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Pegasus Entertainment Holdings Limited

天馬影視文化控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code on Main Board: 1326)

(Stock Code on GEM: 8039)

**TRANSFER OF LISTING
FROM THE GROWTH ENTERPRISE MARKET TO
THE MAIN BOARD OF THE STOCK EXCHANGE OF
HONG KONG LIMITED**

Financial Adviser to the Company

ALTUS CAPITAL LIMITED

On 30 September 2014, an application was made by the Company to the Stock Exchange for the transfer of listing of the Shares from GEM to the Main Board. The Company has applied for the listing of, and permission to deal in, (i) the 531,000,000 Shares in issue; (ii) the 40,000,000 Shares which may fall to be issued pursuant to the exercise of the share options that may be but not yet granted under the Share Option Scheme; and (iii) the 95,000,000 Shares which may fall to be issued upon the exercise of the subscription rights attaching to the warrants issued by the Company in December 2013, on the Main Board by way of transfer of listing from GEM to the Main Board.

The Board is pleased to announce that the approval-in-principle has been granted by the Stock Exchange on 30 December 2014 for the Shares to be listed on the Main Board and de-listed from GEM. The last day of dealings in the Shares on GEM (Stock code: 8039) will be 8 January 2015. Dealings in the Shares on the Main Board (Stock code: 1326) will commence at 9:00 a.m. on 9 January 2015. All pre-conditions for the Transfer of Listing have, insofar as applicable, been fulfilled in relation to the Company and the Shares.

The Transfer of Listing will have no effect on the existing share certificates in respect of the Shares which will continue to be good evidence of legal title and be valid for trading, settlement and registration purposes and will not involve any transfer or exchange of the existing share certificates. No change will be made to the English and Chinese stock short names of the Company, the existing share certificates, the board lot size, the trading currency of the Shares and the share registrars and transfer offices of the Company following the Transfer of Listing.

The Group expects that its financial results for the year ending 30 June 2015 will experience a significant deterioration from its financial results for the year ended 30 June 2014. For further details, please refer to the section headed “Warning to possible adverse results of the Group for the year ending 30 June 2015” on pages 27 of this announcement.

INTRODUCTION

Reference is made to the announcement issued by the Company dated 30 September 2014 in relation to the formal application submitted to the Stock Exchange for the Transfer of Listing pursuant to the relevant provisions of the GEM Listing Rules and Main Board Listing Rules.

TRANSFER OF LISTING OF THE SHARES FROM GEM TO THE MAIN BOARD

On 30 September 2014, an application was made by the Company to the Stock Exchange for the transfer of listing of the Shares from GEM to the Main Board. The Company has applied for the listing of, and permission to deal in, (i) the 531,000,000 Shares in issue; (ii) the 40,000,000 Shares which may fall to be issued pursuant to the exercise of the share options that may be but not yet granted under the Share Option Scheme; and (iii) the 95,000,000 Shares which may fall to be issued upon the exercise of the subscription rights attaching to the warrants issued by the Company in December 2013, on the Main Board by way of transfer of listing from GEM to the Main Board.

The Board is pleased to announce that the approval-in-principle has been granted by the Stock Exchange on 30 December 2014 for the Shares to be listed on the Main Board and delisted from GEM. The last day of dealings in the Shares on GEM (Stock code: 8039) will be 8 January 2015. Dealings in the Shares on the Main Board (Stock code: 1326) will commence at 9:00 a.m. on 9 January 2015. All pre-conditions for the Transfer of Listing have, insofar as applicable, been fulfilled in relation to the Company and the Shares.

REASONS FOR THE TRANSFER OF LISTING

The Company has been listed on GEM since 31 October 2012. The Group is principally engaged in films and television series production, distribution and licensing of film rights in Hong Kong, the PRC and South East Asia through its established channels.

The Directors believe that the listing of the Shares on the Main Board will enhance the profile of the Group and improve the trading liquidity of the Shares. The Directors also believe that following the Transfer of Listing, the Company could gain a wider recognition

among larger institutional and retail investors. The Directors consider that the listing of the Shares on the Main Board will be beneficial to the future growth, financial flexibility and business development of the Company. No change in nature of the business of the Group is contemplated by the Directors following the Transfer of Listing. The Transfer of Listing will not involve any issue of new Shares by the Company.

DEALINGS IN THE SHARES ON THE MAIN BOARD

The Shares have been accepted as eligible securities by HKSCC for deposit, clearance and settlement in the CCASS with effect from 31 October 2012, the date on which the Shares were first listed on GEM. Subject to the continued compliance with the stock admission requirements of HKSCC, the Shares will continue to be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS once dealings in the Shares on the Main Board commence, and that all activities under CCASS are subject to the General Rules of the CCASS and CCASS Operational Procedures in effect from time to time.

The last day of dealings in the Shares on GEM (Stock code: 8039) will be 8 January 2015. Dealings in the Shares on the Main Board (Stock code: 1326) will commence at 9:00 a.m. on 9 January 2015.

The Transfer of Listing will have no effect on the existing share certificates in respect of the Shares which will continue to be good evidence of legal title and be valid for trading, settlement and registration purposes and will not involve any transfer or exchange of the existing share certificates. Currently, the Shares are traded in a board lot of 4,000 Shares each and are traded in Hong Kong dollars. The principal share registrar and transfer office of the Company is Codan Trust Company (Cayman) Limited and the Hong Kong branch share registrar and transfer office of the Company is Tricor Investor Services Limited. No change will be made to the English and Chinese stock short names of the Company, the existing share certificates, the board lot size, the trading currency of the Shares and the abovementioned share registrars and transfer offices of the Company following the Transfer of Listing.

SHARE OPTION SCHEME

The Share Option Scheme was conditionally adopted by the Company on 5 October 2012 for the purpose of providing incentives or rewards to eligible participants for their contributions to the Group. The Share Option Scheme commenced on 31 October 2012, being the date on which it became unconditional, and will be valid and effective for a period of ten years, i.e., valid until 30 October 2022. As at the date of this announcement, the Share Option Scheme fully complies with the requirements of Chapter 17 of the Main Board Listing Rules. As such, the Share Option Scheme will remain effective following the Transfer of Listing.

No share options have been granted by the Company under the Share Option Scheme. Hence, pursuant to the rules of the Share Option Scheme, the Company may grant share options in respect of a total of 40,000,000 Shares during the remaining term of the Share Option Scheme. The listing of Shares to be issued pursuant to the Share Option Scheme will also be transferred to the Main Board pursuant to Rule 9A.10 of the Main Board Listing Rules.

WARRANT

On 13 November 2013, the Company entered into a warrant placing agreement with a placing agent pursuant to which the placing agent agreed to place up to 96,000,000 warrants carrying rights to subscribe for 96,000,000 new Shares at an exercise price of HK\$0.93 per Share (subject to adjustment) to not less than six places. Completion of the placing of 96,000,000 warrants took place on 12 December 2013. At completion, the Company raised net proceeds of approximately HK\$700,000 from the investors. Upon exercise in full of the subscription rights attached to the 96,000,000 warrants, the Company will raise approximately HK\$89,280,000. Prior to the entering into of the warrant placing agreement, the Board had considered various methods of fund raising for development of its business and considered that the placing of the warrants represent a suitable opportunity to raise capital for the Company. In particular, the Directors noted from their discussions with placing agents that other methods of fund raising, such as placing of new shares, would require a discount to the Company's share price at the time, whereas the aggregate of the warrant placing price and warrant exercise price would not only represent a premium to the prevailing market price of the Shares but also will not result in an immediate dilution on the shareholding of the then-existing Shareholders. Whilst the immediate inflow of the proceeds upon completion of the placing of the warrants was limited, the potential inflow of further capital upon exercise of the subscription rights attached to the warrants by 11 December 2016 is more substantial. In the event the holders of the warrants fully exercise their subscription rights, further funds received may cater for the future needs for general working capital, which will better suit the funding needs of the Group. As such, the Directors were of the view that the placing of the warrants could provide a good opportunity to strength the Company's financial position. As at the date of this announcement, the Company has 95,000,000 outstanding warrants carrying rights to subscribe for 95,000,000 new Shares at any time on or before 11 December 2016 at an exercise price of HK\$0.93 per Share (subject to adjustment).

The listing of the Shares to be issued upon exercise of the subscription rights attaching to the warrants will also be transferred to the Main Board pursuant to Rule 9A.10 of the Main Board Listing Rules.

PUBLIC FLOAT

The Directors confirm that approximately 42.72% of the total issued share capital of the Company was held by the public (as defined in the Main Board Listing Rules) as at the date of this announcement. Accordingly the minimum 25% public float requirement has been maintained in compliance with Rule 8.08 of the Main Board Listing Rules.

