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

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1326)

Interim Results Announcement
for the Six Months Ended 31 December 2014

Financial Highlights

- The Group (as defined below) recorded revenue of approximately HK$40.2 million for the six months ended 31 December 2014, an increase of approximately HK$7.3 million or approximately 22.0% when compared to the same period of the previous financial year.

- Gross profit margin for the six months ended 31 December 2014 was approximately 43.7% which translates into gross profit of approximately HK$17.6 million.

- As disclosed in various announcements of the Company, in compliance with the relevant accounting standard, rental expenses in relation to the cinema located at Langham Place had been recognised from 23 July 2014 whilst revenue will only be generated after the cinema commences operation in the fourth quarter of 2014. As a result, the Group reported a loss attributable to owners of the Company of approximately HK$29.0 million for the six months ended 31 December 2014 as compared to a profit of approximately HK$4.5 million for the same period of the previous financial year.

- The Group's net assets and net current assets as at 31 December 2014 amounted to approximately HK$325.0 million and approximately HK$197.0 million respectively.

- The Board (as defined below) does not recommend the payment of any dividend for the six months ended 31 December 2014.

Interim Results for the Six Months Ended 31 December 2014

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 six months ended 31 December 2014 together with the comparative unaudited figures for the corresponding period in 2013 as follows:

Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the six months ended 31 December 2014

	Notes	**Six months ended 31 December** **2014** ***HK$'000*** **(Unaudited)**	2013 *HK$'000* (Unaudited)
Revenue	*3*	**40,211**	32,961
Cost of sales		**(22,658)**	(20,766)
Gross profit		**17,553**	12,195
Other income and gain		**646**	653
Selling and distribution expenses		**(36,067)**	(1,816)
Administrative expenses		**(11,336)**	(9,803)
Finance costs	*5*	**(10)**	(34)
Share of results of an associate		**220**	3,555
(Loss)/profit before tax		**(28,994)**	4,750
Income tax expense	*6*	**–**	(239)
(Loss)/profit for the period	*7*	**(28,994)**	4,511
Other comprehensive income/(expense)			
Item that may be reclassified subsequently to profit or loss			
Share of exchange difference of an associate		**3**	(14)
Other comprehensive income/(expense) for the period, net of income tax		**3**	(14)
Total comprehensive (expense)/income for the period		**(28,991)**	4,497
(Loss)/profit for the period attributable to:			
Owners of the Company		**(28,963)**	4,511
Non-controlling interests		**(31)**	–
		(28,994)	4,511
Total comprehensive (expense)/income attributable to:			
Owners of the Company		**(28,960)**	4,497
Non-controlling interests		**(31)**	–
		(28,991)	4,497
(Loss)/earnings per share	*8*		
Basic (HK cents)		**(5.7)**	1.0
Diluted (HK cents)		**N/A**	1.0

Consolidated Statement of Financial Position
As at 31 December 2014

	Notes	**As at 31 December 2014** *HK$'000* **(Unaudited)**	As at 30 June 2014 *HK$'000* (Audited)
Non-current assets			
Property, plant and equipment	*10*	**47,067**	1,363
Interest in an associate		**58,861**	58,638
Prepayment to an artiste		**18,000**	24,000
Available-for-sale investment		**4,056**	4,056
		127,984	88,057
Current assets			
Film rights		**22,854**	25,357
Film production in progress		**96,070**	56,002
Investments in film/drama production		**24,498**	29,530
Inventories		**729**	–
Trade and other receivables	*11*	**39,365**	35,400
Prepayment to an artiste		**12,000**	11,000
Rental deposit		**18,712**	18,712
Tax recoverable		**313**	–
Pledged bank deposit	*12*	**30,294**	30,173
Bank balances and cash		**27,703**	17,633
		272,538	223,807
Current liabilities			
Other payables		**41,719**	6,621
Receipts in advance		**33,173**	9,061
Amounts due to a related company		**637**	510
Tax payable		**–**	4,368
		75,529	20,560
Net current assets		**197,009**	203,247
Total assets less current liabilities		**324,993**	291,304
Capital and reserves			
Share capital		**5,310**	4,800
Reserves		**317,886**	286,476
Equity attributable to owners of the Company		**323,196**	291,276
Non-controlling interests		**1,769**	–
Total equity		**324,965**	291,276
Non-current liability			
Deferred tax liability		**28**	28
		324,993	291,304

