares with a nominal value of HK\$0.01 each.
- (b) 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.
- (c) On 5 October 2012, the Directors were authorised to capitalise a loan due from the Company to Mr. Wong Pak Ming (“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.
- (d) 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.
- (e) 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.

On 6 August 2013 and 30 October 2013, the Company issued 70,000,000 shares and 10,000,000 shares respectively 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		Six months ended	
			31 December 2013	2012	31 December 2013	2012
			HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
PM Motion Pictures Limited	(a)	Service income	447	474	1,179	546
Pegasus Laboratory (International) Limited (“Pegasus Laboratory”)	(b)	Film processing service fee	–	679	18	685
Pure Project Limited	(c)	Rental expense	120	90	210	180
Chili Advertising & Promotions Limited (“Chili”)	(d)	Advertising and promotion services fee	127	174	127	224
天馬影聯影視文化(北京)有限公司 (“Pegasus Ying Lian”)	(e)	Management fee	57	56	113	111
杭州天馬影視文化有限公司 (“Hangzhou Pegasus”)	(f)	Management fee	38	37	76	74

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 (“Ms. Alvina Wong”) (collectively referred to as the “Controlling Shareholders”), all being the Directors, have controlling interest over this company.
- (b) The film processing service fee was paid to Pegasus Laboratory in which the Controlling Shareholders have controlling interest.
- (c) The rental expense was paid to Pure Project Limited for the office premise leased by the Group. Mr. Wong has controlling interest over this company.
- (d) 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 in Chili for the period from 1 July 2012 to 15 April 2013. From 16 April 2013 onwards, Chili is owned by Ms. Wong Kit Fong, sister of Mr. Wong.
- (e) The management fee was paid to Pegasus Ying Lian in which a member of key management of the Group has controlling interest.
- (f) The management fee was paid to Hangzhou Pegasus in which a member of key management of the Group has controlling interest.

DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 31 December 2013 (2012: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

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

During the period under review, the principal business activities of the Group comprised of (a) production of films; (b) distribution and licensing of our films to regions including Taiwan, Japan, the USA 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 series in the film library owned by the Controlling Shareholders (the “Personal Library”). The Group’s business model and the principal business activities remain the same that as disclosed in the prospectus of the Company dated 9 October 2012 (the “Prospectus”) during the period under review.

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. In addition, we recognised income from commission received for distributing films and television series in the Personal Library.

The Group has released one film, namely “Baby Blues” (詭嬰), during the six months ended 31 December 2013 and one film, namely “Love is... Pyjamas” (男人如衣服), during the corresponding period in 2012. 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\$33.0 million and HK\$12.2 million respectively for the six months ended 31 December 2013, representing increases of approximately HK\$15.6 million or 90.2% and HK\$2.2 million or 22.0% respectively compared to the same period of the previous financial year. This was mainly due to the film, namely “Baby Blues”(詭嬰), released during the period under review, is a film wholly-owned by us whilst “Love is... Pyjamas” (男人如衣服) is jointly controlled by the Group and the PRC co-producer. The Group recognised revenue based on the income and expenses derived in respect of the Group’s share of the distribution rights for the corresponding period in 2012. Gross profit margin for the six months ended 31 December 2013 was approximately 37.0%, which showed a decrease from that of approximately 57.7% for the corresponding period in 2012. This was mainly due to the lower profit margin of post-released sales of large-scale film compared to general-scale film of the Group.

Other income and gain

Other income and gain was approximately HK\$0.7 million for the six months ended 31 December 2013, representing an increase of approximately HK\$0.6 million or 970.5% compared to the same period of the previous financial year, mainly due to the net exchange gain of approximately HK\$0.3 million from the appreciation of Renminbi (“RMB”) against HK\$ when settlement of contributions from the PRC co-producers as well as contribution of approximately HK\$0.3 million from artiste management service provided.

Selling and distribution expenses

Selling and distribution expenses decreased by approximately HK\$3.0 million or 61.9% from approximately HK\$4.8 million for the six months ended 31 December 2012 to approximately HK\$1.8 million for the six months ended 31 December 2013. 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 the corresponding period in 2012; and (ii) the decrease of processing costs related to the digitalisation of film exhibition in Hong Kong.

Administrative expenses

Administrative expenses increased by approximately HK\$2.4 million or 32.9% from approximately HK\$7.4 million for the six months ended 31 December 2012 to approximately HK\$9.8 million for the six months ended 31 December 2013. This was mainly due to (i) the increase of the total staff costs by approximately HK\$1.2 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 25 for the six months ended 31 December 2012 to 29 for the six months ended 31 December 2013; and (ii) the increase of the legal and professional fee by approximately HK\$0.8 million in relation to legal and professional services since the Listing and services fee for providing professional services to certain transactions.