COMPETING BUSINESS

As at the date of this announcement, none of the Directors or controlling Shareholders or their respective associates has any interest in a business which competes or may compete, either directly or indirectly, with the business of the Group pursuant to Rule 9A.09(10) of the Main Board Listing Rules.

GENERAL MANDATE TO ISSUE AND REPURCHASE SHARES

Pursuant to Rule 9A.12 of the Main Board Listing Rules, the general mandates to the Directors to allot and issue new Shares and repurchase Shares (granted to the Directors by the Shareholders at the annual general meeting of the Company held on 31 October 2014) will continue to be valid and remain in effect until the earliest of:

- (a) the conclusion of the next annual general meeting of the Company;
- (b) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company, or any applicable law to be held; and
- (c) the revocation or variation of such authority by an ordinary resolution of Shareholders in general meeting.

BIOGRAPHICAL INFORMATION OF DIRECTORS

The Company discloses below the biographical information of each Director:

Executive Directors

Mr. Wong Pak Ming (“**Mr. Wong**”), aged 68, was appointed as a Director on 8 March 2012 and was redesignated as an executive Director and appointed as the chairman of the Board on 5 October 2012. Mr. Wong is responsible for the strategic planning of the Group. He is an artist and filmmaker in Hong Kong, formed Cinema City Company Limited and Cinema City (Film Production) Company Limited, both of which are film production companies, in 1980s. In 1990, Mr. Wong founded Mandarin Films Limited. Mr. Wong was an executive director of Cheung Wo International Holdings Limited (“**Cheung Wo**”), formerly known as China Mandarin Holdings Limited (Stock Code: 0009), shares of which is listed on the Main Board of the Stock Exchange from 21 August 2001 to 18 August 2009. Mr. Wong has over 30 years of experience in the film industry for each of the roles as executive producer, script writer and artist and over 25 years of experience as film director. He has participated in more than 100 films throughout his career. He has been the chairman of the Movie Producers and Distribution Association since 1997. He has been appointed as a member of the Hong Kong-Taiwan Cultural Co-operation Committee under Hong Kong-Taiwan Economic and Cultural Cooperation and Promotion Council for a term of two years from 1 August 2013 to 31 October 2015. He was a member of the Hong Kong Film Development Council from April 2011 to March 2013. Mr. Wong is the father of Ms. Wong Yee Kwan Alvina and Mr. Wong Chi Woon Edmond, both executive Directors. Save as being a director of the Company, Mr. Wong did not hold any directorships in listed companies in the last three years.

Ms. Wong Yee Kwan Alvina (“**Ms. Alvina Wong**”), aged 38, was appointed as a Director on 15 March 2012 and was redesignated as an executive Director on 5 October 2012. Ms. Alvina Wong is responsible for the sales and distribution functions of the Group and has around 12 years of experience in the film industry, including assessing market reception of proposed films, providing promotional services for films and liaising with film distributors and licencees. Ms. Alvina Wong was an executive director of Cheung Wo from 1 September 2003 to 1 April 2009. Ms. Alvina Wong graduated from the University of Toronto with a

bachelor's degree in Arts in June 1998. Ms. Alvina Wong is the daughter of Mr. Wong and the sister of Mr. Wong Chi Woon Edmond, both executive Directors. Save as being a director of the Company, Ms. Alvina Wong did not hold any directorships in listed companies in the last three years.

Mr. Wong Chi Woon Edmond (“**Mr. Edmond Wong**”), aged 36, was appointed as a Director on 15 March 2012 and was redesignated as an executive Director on 5 October 2012. Mr. Edmond Wong is responsible for overseeing film production of the Group. He has around 10 years of experience in the film industry as script writer and was an executive director of Cheung Wo from 3 June 2008 to 13 February 2009. Mr. Edmond Wong graduated from McMaster University in Canada with a bachelor's degree in Arts in June 2002. Mr. Edmond Wong is the son of Mr. Wong and the brother of Ms. Alvina Wong, both executive Directors. Save as being a director of the Company, Mr. Edmond Wong did not hold any directorships in listed companies in the last three years.

Independent non-executive Directors

Mr. Lam Kam Tong (“**Mr. Lam**”), aged 45, was appointed as an independent non-executive Director on 5 October 2012. Mr. Lam graduated from the Chinese University of Hong Kong with a bachelor's degree in Business Management in 1991. Mr. Lam is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Mr. Lam has over 15 years of experience in professional audit and extensive experience in investor relations management, auditing, mergers and acquisitions and overseas financing. Since May 2012, he has been an executive director, company secretary and an authorised representative of Fantasia Holdings Group Co., Limited (stock code: 1777), a company listed on the Main Board of the Stock Exchange. Since June 2014, he has been a non-executive director of Colour Life Services Group Co., Limited (stock code: 1778), a company listed on the Main Board of the Stock Exchange. Mr. Lam was company secretary and qualified accountant of Greentown China Holdings Limited (stock code: 3900), a company listed on the Main Board of the Stock Exchange, from May 2006 to October 2008. Mr. Lam was an executive director of China Aoyuan Property Group Limited (stock code: 3883), a company listed on the Main Board of the Stock Exchange, from September 2009 to May 2012, and was company secretary of such company from December 2008 to May 2012. Mr. Lam was an independent non-executive director of Sheng Yuan Holdings Limited (stock code: 851), a company listed on the Main Board of the Stock Exchange, from November 2010 to February 2014 (resigned with effective on 1 March 2014).

Mr. Lo Eric Tien-cheuk (“**Mr. Lo**”), aged 40, was appointed as an independent non-executive Director on 5 October 2012. Mr. Lo has over 15 years of experience in business management in a private company which trades in the PRC and Hong Kong. Save as being a director of the Company, Mr. Lo did not hold any directorships in listed companies in the last three years.

Mr. Tang Kai Kui Terence (“**Mr. Tang**”), aged 55, was appointed as an independent non-executive Director on 5 October 2012. Mr. Tang is a member of the Royal Institute of British Architects and a committee member of the Chinese People's Political Consultative Conference (中國人民政治協商會議). Mr. Tang is a director of several private companies engaged in the business including property investment and investment holding. Mr. Tang

was an independent non-executive director and a member of the audit committee of Cheung Wo from 1 September 2001 to 31 August 2003 and from 1 December 2005 to 29 May 2008 respectively. Save as being a director of the Company, Mr. Tang did not hold any directorships in listed companies in the last three years.

CERTAIN FINANCIAL INFORMATION OF THE GROUP

The table below sets forth the selected information of the Group's audited consolidated statements of profit or loss and other comprehensive income during the Track Record Period and the Group's unaudited consolidated statement of profit or loss and other comprehensive income for the First Quarter of 2014/15:

	For the year ended 30 June			For the three months ended
	2012	2013	2014	30 September 2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue	137,186	192,645	134,788	13,458
Cost of sales	<u>(81,048)</u>	<u>(127,362)</u>	<u>(75,064)</u>	<u>(6,860)</u>
Gross profit	56,138	65,283	59,724	6,598
Other income and gain	2,587	974	3,532	146
Selling and distribution expenses	(16,192)	(21,794)	(15,033)	(14,648)
Administrative expenses	(7,971)	(16,976)	(22,112)	(5,219)
Finance costs	(559)	(53)	(103)	(6)
Other expenses	(7,497)	(3,806)	—	—
Share of results of an associate	<u>—</u>	<u>—</u>	<u>4,661</u>	<u>278</u>
Profit/(loss) before tax	26,506	23,628	30,669	(12,851)
Income tax expense	<u>(5,525)</u>	<u>(4,484)</u>	<u>(4,283)</u>	<u>—</u>
Profit/(loss) for the year/period	20,981	19,144	26,386	(12,851)
Other comprehensive (expense)/income				
<i>Items that may be reclassified subsequently to profit or loss</i>				
Share of exchange difference of an associate	<u>—</u>	<u>—</u>	<u>(23)</u>	<u>3</u>
Profit/(loss) and total comprehensive income for the year/period attributable to owners of the Company	<u>20,981</u>	<u>19,144</u>	<u>26,363</u>	<u>(12,848)</u>
Basic earnings/(loss) per share (HK cents)	<u>7.1</u>	<u>5.2</u>	<u>5.6</u>	<u>(2.6)</u>

Performance of the Group during the Track Record Period and the First Quarter of 2014/15

Revenue

As shown in the table below, major customers of the Group throughout the Track Record Period could be generally categorised into (i) co-producers; (ii) distributors and licensees; and (iii) advertisers and sponsors. Amongst the major customers, co-producers were crucial to the business operations and financial performance of the Group throughout the Track Record Period. Despite there was a steady decrease in the revenue contribution by co-producers, this category of customer remained a significant source of revenue of the Group and contributed over 50% of the Group's revenue for the year ended 30 June 2014.