Consolidated Statement of Changes in Equity

For the six months ended 31 December 2014

	Attributable to owners of the Company								
	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)	Total HK$'000 (Unaudited)	Non-controlling interests HK$'000 (Unaudited)	Total equity HK$'000 (Unaudited)
At 1 July 2013 (Audited)	4,000	129,685	–	–	10	60,225	193,920	–	193,920
Profit for the period	–	–	–	–	–	4,511	4,511	–	4,511
Other comprehensive expenses for the period:									
Share of exchange difference of an associate	–	–	–	(14)	–	–	(14)	–	(14)
Total comprehensive income for the period	–	–	–	(14)	–	4,511	4,497	–	4,497
Issue of new shares	800	71,200	–	–	–	–	72,000	–	72,000
Cost of issuing new shares	–	(1,717)	–	–	–	–	(1,717)	–	(1,717)
Issue of warrants	–	–	960	–	–	–	960	–	960
Cost of issuing warrants	–	–	(250)	–	–	–	(250)	–	(250)
At 31 December 2013 (Unaudited)	4,800	199,168	710	(14)	10	64,736	269,410	–	269,410
At 1 July 2014 (Audited)	**4,800**	**199,168**	**710**	**(23)**	**10**	**86,611**	**291,276**	**–**	**291,276**
Loss for the period	**–**	**–**	**–**	**–**	**–**	**(28,963)**	**(28,963)**	**(31)**	**(28,994)**
Other comprehensive income for the period:									
Share of exchange difference of an associate	**–**	**–**	**–**	**3**	**–**	**–**	**3**	**–**	**3**
Total comprehensive expense for the period	**–**	**–**	**–**	**3**	**–**	**(28,963)**	**(28,960)**	**(31)**	**(28,991)**
Non-controlling interests arising from capital contribution to a subsidiary of the Company	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,800**	**1,800**
Issue of new shares	**510**	**63,427**	**(7)**	**–**	**–**	**–**	**63,930**	**–**	**63,930**
Cost of issuing new shares	**–**	**(3,050)**	**–**	**–**	**–**	**–**	**(3,050)**	**–**	**(3,050)**
At 31 December 2014 (Unaudited)	**5,310**	**259,545**	**703**	**(20)**	**10**	**57,648**	**323,196**	**1,769**	**324,965**

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

Notes to the Interim Results

1. General information

The Company is a limited liability company incorporated in the Cayman Islands on 8 March 2012. The Company's registered office is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and its principal place of business is located at Rooms 1801–2, Westlands Centre, 20 Westlands Road, Quarry Bay, Hong Kong. Its immediate and ultimate holding company is Honour Grace Limited, 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 and have been transferred from GEM to Main Board of the Stock Exchange on 9 January 2015. The Company is an investment holding company. The Group is principally engaged in film and television ("**TV**") series production, distribution and licensing of film rights, film exhibition and post-production.

2. Basis of preparation

The unaudited consolidated financial statements for the six months ended 31 December 2014 (the "**Interim Financial Statements**") have been prepared in accordance with Hong Kong Accounting Standard ("**HKAS**") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities of the Stock Exchange (the "**Listing Rules**").

The Interim Financial Statements have been prepared under the historical cost basis. The principal accounting policies used in the preparation of the Interim Financial Statements are consistent with those used in the annual consolidated financial statements for the year ended 30 June 2014 except for the adoption of the following new and revised significant accounting policies used in the preparation of the Interim Financial Statements.

Inventories

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

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided and sales of goods in the normal course of business, net of discount.