Profit/(loss) for the period

The Group's profit and total comprehensive income attributable to owners of the Company for the six months ended 31 December 2013 amounted to approximately HK\$4.5 million (2012: loss and total comprehensive expenses attributable to owners of the Company amounted to approximately HK\$5.9 million). The profit for the period under review compared to the loss in the corresponding period in 2012 was primarily a result of the increase in gross profit, other income and gain and the decrease of selling and distribution expenses and other expenses of which set off against the increase in administrative expenses as aforesaid.

Outlook

The Group will continue to focus on its core business in production and distribution of films and television series. During the year of 2013, the PRC total box office receipts recorded a notable increase from RMB17.1 billion in the year of 2012 to RMB21.8 billion in the year of 2013 which represented an annual growth of 27.5% during the year of 2013. Due to the continuing growth of the PRC film and television industry as well as the encouragement of the PRC Government, the Group is confident that the outlook for the PRC film and television industry to remain positive and encouraging to industry participants. In order to capture the prospects and the rapid development of film and television markets in the PRC as the Group's major market, the Group will diversify the genres of films and television programme to satisfy different market needs. The Group will continue to gravitate towards the PRC audience preference so as to grasp the growth opportunities in this market. "Hello Babies" (六福喜事) 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. Apart from our well-known comedy series, the Group will keep on producing other genre such as drama, romance and action films in this financial year. Our first drama film and an action film had commenced shooting in October 2013 and December 2013 respectively and are expected to be released in this financial year. In addition, the shooting plan of the romance film has been rescheduled to the second half of this financial year and is expected to be released in the following financial year mainly due to a change of the leading cast's availability. Currently, two more films are awaiting approvals for the scripts, the Group is currently in the process of identifying PRC co-producers and production will start in this financial year.

Following the completion of the acquisition of 40% equity interests in JDH on 22 November 2013 of which the JDH Group is principally engaged in comic publication and own the intellectual property rights of a database of comic stories and heroes that are suitable for reproduction in movies and television shows as well as for the development into online games and mobile games. The Group considers that this acquisition will not only diversify its existing business, but will also bring further business opportunity to the Group with its entitlement of a first right of refusal to use the intellectual property rights (including but not limited to their comic stories and comic characters) that are suitable for reproduction as films and television series. In addition, the terms of this acquisition also provide the Group with an opportunity to increase its interests in this investment. Furthermore, the Group is optimistic about the future of the film industry in Hong Kong and the PRC. The Group has entered into a lease agreement to rent the cinema situated in Langham Place, a prime location in Mongkok and a popular shopping and entertainment area in Hong Kong, and to take this cinema operation for a term of ten years commencing on 23 July 2014 and expiring on 22 July 2024. The future operation of cinemas and related operations in the cinema could provide a platform for the further development of the Group's film distribution business with a view to broaden the Group's revenue base and achieve better return of the shareholders of the Company. Based on the current plan, the Group will commence the operation of the cinemas situated in Langham Place as soon as practicable after the commencement of the lease term and the completion of the decoration. The Group will continue to explore more locations for cinema operation in Hong Kong and the PRC in order to catch up with the growing trend of the cinema business.

Looking forward, the Group will utilise its available resources to engage in its current business. Apart from this, the Group will also continue to explore business opportunities associated with its core business to strengthen its revenue base and maximise the return of the shareholders and the value of the Company.

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 2013.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining a high standard of corporate governance practices. It met all the code provisions of the Corporate Governance Code (the “Code”) set out in Appendix 15 of the GEM Listing Rules during the six months ended 31 December 2013 save as the deviation as mentioned in the following section headed “Chairman and Chief Executive Officer”.

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. Wong is the Chairman of the Board and is responsible for the overall strategy planning and policy making of the Group. The Chairman also takes the lead to ensure that the Board works effectively and acts in the best interest of the Company by encouraging the Directors to make active contribution in 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.

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 31 October 2012, 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 2013 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 Rules 5.28 to 5.33 of the GEM Listing Rules and the Code. The primary duties of the Audit Committee are mainly to communicate with external auditor; to review the remuneration, terms of engagement, independency and objectivity of the external auditor; to review the accounting policy, financial position and financial reporting procedures of the Company; and to assess the financial reporting system, internal control procedures and risk management function of the Company and making recommendation thereof. The unaudited interim financial results of the Group for the six months ended 31 December 2013 has been reviewed by the Audit Committee.

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

Hong Kong, 12 February 2014

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 Announcements” 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 (www.pegasusmovie.com).