During the Track Record Period, the Group generated revenue by licensing films it produced to co-producers and distributors in the PRC as well as film distributors and licensees in Hong Kong and overseas. The Group also derived advertising income by offering product placement and sponsorship opportunities in its films. In addition, the Group recognised income from commission received for distributing films and television series in the Personal Library.

During the First Quarter of 2014/15, the Group generated revenue by licensing films it produced to film distributors and licencees in Hong Kong and overseas. In addition, the Group recognised income from commission received for distributing films and television series in the Personal Library.

The table below sets forth the breakdown of the Group's revenue by principal business activities during the Track Record Period and the First Quarter of 2014/15:

	For the year ended 30 June						For the three months ended 30 September	
	2012		2013		2014		2014	
	HK\$'000	% of total revenue	HK\$'000	% of total revenue	HK\$'000	% of total revenue	HK\$'000	% of total revenue
Film distribution and licensing								
— Contributions from PRC co-producers (Note 1)	94,929	69.2	123,080	63.9	68,407	50.8	—	—
— Cinema circuits (Note 2)	7,256	5.3	16,163	8.4	12,219	9.1	4,508	33.5
— Other channels (Note 3)	32,295	23.5	50,975	26.5	46,235	34.3	8,468	62.9
Advertising/Sponsorship	1,350	1.0	453	0.2	5,180	3.8	—	—
Film distribution commission	1,356	1.0	1,974	1.0	2,747	2.0	482	3.6
Total	<u>137,186</u>	<u>100.0</u>	<u>192,645</u>	<u>100.0</u>	<u>134,788</u>	<u>100.0</u>	<u>13,458</u>	<u>100.0</u>

Notes:

1. This represents fixed amounts of contributions from PRC co-producers in return for the copyrights within the PRC under co-production arrangement.
2. Revenue derived from cinema circuits represents our share of box office receipts, net of commission and all relevant direct expenses.

3. Revenue derived from other channels comprises of the Group's distribution and licensing income which is in the form of a basic amount under licensing arrangements with distributors and licensees.

Year ended 30 June 2013 compared to year ended 30 June 2012

There were three films released for the year ended 30 June 2013, namely "Love is Pyjamas" (男人如衣服), "Hotel Deluxe" (百星酒店) and "Saving General Yang" (忠烈楊家將), while there were two films released during the year ended 30 June 2012, namely, "Magic To Win" (開心魔法) and "All's Well End's Well 2012" (八星抱喜).

Revenue increased by approximately 40.4% from approximately HK\$137.2 million for the year ended 30 June 2012 to approximately HK\$192.6 million for the year ended 30 June 2013. Such significant increase in revenue was mainly attributable to the increase in revenue from distributing and licensing of the Group's films due to the success of the Group's first large-scale film, "Saving General Yang" (忠烈楊家將), which contributed approximately 64.2% of the total revenue for the year ended 30 June 2013 and that one more film was released during the year ended 30 June 2013 compared to the year ended 30 June 2012. In particular, contributions from PRC co-producers under co-production arrangement increased by approximately 29.7% from approximately HK\$94.9 million for the year ended 30 June 2012 to approximately HK\$123.1 million for the year ended 30 June 2013, whereas distribution and licensing income from other distributors and licencees increased from approximately HK\$32.3 million for the year ended 30 June 2012 to approximately HK\$51.0 million for the year ended 30 June 2013.

Further, revenue from cinema circuits recorded an increase of approximately 122.8% from approximately HK\$7.3 million for the year ended 30 June 2012 to approximately HK\$16.2 million for the year ended 30 June 2013. This was mainly attributable to the increase in the box office receipts of the Chinese New Year's film "Hotel Deluxe" (百星酒店) for the year ended 30 June 2013 as compared to "All's Well End's Well 2012" (八星抱喜) for the year ended 30 June 2012.

Additionally, the Group recognised commission income of approximately HK\$1.4 million and HK\$2.0 million from distributing films and television series in the Personal Library for the two years ended 30 June 2012 and 2013 respectively.

Year ended 30 June 2014 compared to year ended 30 June 2013

As disclosed above, three films were released for the year ended 30 June 2013, namely, "Love is Pyjamas" (男人如衣服), "Hotel Deluxe" (百星酒店) and "Saving General Yang" (忠烈楊家將) while three films were released for the year ended 30 June 2014, namely "Baby Blues" (詭嬰), "Hello Babies" (六福喜事) and "Z Storm" (Z風暴).

Revenue decreased by approximately 30.0% from approximately HK\$192.6 million for the year ended 30 June 2013 to approximately HK\$134.8 million for the year ended 30 June 2014. Such decrease in revenue was mainly attributable to the decrease in revenue from distributing and licensing the Group's films. In particular, all the films released for the year ended 30 June 2014 were of general-scale, whilst one of the films released during the year ended 30 June 2013, namely "Saving General Yang" (忠烈楊家將), was a large-scale film which accounted for approximately 64.2% of the total revenue for the year ended 30 June 2013. Moreover, all the films released during the year ended 30 June 2014 are wholly-owned by the Group, whilst one of the films released during the year ended 30 June 2013, namely "Love is Pyjamas" (男人如衣服), was jointly controlled by the Group and a PRC co-producer. Under such arrangement, revenue relating to "Love is Pyjamas" (男人如衣服) was recognised based on the income and expenses derived in respect of the Group's share of the distribution rights. As a result, contributions from the PRC co-producers under co-production arrangement decreased by approximately 20.1% from approximately HK\$123.1 million for the year ended 30 June 2013 to approximately HK\$68.4 million for the year ended 30 June 2014. The Group also recorded a decrease in distribution and licensing income from other distributors and licencees from approximately HK\$51.0 million for the year ended 30 June 2013 to approximately HK\$46.2 million for the year ended 30 June 2014.

Revenue from cinema circuits decreased by approximately 32.3% from approximately HK\$16.2 million for the year ended 30 June 2013 to approximately HK\$12.2 million for the year ended 30 June 2014. This was mainly because the revenue from cinema circuits generated by the film "Z Storm" (Z風暴) was not recognised during the year ended 30 June 2014 as it was still showing at cinema circuits as at 30 June 2014. Generally, the Group recognised revenue from a cinema circuit when the cinema circuit confirms its share of box office receipts with the Group.

Benefiting from the enthusiastic advertising and promotion atmosphere in the Chinese New Year's film, "Hello Babies" (六福喜事), and the Group's first action film, "Z Storm" (Z風暴), revenue from offering product placement and sponsorship opportunities increased tenfold from HK\$0.5 million for the year ended 30 June 2013 to approximately HK\$5.2 million for the year ended 30 June 2014.

Additionally, we recognised commission income of approximately HK\$2.0 million and HK\$2.7 million from distributing films and television series in the Personal Library for the two years ended 30 June 2013 and 2014 respectively.

First Quarter of 2014/15

Revenue amounted to approximately HK\$13.5 million for the First Quarter of 2014/15, representing increases of approximately HK\$2.5 million or approximately 22.4% compared to the same period of the previous financial year. The increase was attributable to the distribution and licensing of post-released films mainly due to the recognition of the Group's share of box office receipts from cinema circuit with regards to "Z Storm" (Z風暴), a film released near the end of the previous financial year in June 2014, whilst no such income was recorded for the same period of the previous financial year.

Cost of sales

The following table sets out the Group's cost of sales breakdown during the Track Record Period and the First Quarter of 2014/15.

	For the year ended 30 June						For the three months ended 30 September	
	2012		2013		2014		2014	
	HK\$'000	% of cost of sales	HK\$'000	% of cost of sales	HK\$'000	% of cost of sales	HK\$'000	% of cost of sales
Casting	32,958	40.7	26,751	21.0	19,906	26.5	1,792	26.1
Film directors' fee	6,910	8.5	8,910	7.0	4,873	6.5	218	3.2
Production executives' fee	1,004	1.2	2,007	1.6	1,822	2.4	527	7.7
Script writing fee	588	0.7	800	0.6	377	0.5	57	0.8
Daily and post-production expenses	39,588	48.9	88,894	69.8	48,086	64.1	4,266	62.2
Total	<u>81,048</u>	<u>100.0</u>	<u>127,362</u>	<u>100.0</u>	<u>75,064</u>	<u>100.0</u>	<u>6,860</u>	<u>100.0</u>

The Group's cost of sales amounted to approximately HK\$81.0 million, HK\$127.4 million, HK\$75.1 million and HK\$6.9 million for the three years ended 30 June 2012, 2013 and 2014 and the First Quarter of 2014/15 respectively. The Group's cost of sales mainly comprises casting fees for artists, film directors' fee, production executives' fee, script writing fee and daily and post-production expenses, which includes, costs on production crew, art and costume expenses, location rental and other daily production expenses such as film negatives cost, costs on camera and lighting equipment, insurance and other production overheads.