(i) income from box office takings for film exhibition is recognised upon the sale of tickets and when the film is released;

(ii) revenue from the sales of goods, including merchandise and concessionary in the cinema, is recognised upon the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed;

(iii) income from the screen advertising is recognised when relevant advertisements and programme are exhibited pursuant to the terms of the relevant agreements; and

(iv) membership income is recognised on a straight-line basis over the membership period.

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 HKFRS 8	Operating segments
Amendments to HKFRS 10, HKFRS 12 and HKFRS 27	Investment entities
Amendments to HKAS 32	Offsetting financial assets and financial liabilities
Amendments to HKAS 36	Recoverable amount disclosures for non-financial assets
Amendments to HKAS 39	Novation of derivatives and continuation of hedge accounting
HK(IFRIC)-Int 21	Levies

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 is in the process of accessing the relevant impact of the new and revised HKFRSs on its results and financial position and has not adopted any new and revised HKFRSs which have been issued but are not yet effective.

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

3. Revenue

	Six months ended 31 December	
	2014	2013
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Film production, distribution and licensing income	**31,476**	31,782
Film exhibition income	**7,760**	–
Services income	**975**	1,179
	40,211	32,961

4. Segment information

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

The Group is organised into three main reportable segments as follows:

(i) Film and TV series production and distribution;

(ii) Film exhibition; and

(iii) Post-production.

Segment results represent the profit earned or loss incurred by each segment without allocation of unallocated other income and gains, central administration costs, share of results of an associate, finance costs and income tax expense. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

The segment results for the six months ended 31 December 2013 and 2014 are as follows:

	Film and TV series production and distribution		Film exhibition		Post-production		Total	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)	**(Unaudited)**	(Unaudited)	**(Unaudited)**	(Unaudited)
Segment revenue — External customers	**32,210**	32,961	**7,760**	–	**241**	–	**40,211**	32,961
Segment profit/(loss)	**2,622**	4,946	**(28,189)**	(486)	**(403)**	–	**(25,970)**	4,460
Unallocated other income and gain							**168**	345
Unallocated head office and corporate expenses							**(3,402)**	(3,576)
Finance costs							**(10)**	(34)
Share of results of an associate							**220**	3,555
(Loss)/profit before tax							**(28,994)**	4,750
Income tax expense							**–**	(239)
(Loss)/profit for the period							**(28,994)**	4,511
Depreciation for the period	**89**	154	**673**	–	**148**	–	**910**	154

Geographical information

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

	Six month ended 31 December	
	2014	2013
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Hong Kong and Macau	**18,336**	1,655
The People's Republic of China (the "**PRC**")	**18,372**	18,014
South East Asia region	**1,049**	3,755
Others	**2,454**	9,537
	40,211	32,961

Information about major customers

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

	Six month ended 31 December	
	2014	2013
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Customer A	**6,048**	–
Customer B	**5,458**	–
Customer C	**–**	12,688
Customer D	**–**	6,000
Customer E	**–**	5,292

5. Finance costs

	Six months ended 31 December	
	2014	2013
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Interest on bank overdrafts	**10**	34

6. Income tax expense

	Six months ended 31 December	
	2014	2013
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
The income tax expense comprises:		
Hong Kong Profits Tax		
— current	**–**	239

No provision for Hong Kong Profits Tax is required as the Group had no estimated assessable profit for the six months ended 31 December 2014.

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

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 losses for the six months ended 31 December 2013 and 2014 and no provision for Enterprise Income Tax were made for these periods.