Casting fees for artists contributed a significant portion to the Group's cost of sales, amounted to approximately HK\$33.0 million, HK\$26.8 million, HK\$19.9 million and HK\$1.8 million for the three years ended 30 June 2012, 2013 and 2014 and the First Quarter of 2014/15 respectively, representing approximately 40.7%, 21.0%, 26.5% and 26.1% of the total cost of sales for the respective years and the First Quarter of 2014/15. During the year ended 30 June 2012, the Group produced a family-oriented comedy film in Chinese New Year, namely, "All's Well End's Well 2012" (八星抱喜) and placed heavy reliance on the leading artists in the film as they have significant influence on the marketability of the film. Accordingly, casting fees for artists significantly affected the cost of sales during the year ended 30 June 2012. The casting fees would fluctuate for each film due to the different of genre, scale and selection of main casts according to the screenplay and market availability.

During the year ended 30 June 2010, an agreement was entered into between the Group and an artiste for his participation in nine of our productions at a fixed amount within a period of six years commencing from 1 June 2010 up to 31 May 2016. Such Agreement was subsequently extended up to 31 May 2018. Pursuant to the agreement, the artist had completed three films as at the Latest Practicable Date. The Directors anticipate that the artiste will participate in one to two films production of the Group each year. Save for the abovementioned, the Group had not entered into any long term agreement with any artists.

Daily and post-production expenses also formed a significant portion of the Group's cost of sales during the Track Record Period and the First Quarter of 2014/15. Such expenses contributed to approximately 48.9%, 69.8%, 64.1% and 62.2% of the total cost of sales for the three years ended 30 June 2012, 2013 and 2014 and the First Quarter of 2014/15 respectively. The expenses mainly comprised costs on production crew, art work and costume expenses which would increase according to the scale of production. For instance, daily and post-production expenses of approximately HK\$23.4 million was incurred for overseas filming of a large-scale film, namely "Saving General Yang" (忠烈楊家將), which was produced and released for the year ended 30 June 2013, as significant part of its shooting took place in the PRC. Apart from "Saving General Yang" (忠烈楊家將), the other films produced by the Group during the Track Record Period and the First Quarter of 2014/15 were general-scale films which incurred significantly less daily and post-production expenses. Cost on production crew and film processing during the post-production stage also varied with each film depending on the scale and genre of the film.

Gross profit

The Group's gross profit amounted to approximately HK\$56.1 million, HK\$65.3 million, HK\$59.7 million and HK\$6.6 million for the three years ended 30 June 2012, 2013 and 2014 and the First Quarter of 2014/15, representing gross profit margins of approximately 40.9%, 33.9%, 44.3% and 49.0% respectively.

For the year ended 30 June 2013, the Group recorded gross profit margin of approximately 33.9%. The lower gross profit margin compared with that for the year ended 30 June 2012 of approximately 40.9% was due to the lower gross profit margin recorded by the Group's first large-scale film, namely, "Saving General Yang" (忠烈楊家將). As disclosed above, significantly higher daily and post-production costs were incurred for the production of "Saving General Yang" (忠烈楊家將) due to its scale of production. Since the extent of increase in production cost was larger than that of revenue, a lower gross profit margin was recorded for the year ended 30 June 2013.

Gross profit margin improved from approximately 33.9% for the year ended 30 June 2013 to approximately 44.3% for the year ended 30 June 2014 as more general-scale films were produced during the year ended 30 June 2014. Due to the relatively large costs involved, larger scale production inherently has a lower gross profit margin.

Gross profit margin for the First Quarter of 2014/15 was approximately 49.0% which showed a significant increase from that of approximately 32.6% for the corresponding period in the previous financial year. This was mainly due to the revenue contributed by the general-scale post-released films during the First Quarter of 2014/15 as opposed to a large-scale film for corresponding period of the previous financial year. Due to the relatively large costs involved, larger scale production inherently has a lower gross profit margin.

Profit/(loss) for the year/period

The Group's profit and total comprehensive income attributable to owners of the Company for the year ended 30 June 2014 amounted to approximately HK\$26.4 million (2013: HK\$19.1 million). The increase of profit for the year ended 30 June 2014 compared to the previous financial year was primarily a result of the increase in other income and gain and share of results of an associate and decrease in selling and distribution and other expenses outweighed the decrease in gross profit and increase in administrative expenses.

In November 2013, the Group completed the acquisition of 40% equity interests in the JDH Group. It was disclosed in the Company's annual report 2013/14 that the profit for the year attributable to owner of the associate for the year ended 30 June 2014 was HK\$11.7 million. As disclosed in the announcement dated 15 November 2013, the vendor of the JDH Group had guaranteed the Group that the audited net profits of the JDH Group after tax and any minority interests but excluding any non-recurring or extraordinary or exceptional items for the twelve months period from 1 July 2013 and 30 June 2014 (both dates inclusive) (the "**Relevant Period**") should not be less than HK\$15 million.

Since completion took place in November 2013, the net profit of HK\$11.7 million for the year ended 30 June 2014 contributed by the JDH Group disclosed in the Company's annual report 2013/14 did not reflect its profits for the entire Relevant Period. Instead, only the net profit made from the completion date of the acquisition of the JDH Group (being 22 November 2013) to 30 June 2014 has been included. However, according to the audited consolidated financial statements of the JDH Group for the period from 1 July 2013 to 30 June 2014, the net profit of the Relevant Period amounted to HK\$15.9 million which meets the aforementioned profit guarantee.

The Group's loss and total comprehensive expenses attributable to owners of the Company for the First Quarter of 2014/15 amounted to approximately HK\$12.8 million. The loss for the First Quarter of 2014/15 compared to the same period of the previous financial year was primarily a result of the significant increase in selling and distribution expenses which set off against the net increase of the other profit and loss items. As disclosed in the announcement dated 23 September 2014 and the first quarterly results announcement dated 12 November 2014, according to the lease agreement entered into between the Group and the landlord of the cinema located in Langham Place, a rent-free period of four months commencing from 23 July 2014 was offered by the landlord as compensation for the renovation period during which the cinema is not in operation. In light of the accounting principles, practices and policies adopted by the Group under the applicable accounting standards, such incentive provided by the landlord will be treated as a uniform reduction of rental expenses (that is, on a straight-line basis over the lease term). With the lease term having commenced on 23 July 2014, rental expenses will be immediately recognised under the abovementioned accounting treatment. However, revenue will only be generated after the cinema commences operation in the fourth quarter of 2014. As such, the Group's results of the First Quarter of 2014/15 was adversely affected and it is expected that the Group's interim and the full financial year results will also be adversely affected. For further details, please refer to the section headed "Warning to possible adverse results of the Group for the year ending 30 June 2015" on pages 27 of this announcement.

Liquidity position

Net current assets

The following table sets out the details of the Group's current assets and liabilities as at the end of the financial years indicated:

	As at 30 June		
	2012	2013	2014
	HK\$'000	HK\$'000	HK\$'000
Current Assets			
Film rights	8,560	33,241	25,357
Film production in progress	122,186	26,668	56,002
Investments in film/drama production	—	35,577	29,530
Trade and other receivables	5,553	24,274	35,400
Prepayment to an artist	10,000	10,000	11,000
Rental deposit	—	—	18,712
Amounts due from related companies	342	—	—
Tax recoverable	—	35	—
Pledged bank deposit	—	30,055	30,173
Bank balances and cash	<u>15,937</u>	<u>29,973</u>	<u>17,633</u>
Total current assets	<u>162,578</u>	<u>189,823</u>	<u>223,807</u>
Current liabilities			
Trade and other payables	(3,240)	(7,850)	(6,621)
Receipts in advance	(85,953)	(9,251)	(9,061)
Amounts due to related companies	(1,702)	(3,335)	(510)
Amount due to a director	(50,000)	—	—
Tax payable	(9,544)	(7,405)	(4,368)
Unsecured bank borrowings	<u>(1,957)</u>	<u>—</u>	<u>—</u>
Total current liabilities	<u>(152,396)</u>	<u>(27,841)</u>	<u>(20,560)</u>
Net current assets	<u>10,182</u>	<u>161,982</u>	<u>203,247</u>

The Group recorded net current assets of approximately HK\$10.2 million, HK\$162.0 million and HK\$203.2 million as at 30 June 2012, 2013 and 2014 respectively.

As at 30 June 2012, the Group's current assets comprised mainly film production in progress of approximately HK\$122.2 million due to the significant production cost of a large-scale film, namely "Saving General Yang" (忠烈楊家將). The Group's current liabilities comprised mainly receipts in advance and amount due to a director of approximately HK\$86.0 million and HK\$50.0 million respectively.

As at 30 June 2013, the Group recorded net current assets of approximately HK\$162.0 million mainly due to the increase of total current assets by approximately HK\$27.2 million and decrease of total current liabilities by approximately HK\$124.6 million. The increase in net current assets of approximately HK\$151.8 million comparing to the preceding year was mainly due to (a) the release of the Group's large-scale film, namely "Saving General Yang" (忠烈楊家將), which led to a decrease in film production in progress and receipts in advance; (b) the increase in pledged bank deposit and bank balances and cash by approximately HK\$44.1 million contributed by the remaining proceeds from the listing of the Shares on GEM; and (c) the capitalisation of amount due to a director upon the listing of the Shares on GEM under the reorganisation exercise pursuant to the listing on GEM.

As at 30 June 2014, the Group recorded net current assets of approximately HK\$203.2 million mainly due to the increase of total current assets by approximately HK\$34.0 million and decrease of total current liabilities by approximately HK\$7.3 million. The increase in net current assets of approximately HK\$41.3 million was mainly due to (a) the increase in film production in progress by approximately HK\$29.3 million as a result of five films and television series under production in progress compared with three films as at 30 June 2013; (b) the increase in rental deposit by approximately HK\$18.7 million in respect of the leased premises for the operation of cinema located in Langham Place; and (c) the decrease in pledged bank deposit and bank balances and cash by approximately HK\$12.3 million as a result of the increase in the aforesaid current assets offset by the decrease of certain current liabilities.

Trade receivables

The following table sets out the Group's trade receivables as at 30 June 2014 and the subsequent settlement up to the Latest Practicable Date:

Trade receivables	As at 30 June 2014 HK\$'000	Subsequent settlement up to the Latest Practicable Date HK\$'000
0–30 days	4,725	4,725
31–60 days	—	—
61–90 days	1,436	1,436
91–180 days	555	555
181–365 days	2,400	2,400
Over 365 days	<u>1,829</u>	<u>1,829</u>
	<u><u>10,945</u></u>	<u><u>10,945</u></u>

As at 30 June 2014, trade receivables with an aggregate carrying amount of approximately HK\$6.2 million out of HK\$10.945 million (i.e. 57%) were past due but not impaired. Such trade receivables related to independent customers with generally good repayment history and favourable repayment proposals. To assess its impairment loss, the Group considers a

number of factors including, inter alia, the relationship with the customer, the customer's ongoing business operations, repayment history, the reason of overdue, the expected date of settlement and possible repayment schedule.

As of the Latest Practicable Date, all overdue trade receivables as at 30 June 2014 had been settled. In particular, the receivable balance of approximately HK\$2.4 million due from a customer which is aged between 181–365 days had been fully settled in August 2014, while repayment arrangement had been agreed with the relevant customer such that repayment of the receivable balance of HK\$1.83 million aged over 365 days was made in full in December 2014. There is no default of the settlement up to the Latest Practicable Date of this announcement and the Group has regularly performed assessment to evaluate the financial viability of the relevant customers in considering the recoverability of the overdue amount.

Management plans on funding needs

The Group recorded net current assets position as at 30 June 2012, 2013 and 2014.

The Group recorded a net cash inflow of approximately HK\$7.3 million and HK\$14.0 million for the two years ended 30 June 2012 and 2013 respectively and a net cash outflow of approximately HK\$12.3 million for the year ended 30 June 2014. In particular, due to the Group's increase in film production and investments in film/drama production, the Group recorded a net operating cash outflow of approximately HK\$36.3 million and HK\$25.1 million for the two years ended 30 June 2013 and 2014 respectively. The Group funded its liquidity by net proceeds from the listing of the Company on GEM, placement of new shares and warrants of the Company and resources generated internally.

The Group's financial resources are sufficient to support its business and operations, including the films and television series in the pipeline as disclosed in the paragraph headed "Film and Television Series in Production". The Group would also consider other financing activities when appropriate business opportunities arise under favourable market conditions.

The Group did not have any funding policy and any external financing plans at the Latest Practicable Date. The Group has continued to monitor its needs on working capital to finance its operation and assess the impact of the cost on the Group's operation arising from the fund raising exercise and existing unutilised credit facilities of approximately HK\$35.0 million for flexibility. Generally, production cost of the Group's films has been substantially funded by the contribution received from the PRC co-producers. Other than the requirement on working capital for the Group to carry out its daily operation, the Group normally finances its operation obtained with internally generated resources and external fund raising exercises which in order to reduce the cost from external borrowings. The Group may come across with appropriate business opportunities under favourable market conditions and therefore a substantial amount of working capital may be required for such business opportunities. In this circumstance, in order to mitigate the Group's pressure on the working capital and with the intention not to affect the progress of the existing operations, the Group may make use of the financing arrangements under the unutilised credit facilities in order to satisfy its short-term working capital needs. As such, the Group will make appropriate funding arrangement which the management consider that it is in the best interest to the Group, depending on the timing of the funding requirements of the business opportunities and the prevailing financial resources available.

Fund raising activities in the past twelve months

The Company has conducted the following equity fund raising exercises in the past twelve-month period immediately before the date of this announcement:

Date of announcement	Event	Net proceeds (approximately)	Intended use of proceeds	Status up to the Latest Practicable Date
25 August 2014	Placing of 50,000,000 new Shares at a subscription price of HK\$1.26 per Share.	HK\$60,000,000.	Film development or general working capital.	Approximately HK\$20,000,000 for film production and HK\$15,000,000 for general working capital. <i>(Note)</i>
13 November 2013	Placing of 96,000,000 non-listed warrants at the issue price of HK\$0.01 per warrant. Each warrant entitles the holder thereof initially to subscribe for one new Share at an initial exercise price of HK\$0.93 per Share (subject to adjustment) at any time during a period of three years commencing from the date of issue of the warrants.	HK\$700,000 for the placing of the warrants. HK\$89,280,000 for the issue of the new Shares upon exercise of the subscription rights attaching to the warrant in full. As at the date of this announcement, 1,000,000 Shares have been issued.	General working capital.	Utilised as intended.
24 October 2013	Subscription of 10,000,000 new Shares at a subscription price of HK\$0.90 per Share.	HK\$8,900,000.	General working capital.	Utilised as intended.

Note: The unutilised proceeds were deposited in the Group's bank accounts in Hong Kong.

Investments in film/drama production

As disclosed in the Company's annual report 2013/14, as at 30 June 2014, investments in film/drama production had a carrying amount of HK\$29.5 million.

In accordance with the terms of the agreements, the Group is entitled to receive (i) the principal amounts of investments; (ii) the fixed minimum rates of return based on the principal amounts (the "**Fixed Minimum Return**") on or before the respective scheduled repayment dates (the "**Principal Film Investments**"); and (iii) share of profits that exceeds the Fixed Minimum Return, if any, generated from the distributions of the related film/television programme/animations production based on the percentage of capital invested into the production of film/television programme/animations productions (the "**Profit Sharing**").

Such Principal Film Investments are classified as loans and receivables under the applicable accounting standard of *HKAS 39 Financial Instruments: Recognition and Measurement* ("**HKAS 39**") as they are non-derivative financial assets with fixed or determinable payment that are not quoted in active market. These investments are carried at amortised cost using the effective interest method, less any identified impairment losses as disclosed in the Company's annual report 2013/14.

The Profit Sharing element is accounted for as an embedded derivative under HKAS 39 and it is considered to be not closely related to the Principal Film Investments because the economic characteristics and risks inherent in the Principal Film Investments (being predetermined fixed returns) and the Profit Sharing element (with variable returns linked to profits generated from distribution) are not similar. In accordance with HKAS 39, the embedded derivative not closely related to the Principal Film Investments should be accounted separately from the Principal Film Investments and measured at fair value at initial recognition and subsequently.

The embedded derivatives in the investments in film/drama production as stated in the Company's annual report 2013/14 reflect the financial impact of the Profit Sharing element. Based on the forecasted revenue and costs of the related film/television programme/animations production provided by the production houses, the Profit Sharing and by extension, the fair value of the embedded derivative is estimated to be insignificant. In addition, there will be no adverse effect to the Group's financial position as the Profit Sharing would not incur any losses and liabilities to the Group.

Prepayment made to an independent third party in the PRC

As disclosed in the Company's annual report 2013/14, prepayment of HK\$15.75 million was made to an Independent Third Party in the PRC (the "**PRC Party**") as investment in a PRC television series production which had yet to commence as at 30 June 2014. Pursuant to the supplemental agreement entered into between the parties on 28 March 2014, if production of the television series does not commence on or before the end of October 2014, the prepayment will be fully returned to the Group. As at the date of this announcement, as production for the PRC television series has yet to commence, the Group is in the process of obtaining full repayment of the prepayment amount and expects that such repayment will be received by late January 2015.