7. (Loss)/profit for the period

	Six months ended 31 December	
	2014	2013
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
(Loss)/profit for the period has been arrived at after charging:		
Directors' emoluments	**1,908**	1,695
Other staff costs	**4,313**	3,059
Retirement benefit scheme contributions, excluding those of Directors	**251**	228
Total staff costs	**6,472**	4,982
Depreciation of property, plant and equipment	**999**	309
Net exchange loss	**64**	–
Cost of film rights recognised as expenses	**18,987**	20,766
Cost of services provided	**3,537**	–
Cost of inventories sold	**134**	–
Minimum lease payments under operating leases	**25,748**	728
and crediting:		
Bank interest income	**168**	92
Net exchange gain	**–**	252

8. (Loss)/earnings per share

The calculation of the basic and diluted (loss)/earnings per share attributable to owners of the Company for the six months ended 31 December 2013 and 2014 is based on the following data:

	Six months ended 31 December	
	2014	2013
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
(Loss)/earnings		
(Loss)/profit for the period attributable to owners of the Company for the purposes of basic and diluted (loss)/earnings per share	**(28,963)**	4,511
Number of shares		
Weighted average number of ordinary shares for the purpose of basic (loss)/earnings per share	**510,744,565**	459,728,261
Effect of dilutive ordinary shares arising from issue of warrants		1,365,299
Weighted average number of ordinary shares for the purpose of diluted earnings per share		461,093,560

No adjustment has been made to the basic loss per share presented for the six months ended 31 December 2014 in respect of a dilution as the impact of the warrants outstanding had an anti-dilutive effect on the basic loss per share presented.

9. Dividends

The Board does not recommend the payment of any interim dividend for the six months ended 31 December 2014 (2013: Nil).

10. Property, plant and equipment

During the period, the Group incurred capital expenditure of approximately HK$46,703,000 (six months ended 31 December 2013: HK$30,000) represented additions to the leasehold improvements as well as furniture, fixtures and equipment of approximately HK$19,834,000 and HK$26,869,000 respectively in relation to the film exhibition and the post-production segments.

11. Trade and other receivable

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

	31 December 2014	30 June 2014
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade receivables:		
0–30 days	**10,745**	4,725
31–60 days	**–**	–
61–90 days	**–**	1,436
91–180 days	**2,885**	555
181–365 days	**–**	2,400
Over 365 days	**–**	1,829
	13,630	10,945
Other receivables, deposits and prepayments	**9,985**	8,705
Prepayment for investment in TV series production *(note)*	**15,750**	15,750
	39,365	35,400

Generally, with the exception of post-production customers, who are generally granted credit period ranging from 30 to 60 days, no credit period is granted to the Group's customers. Distribution and licensing fee from distributors in Hong Kong, the PRC and overseas countries are normally settled upon delivery of film negatives to them. On a case-by-case basis, credit period of one to two months may be granted to the Group's customers with good repayment history.

Note:

The amount represented prepayment paid to an independent third party in the PRC as investment in a PRC TV series, the production of which had yet to commence. Pursuant to the supplemental agreement entered into between the parties on 28 March 2014, if production of the TV series does not commence on or before the end of October 2014, the prepayment will be fully returned to the Group. As at date of this announcement, as production for the PRC TV series has yet to commence, the Group is in the process of obtaining full repayment of the prepayment amount and expects that such prepayment will be received by March 2015.

12. Pledged bank deposit

As at 31 December 2014, the amount represented a bank deposit of HK$30,294,000 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 mature on 24 March 2015.

The amount is denominated in the functional currency of the respective group entity.

Dividend

The Board does not recommend the payment of any interim dividend for the six months ended 31 December 2014 (2013: Nil).

Management Discussion and Analysis

Business review and Outlook

The Group is principally engaged in film and TV series production, distribution and licensing of film rights, film exhibition and post-production. The Group produces films and TV series in Chinese language with the PRC as its major market and operates a cinema and a post-production house in Hong Kong.

During the period under review, the Group had continued to carry out its business plan as disclosed in the prospectus of the Company dated 9 October 2012 (the "**Prospectus**"). The Group had achieved another milestone following the Listing by taking important steps towards its expansion into a diversified cultural business. 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 TV series production and distribution and licensing of film rights to include film exhibition and post-production. Cinema City Langham Place, the Group's flagship cinema located in the prime area of Mongkok (a popular shopping and entertainment district in Hong Kong) had been opened for trial operation in mid-November 2014 and officially commenced operation in January 2015. The cinema has six auditoriums equipped with the most advanced projection and sound systems. The introduction of the "4Dx", an exclusive viewing technology from South Korea (the "**Exclusive Viewing Technology**") will also bring an unprecedented new experience of film viewing to Hong Kong. In September 2014, the Group established its in-house post-production arm through cooperating with a post-production house in Hong Kong with over twenty 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 previously been outsourced to external service providers.