In this regard, the Group is exposed to credit risk arising from the possibility of the PRC Party failing to discharge its obligation to return the prepayment in full to the Group. The Directors confirm that, given the PRC Party is a well-known television series production entity in the PRC and that the Management had regularly assessed the prospects of repayment, the Group's exposure to such risk is reasonably low.

Group's dependent on limited number of films

As disclosed in the Prospectus and the Company's annual report 2013/14, 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.

FILMS AND TELEVISION SERIES IN PRODUCTION

The following table sets out the estimated total production cost, total production cost of film incurred up to the Latest Practicable Date, estimated cost to complete the production, profit sharing entitlements pursuant to co-production agreements, production status as at the Latest Practicable Date, genre, scale of production, date/expected date of production commencement, date/expected date of production completion and expected date of television air dates or theatrical release of each of the Group's six films and/or television series in production as at the Latest Practicable Date:

Title of film and/or television series in production	Television series 1	Film 1	Film 2	Film 3	Film 4	Film 5
Films referred to in the paragraph headed "Future Plans and Use of Proceeds — Future Plans" of the Prospectus	N/A	Film F (Note)	N/A	Film I	Film D	N/A
Estimated total production cost of film (HK\$'000) (a)	23,310	3,000	30,000	4,800	20,000	30,000
Total production cost of film incurred up to the Latest Practicable Date (HK\$'000) (b)	14,490	2,741	26,574	4,719	2,590	320
Estimated cost to complete the production (HK\$'000) (c)=(a)-(b)	8,820	259	3,426	81	17,410	29,680

Title of film and/or television series in production	Television series 1	Film 1	Film 2	Film 3	Film 4	Film 5
Profit sharing entitlements pursuant to co-production agreements	— 50% of worldwide income derived from the television series	— 50% of worldwide income (except for the PRC) derived from the film — 20% of the excess of the box office receipts in the PRC of pre-determined threshold is exceeded	— Worldwide income (except for the PRC) derived from the film — 20% of the box office receipts in the PRC — 60% of the excess of the box office receipts in the PRC of pre-determined threshold is exceeded	— 80% of worldwide income derived from the film	The Group is in the process of identifying PRC co-producers	The Group is in the process of identifying PRC co-producers
Production status as at the Latest Practicable Date	Shooting	Pre-release	Post-production	Post-production	The Group is in the process of obtaining script approvals from the relevant PRC authority	The Group is in the process of obtaining script approvals from the relevant PRC authority
Genre	Documentary	Drama	Drama	Romance	Romance	Action
Scale of production	General	General	General	General	General	General
Date/Expected date of production commencement	May 2014	October 2013	July 2014	May 2014	January 2015	January 2015
Date/Expected date of production completion	December 2014	October 2014	December 2014	December 2014	February 2015	March 2015
Expected date of theatrical release	February 2015	January 2015	February 2015	May 2015	April 2015	May 2015

Note: In view of the prevailing market trends and the Group's observation on audiences' preference, the film genre has been changed from thriller to drama.

RECENT BUSINESS DEVELOPMENTS

Since the listing of the Company on GEM on 31 October 2012, the Group has continued to develop its business with a view to achieve better operational performance and has expanded its core business of film and television series production and distribution and licensing of film rights to include film exhibition and post-production. As disclosed in the Prospectus, post-production, which formed a significant source of the Group's cost of sales, had been outsourced to Independent Third Parties due to the lack of in-house capacity and the Group intended to undertake certain post-production work on its own by investing in post-production equipment and recruiting staff for this operation. Given that post-production is integral to the production process, the Group believes an in-house post-production arm will enable the Group to better monitor and control its production costs, time and quality of its films which will benefit the Group in terms of improved production efficiency, cost effectiveness as well as providing the Group more flexibility in fine tuning its films.

The Group believes the addition of a strong distribution channel in the form of film exhibition platform such as cinema operation would be a natural extension of its existing core business of distribution and licensing of film rights that will strengthen its distribution business. As disclosed in the Company's annual report 2013/14, the PRC film market has entered a golden phrase of development. The Group strategically positioned the Hong Kong cinema market as the first step for the Group's future endeavours in the film distribution business with an aim to expand into the cinema market in the PRC to establish a strong vertically integrated production and distribution channel in its key market, which is complementary to the Group's continuous strategy to explore business opportunities associated with its core business so as to expand its revenue base.

As post-production is integral to the Group's core business of film production whereas the cinema operation is a natural extension of the Group's existing distribution platform, the Group believes that the recent business development abovementioned will further strengthen its existing core business of film production and distribution.

Film and television series production and distribution

Asia market

The Group had released three films for each of the years ended 30 June 2013 and 2014. As mentioned in the Prospectus, the Group intended to expand the film production business through producing more films with a plan of five films and six films for the years ended 30 June 2013 and 2014 respectively. Up to the date of this announcement, out of the eleven films that were intended for release during the two years ended 30 June 2013 and 2014, seven films had been released with three films expected to be released during the year ending 30 June 2015 and the remaining film scheduled to be released for the year ending 30 June 2016. Since then, the Group has carefully on selection of genre and scale of films that are largely subject to the preference of the broad audience which may change according to market trends, in the meantime, the significant expansion of domestic films development in the PRC, initial approval for the film production by the State Administration of Press, Publication, Radio, Film and Television (國家新聞出版廣電總局) has extended beyond expectation. As such, the main casts and production crew availability has also been affected by this unexpected delay in approval schedules. There is no adverse condition of the film markets in the PRC and Hong Kong that is drawing to the attention of the Directors.

The Directors had evaluated the Group's business plan and believed that there would be six films to be released during the year ending 30 June 2015 of which one film was released in the first half and five films will be released in the second half of the year ending 30 June 2015 respectively. Up to the date of this announcement, the Group has completed the production of one film, which is being scheduled for screening and has two films in the post-production stage. All of these films are expected to be released during the year ending 30 June 2015. Currently, scripts of two films which expected to be released during this year are awaiting script approvals from the State Administration of Press, Publication, Radio, Film and Television (國家新聞出版廣電總局). The Group is currently in the process of identifying PRC co-producers and production will commence accordingly. The Directors believe that the number of films to be released during the year ending 30 June 2015 is achievable.

Beyond the Asia market

The Group has also expanded its business beyond the Asia market by investing in "Inversion" (tentative name) (the "**Movie**"), a sci-fi movie intended to be produced for global distribution through international cinemas in the second half of 2016.

The Movie has achieved important initial achievement as it received considerable pre-sale amounting to approximately US\$40.0 million in the Cannes Film market this year. The Movie is now at the end of the pre-production stage with shooting scheduled to commence by April 2015 and official worldwide release in the second half of 2016. According to the provisional agreement entered into between the Group and TNC Productions Limited ("**TNC**") on 28 January 2013 in relation to the investment, the Movie was initially scheduled for worldwide theatrical distribution in 2014. TNC, an Independent Third Party, is a limited company incorporated in Hong Kong on 21 January 2013 and being the sole owner of 100% of the underlying rights of the Movie, all ancillary rights and operations to be derived from the development of the Movie and being a single purpose entity to produce and exploit the Movie. To the best knowledge of the Directors, the management of TNC, who are also the production leader of the Movie, had been very active in the film production industry. As disclosed in the Company's announcements dated 13 September 2013, 28 January 2014 and 29 August 2014 respectively, the commencement dates of principal photography (i.e. the production stage of a movie when it is being filmed) had been extended mainly due to the change in the tentative director and re-write of the script. The Directors, having taken into account that (i) such reasons are not uncommon in the film production industry; (ii) the strong credentials of the production team of the Movie; (iii) the agreed amount of priority return to which the Group is entitled has been increased at each extension; and (iv) participating in the investment would provide a platform for the Group's image to reach out to the international film industry and improve its image in the film production and distribution sector, the Company agreed to extend the deadlines.

The Group will continue to identify appropriate film and television program investment projects so as to further expand its participation in the international film market and generate additional revenue.

Recent business activities

As disclosed above, the Group has recently expanded its business activities to include film exhibition and post-production. The Board believes that such business activities could create synergy effect with the Group's existing business thus commercially benefit the Company and the Shareholders as a whole.

Film exhibition

In addition to film production, the Company believes that the distribution channel business in the film industry also has significant growth potential and its entrance into this segment of the industry will expand the revenue base of the Group and by extension, generate higher returns for the Shareholders. In December 2013, the Group successfully secured a ten-year lease for the cinema situated at Langham Place. Langham Place is located in the prime area of Mongkok (a popular shopping and entertainment district in Hong Kong). The operation period of the cinema commenced in July 2014 and had been opened for trial operation in mid-November 2014 under the name "Cinema City Langham Place" and is expected to officially commence operation in the first quarter of 2015. The cinema has six auditoriums equipped with the most advanced projection and sound systems. Further the Group had introduced "4Dx", an exclusive viewing technology from South Korea (the "**Exclusive Viewing Technology**") which will bring an unprecedented new experience of film viewing to Hong Kong. In particular, the Exclusive Viewing Technology is tailored to deliver fully immersive cinematic experience to the audiences whereby the dedicated auditorium of Cinema City Langham Place will equip with motion chairs mimicking the actions in the film and special equipment creating environmental effects, such as wind, bubbles and scent that work in perfect synchronicity with the action on screen. With the combination of the desirable locale and the offer of a new film viewing experience, Cinema City Langham Place is an ideal jumping platform for the Group's future endeavours in the film distribution business with Hong Kong cinema market as the first step.

In relation to the Exclusive Viewing Technology, in August 2014, the Group entered into a rental agreement and a licensing agreement with CJ 4DPlex Co., Ltd, a South Korea incorporated company and an Independent Third Party which is principally engaged in the development and provision of the Exclusive Viewing Technology.

1. Rental Agreement

On 20 August 2014, the Group as lessee and CJ 4DPlex Co., Ltd as lessor entered into a rental agreement, pursuant to which CJ 4DPlex Co., Ltd has agreed to let all necessary equipment in relation to the Exclusive Viewing Technology (collectively, the "**Equipment**") and to provide supporting services, such as installation and maintenance of the Equipment to the Group for a period commencing on 20 August 2014 and ending on 22 July 2024.

Pursuant to the rental agreement, the Group will pay for monthly rental of the Equipment as well as a lump sum supervising fee for the on-site supervisory service provided by CJ 4DPlex Co., Ltd's designated engineer, an annual maintenance fee for each unit of the motion chair, repair/replacement cost of the Equipment for reasons other than normal wear and tear and the cost of ordering consumables in relation to the Exclusive Viewing Technology.

2. *Licensing Agreement*

On 20 August 2014, the Group as licensee and CJ 4DPlex Co., Ltd as licensor entered into a licensing agreement, pursuant to which CJ 4DPlex Co., Ltd will grant to the Group a limited, non-exclusive and non-transferrable license to use the specifically developed software programmed codes utilised by the Equipment.

The licensing agreement commenced on 20 August 2014 and will end on 22 July 2024. CJ 4DPlex Co., Ltd will be entitled to share an agreed percentage of the revenue derived by the Group in relation to the usage of the Exclusive Viewing Technology each month during the term of the licensing agreement, after deducting the monthly rent of the Equipment.

Post-production

As disclosed in the Prospectus, the Company has intended to undertake certain post-production works on its own by investing up to HK\$11.0 million from its proceeds of the initial public offering in post-production equipment and recruiting staff for its operation.

In this respect, in September 2014, the Group established its in-house post-production arm by way of cooperation with a post-production house in Hong Kong with over 20 years of experience in the post-production industry to participate in digital media post-production operation with a view to forming an integrated film production chain so as to achieve economies of scale and synergies. Given that post-production is integral to the production process, the establishment of the in-house post-production arm will enable the Group to undertake post-production of its films which had been outsourced to Independent Third Parties. The Company believes that it can benefit from the improved production efficiency and cost effectiveness as well as being able to monitor its film quality more directly through undertaking post-production works on its own. As of the Latest Practicable Date, the Group had invested approximately HK\$7.2 million in the establishment of the in-house post-production arm. The Directors expect that the total investment would amount to HK\$11.0 million for procuring the post-production equipment and in recruiting more staff for the operation.

RISKS RELATING TO THE RECENT BUSINESS ACTIVITIES

As disclosed above, the Group has expanded its core business activities to include film exhibition and post-production to strengthen its production and distribution business. In particular, as post-production is integral to the Group's core business of film production whereas the cinema operation is a natural extension of the Group's existing distribution business, such business activities are part of the production and distribution process and are directly related to the Group's existing core business. As such, the Directors are of the view that the risk profile of the Group remains largely the same since the listing of the Company on GEM in October 2012, the details of which had been disclosed in the section headed "Risk Factors" of the Prospectus. Nevertheless, the Group adopted the following mitigation measures in view of the extended business scope in its film production and distribution activities.

Film exhibition

As disclosed in the Prospectus, film piracy is extensive in many parts of the world and the Group faced the risk of piracy, copyright and trademark infringement. The Directors believe that the Group's exposure to such risks had not been changed despite the extension of its existing distribution platform to include cinema operations. Further, box office receipt generated from the cinema operation may fluctuate in line with consumer spending pattern and there is also intense competition from the existing industry players.

In view of the above, the Directors believe that the Group is well positioned to compete against the existing industry players, as the Exclusive Viewing Technology will bring an unprecedented viewing experience that differentiates the Group's cinema from other cinemas in the market and thus more attractive to movie-watchers than other competing cinemas in the market. The Group will also undertake measures such as appointing designated personnel to regularly inspect the premise to prevent unauthorised video recording in cinema.

Post production

The post-production business is heavily reliant on software and hardware components in film processing and any failure of such may hinder the production schedule. In view of the above, the Directors believe that, based on the extensive industry experience of the post-production house and advanced post-production equipment, the in-house production arm has the requisite experience in minimising preventable hardware and software failures.

COMPANY'S ASSESSMENT OF THE PERFORMANCE OF THE GROUP

During the year ended 30 June 2014, the Group had continued to carry out its business plan as disclosed in the Prospectus. The Group had achieved another milestone following the listing of the shares of the Company on GEM in October 2012 by taking important steps towards its expansion into a diversified cultural business.

Looking forward, the Group will continue to focus on its core as well as the extended businesses to strengthen the integration of its film related businesses and utilise its available resources to capture the opportunities offered by the golden phase of the PRC cultural industry. The Group will also continue to explore business opportunities associated with its core business so as to strengthen its revenue base and maximise the return to the shareholders and the value of the Company.

Film and television series production and distribution

Having established a presence in the PRC film market, the Group has been well positioned as a producer of quality co-productions. The Group is confident in the PRC cultural industry's outlook which is encouraging for industry participants in view of the increasing support from the PRC Government. In order to capture the opportunities offered by the rapid development of the PRC cultural market, the Group will continue to expand its production capacities. As disclosed in the section headed "Recent Business Developments — Film and television series production and distribution" above, the Directors believed that the Group's business plan to release six films during the year ending 30 June 2015 is achievable.

In November 2013, the Group completed the acquisition of 40% equity interests in the JDH Group which is principally engaged in comic publication. The JDH Group also owns the intellectual property rights of a database of comic stories and heroes that are suitable for reproduction in films and television programme as well as for the development into online and mobile games. The daily management of JDH Group and its principal business activities are conducted by its existing management team, who has extensive experience in the field of comics publication. As disclosed in the Group's announcement issued on 15 November 2013, the Directors considered the acquisition would not only diversify the Group's revenue stream, but also bring further business opportunity to the Group as it is entitled to a first right of refusal to use the intellectual property rights of the JDH Group which the Directors believe are suitable for reproduction as films. The JDH Group had positively contributed to the results of the Group for the year ended 30 June 2014. Apart from its principal business in comics publication, its business will expand so as to make use of its valuable database of comic stories and comics heroes to develop films and television series as well as the aspect of mobile and online game. The Board believes that the JDH Group will continue to have a positive contribution to the results of the Group.

Film exhibition

As disclosed in the section headed "Recent Business Developments — Recent business activities" above, Cinema City Langham Place, which will be the Group's flagship cinema in Hong Kong, had been opened for trial operation in mid-November 2014 and is expected to officially commence operations in the first quarter of 2015. In particular, Mr. Wong, the executive Director, and the Group's cinema operation director, had approximately 4 years and 14 years of experience respectively in the management and operation of cinemas in Hong Kong. The Directors believe that the extensive network of our cinema operation director in the industry will facilitate the recruitment of staff with relevant experience in the future. Based on the existing recruitment plan, more staff had been recruited for the operation of the cinema. Based on the historical box office receipts of the cinema, together with the Exclusive Viewing Technology from South Korea, the Board believes that the cinema will be able to have a positive contribution to the results of the Group.