During the period under review, the Group generated revenue by (i) licensing films it produced to co-producers in the PRC and film distributors and licensees in Hong Kong and overseas; (ii) operating a cinema for film exhibition in Hong Kong as well as sales of goods and services in the cinema; and (iii) providing post-production services. In addition, the Group recognised service income from commission received for distributing films and TV series in the film library owned by the controlling shareholders of the Company.

The Group has released one film, namely "Kung Fu Angels" (青春鬥), during the six months ended 31 December 2014 and one film, namely "Baby Blues" (詭嬰), during the corresponding period in 2013. 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 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.

In 2014, the film industry in the PRC has seen a very rapid pace of development with (i) total box office receipts exceeding RMB 29.0 billion, representing a year-on-year rise of 36.2%; and (ii) total number of cinema admissions increasing by 34.5% to 830 million, clearly indicating that the PRC film market has entered a golden phase of development. Given the continuing growth of the PRC cultural industry as well as the encouragement of the PRC Government, the Group is confident in the PRC cultural industry's outlook which is encouraging for industry participants in terms 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.

The Directors regularly evaluates the Group's business objective and may change or modify plans against the changing market condition to ascertain the business growth of the Group. The Group intended to release four films for the year ending 30 June 2015 of which one film and three films will be released in the first and second half of the year ending 30 June 2015, respectively.

The Group has been cautious in its 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, due to the significant expansion of domestic films development in the PRC, time required to obtain 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) ("**SAPPRFT**") has extended beyond expectation. As such, the main casts and production crew availability has also been affected by this unexpected delay in approval schedules. Given this, the Directors had evaluated the Group's film business plan and believed that four films would be released during the year ending 30 June 2015 of which one film, being "Kung Fu Angels" (青春鬥), was already released during the first half of this financial year and three films will be released in the second half of this financial year. Up to the date of this announcement, the Group's Chinese New Year film, namely "An Inspector Calls" (浮華宴), is now showing in the PRC and Hong Kong cinemas, while the Group has completed the production of a film, which is being scheduled for screening and another film is in the post-production stage. All three of these films are expected to be released during the year ending 30 June 2015. Further, due to the unexpected delay in approval of the scripts of two films from the SAPPRFT, which were previously expected to be released during this financial year, the release of these two films have been postponed to the following financial year . The Group is currently in the process of identifying PRC co-producers and production will commence accordingly.

In addition to the Group's self-productions, the Group has invested in an international film, namely "Inversion", a sci-fi movie intended to be produced for global distribution through international cinemas in the second half of 2016 and certain TV programme and animations projects with independent production houses. "Inversion" has achieved important initial achievement as it received considerable pre-sale amounting to approximately US$40.0 million in the Cannes Film market last year. The Group believes that the participation in the investments will enhance its network in the film and TV industry through cooperating with prominent production houses and further improve its image in the production and distribution sector. These networks and activities undertaken for the Group's maintenance and expansion is part and parcel to the Group's film and TV series production business. The Group will continue to identify appropriate film and TV programme investment projects so as to further expand its participation in the film and TV market and generate additional revenue.

The Group's associate, Jade Dynasty Holdings Limited and its subsidiaries (the "**JDH Group**") had positively contributed to the results of the Group. 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 TV series as well as the aspect of mobile and online game. The Group believes the JDH Group will continue to have a positive contribution to the results of the Group.

Cinema City Langham Place officially commenced business in January 2015, with the combination of the desirable locale and the offer of the Exclusive Viewing Technology, the Directors believe that the cinema will be able to have a positive contribution to the future results of the Group. Pursuant to the lease agreement entered into between the Group and the landlord of the cinema, 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.