Pursuant to the lease agreement of Cinema City Langham Place, a four months' rent free period commencing in July 2014 was offered as compensation for the renovation period during which the cinema is not in operation (the "**Incentive**"). In light of the applicable accounting standard, such Incentive would be treated as a uniform reduction of rental expenses. With the lease term commenced on 23 July 2014, the rental expenses of Cinema City Langham Place will be immediately recognised. However, revenue will only be generated when the cinema commence operation in the fourth quarter of 2014. As such, the Group's results of the First Quarter of 2014/15 were adversely affected and it is expected that the Group's interim and the full financial year results will also be adversely affected. Please refer to the section below headed "Warning to possible adverse results of the Group for the year ending 30 June 2015" for further details.

Post-production

In September 2014, the Group established its post-production arm by way of cooperation with a post-production house in Hong Kong to participate in digital media post-production business. The post-production business is currently being set up. The Group, as a film

producer, had substantial knowledge in the post-production process through co-operating with various post-production studios. The Group believes that given the extensive post-production experience of the post-production house, the in-house post-production arm will enable the Group to better monitor and control its production costs, time and quality of its films which will benefit the Group in terms of improved production efficiency, cost effectiveness as well as providing the flexibility of fine tuning its films.

WARNING TO POSSIBLE ADVERSE RESULTS OF THE GROUP FOR THE YEAR ENDING 30 JUNE 2015

As disclosed in the announcement dated 23 September 2014 and the first quarterly results announcement dated 12 November 2014, pursuant to the lease agreement entered into between the Group and the landlord of the cinema located at the Langham Place, a rent-free period of four months commencing from 23 July 2014 was offered by the landlord as compensation for the renovation period during which the cinema was not in operation. In light of the accounting principles, practices and policies adopted by the Group under the applicable accounting standards, such incentive provided by the landlord is to be treated as a uniform reduction of rental expenses (that is, on a straight-line basis over the lease term). With the lease term having commenced on 23 July 2014, rental expenses have been immediately recognised under the abovementioned accounting treatment. However, revenue has only been generated after the cinema commences operation in the fourth quarter of 2014.

As disclosed in the first quarterly results announcement dated 12 November 2014, the Group reported a loss and total comprehensive expenses attributable to owners of the Company of approximately HK\$12.9 million for the First Quarter of 2014/15 as compared to a loss of approximately HK\$0.3 million for the same period of the previous financial year. Based on (i) the latest available information including, but not limited to, the current release schedule of films whereby two films are expected to be released close to the upcoming year end; this timing may result in certain related income (i.e. revenue from cinema circuit) to be recognised in the following financial year since such amount is recognised upon receipt of confirmation from the relevant cinema circuit operators after the end of the theatrical release of these films; (ii) preliminary review of, the consolidated management accounts of the Group for the four months ended 31 October 2014; and (iii) the expected aggregate rental expenses of approximately HK\$60.0 million incurred for the cinema premise (which will be compensated by income derived from the cinema operations) for the year ending 30 June 2015 due to the abovementioned accounting treatment of the compensation, barring unforeseen circumstances, the Group expects that its financial results for the year ending 30 June 2015 will experience a significant deterioration from its financial results for the year ended 30 June 2014.

Despite the above, the Board considers that the overall operations of the Group remain sound and intact. The Group's overall financial position also remains healthy.

REGULATORY COMPLIANCE

With the expansion of the Group's business scope, the Group will also be subject to the following regulations additional to those disclosed in the Prospectus.

Film exhibition

Prior to the commencement of business of Cinema City Langham Place, the Group is required to obtain places of public entertainment license (cinema/theatre) and food factory license from the Food and Environmental Hygiene Department (the "FEHD"). Such licenses had been granted to the previous tenant of the site who operated a cinema and applications to transfer such licenses from the previous tenant to the Group had been granted by the FEHD. Further, as part of the Exclusive Viewing Technology, approval of the design, specification, method and programme of installation of the motion chair at Cinema City Langham Place had been granted by the Electrical and Mechanical Services Department. As at the Latest Practicable Date, the Group is not aware of any material legal impediment in relation to the business operation of Cinema City Langham Place.

Post-production

The Directors confirm that there is no specific regulatory framework in Hong Kong and no particular or specific license or permit is required by the Group to carry out its post-production business as at the Latest Practicable Date.

QUARTERLY REPORTING OF FINANCIAL RESULTS

Upon the Transfer of Listing, the Company will cease the practice of quarterly reporting of its financial results and will follow the relevant requirements of the Main Board Listing Rules which include publishing its interim results and annual results within two months and three months from the end of the relevant periods or financial year end, respectively. The Board is of the view that investors and Shareholders will continue to have access to relevant information of the Company following the reporting requirements under the Main Board Listing Rules.

CONTINUING CONNECTED TRANSACTION

Prior to the listing of the Company on GEM, the Group entered into a number of transactions with certain entities which have become connected persons (as defined in the GEM Listing Rules) of the Company upon the listing the Shares. Following the listing of the Shares in October 2012, these transactions have continued in the ordinary and usual course of business and thereby have become continuing connected transactions of the Company under the GEM Listing Rules, details of which are set out in the Prospectus and annual reports of the Company. Upon the Transfer of Listing, these continuing connected transactions of the Company will continue and the Company will comply with the relevant rules of the Main Board Listing Rules.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be made available for viewing on the respective websites of the Company at <http://www.pegasusmovie.com> and of the Stock Exchange at <http://www.hkexnews.hk>:

- (a) the memorandum and articles of associations of the Company;
- (b) the interim report of the Company for the six months ended 31 December 2013;
- (c) the Directors' report and annual report of the Company for the year ended 30 June 2014;
- (d) the first quarterly report of the Company for the three months ended 30 September 2014;
- (e) the circular of the Company dated 9 January 2014 in relation to the refreshment of general mandate to issue new Shares;
- (f) the circular of the Company dated 24 January 2014 in relation to a major transaction;
- (g) the circular of the Company dated 4 June 2014 in relation to the proposed change of company name;
- (h) the circular of the Company dated 25 September 2014 in relation to the general mandates to issue and repurchase Shares, re-election of Directors and re-appointment of auditor; and
- (i) a copy of each of the announcements and other corporate communications made by the Company prior to the date of this announcement as required under the GEM Listing Rules and the Main Board Listing Rules.

DEFINITIONS

“associate(s)”	has the meaning ascribed to it under the Main Board Listing Rules;
“Board”	the board of Directors;
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC;
“Company”	Pegasus Entertainment Holdings Limited, a company incorporated in the Cayman Islands with limited liability and the issued shares of which are listed on the GEM;
“Controlling Shareholder(s)”	has the meaning ascribed to it under the Main Board Listing Rules and unless the context requires otherwise, refer to Honour Grace Limited, Mr. Wong Pak Ming, Mr. Wong Chi Woon Edmond and Ms. Wong Yee Kwan Alvina;

“Director(s)”	director(s) of the board of the Company;
“First Quarter of 2014/15”	the three months ended 30 September 2014;
“GEM”	the Growth Enterprise Market of the Stock Exchange;
“GEM Listing Rules”	the Rules Governing the Listing of Securities on the GEM;
“Group”	the Company and its subsidiaries;
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong;
“HKSCC”	Hong Kong Securities Clearing Company Limited;
“Hong Kong”	Hong Kong Special Administrative Region of the PRC;
“Independent Third Party(ies)”	a person or persons or a company or companies which, to the best of our Directors’ knowledge, information and belief, having made all reasonable enquires, is not or are not our connected person(s) within the meaning ascribed under the GEM Listing Rules;
“JDH Group”	Jade Dynasty Holdings Limited and its subsidiaries;
“Latest Practicable Date”	29 December 2014, being the latest practicable date prior to the issue of this announcement for ascertaining certain information contained in this announcement;
“Main Board”	the stock market operated by the Stock Exchange prior to the establishment of GEM (excluding the options market) which stock market continues to be operated by the Stock Exchange in parallel with GEM; for the avoidance of doubt, the Main Board excludes GEM;
“Main Board Listing Rules”	the Rules Governing the Listing of Securities on the Main Board;
“Personal Library”	The film library owned by the Group’s Controlling Shareholders;
“PRC”	People’s Republic of China;
“Prospectus”	the prospectus of the Company dated 9 October 2012;
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company;
“Shareholder(s)”	holder(s) of the Share(s);
“Share Option Scheme”	the share option scheme conditionally adopted by the Company on 5 October 2012;

“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Track Record Period”	the three years ended 30 June 2012, 2013 and 2014;
“Transfer of Listing”	the transfer of listing of the Shares from GEM to the Main Board;
“US\$”	United States dollars, the lawful currency of the United States of America; and
“%”	per cent.

By order of the Board
Pegasus Entertainment Holdings Limited
Wong Pak Ming
Chairman

Hong Kong, 30 December 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, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Main Board Listing Rules and 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: (a) the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive; (b) there are no other matters the omission of which would make any statement in this announcement misleading; and (c) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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).