In addition to enabling 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, the post-production arm will also enable the Group to participate in digital media post-production business to external customers to generate positive return to the Group.

As a result of (i) the expansion of the Group's business activities to include film exhibition and post-production with both being in the initial stages; and (ii) the unexpected delay on script approval schedules from SAPPRFT, this is a challenging year of the Group. 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 postponed to beyond this financial year; and (ii) 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 Directors consider that the overall operations of the Group remain sound and intact. The Group's overall financial position also remains healthy.

Looking forward, the Group will continue to focus on its core business 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.

Financial review

Revenue

Revenue and gross profit of the Group were approximately HK$40.2 million and HK$17.6 million respectively for the six months ended 31 December 2014, representing increases of approximately HK$7.3 million or 22.0% and HK$5.4 million or 43.9% respectively compared to the same period of the previous financial year. This was mainly due to the revenue arising from the film exhibition in the Cinema City Langham Place. Gross profit margin for the six months ended 31 December 2014 was approximately 43.7%, which showed an increase from that of approximately 37.0% for the corresponding period of the previous financial year. This was mainly due to the revenue contributed by general-scale films during the six months ended 31 December 2014 as opposed to a large-scale film for corresponding period of the previous financial year. Due to the relatively large cost involved, large scale production inherently has a lower gross profit margin. In addition, the gross profit margin for the film exhibition was approximately 50.0% whilst no such operation in the same period of the previous financial year.

Selling and distribution expenses

Selling and distribution expenses increased by approximately HK$34.3 million from approximately HK$1.8 million for the six months ended 31 December 2013 to approximately HK$36.1 million for the six months ended 31 December 2014. This was mainly due to (i) the cinema circuit distribution expenses of "Z Storm" (Z 風暴) of approximately HK$2.8 million and (ii) the rental expenses and management fee of the cinema for the film exhibition business commenced on 23 July 2014 of approximately HK$27.4 million whilst no such expenses were recorded for the same period of the previous financial year.

Administrative expenses

Administrative expenses increased by approximately HK$1.5 million or 15.6% from approximately HK$9.8 million for the six months ended 31 December 2013 to approximately HK$11.3 million for the six months ended 31 December 2014. This was mainly due to (i) the increase of the total staff costs by approximately HK$0.8 million as a result of the average number of employees increasing from 29 for the six months ended 31 December 2013 to 42 for the six months ended 31 December 2014; and (ii) the increase of expenses by approximately HK$0.3 million in relation to corporate actions and promotion as well as other professional fees paid for the expansion of the Group's business.

Share of results of an associate

During the period under review, the operation of the JDH Group had contributed approximately HK$0.2 million to the Group, which were generated by the comics publication and licensing of its database of comic stories and comics heroes for films and TV series development as well as related merchandising products. As compared to the contribution from the same period of the previous financial year of approximately HK$3.6 million, the decrease was mainly due to the reduction of licensing income of its database of comic stories and comics heroes for films and TV series development.

(Loss)/profit for the period

The Group's loss and total comprehensive expense attributable to owners of the Company for the six months ended 31 December 2014 amounted to approximately HK$29.0 million (2013: profit and total comprehensive income attributable to owners of the Company amounted to approximately HK$4.5 million). The loss for the period under review compared to the profit in the same period of the previous financial year was primarily a result of the significant increase in selling and distribution expenses as aforesaid.

As disclosed in various announcements of the Company, 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 commenced operation in November 2014. As such, the Group's results for the six months ended 31 December 2014 was adversely affected.

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 2014.

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 Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "**GEM Listing Rules**") during the six months ended 31 December 2014 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 Pak Ming 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.

Audit Committee

The audit committee of the Company (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. Since 9 January 2015, the written terms of reference of the Audit Committee was in compliance with Rules 3.21 to 3.23 of the Listing Rules and Corporate Governance Code set out in Appendix 14 of the Listing Rules. 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 2014 has been reviewed by the Audit Committee.

Publication of Interim Results Announcement and Interim Report

The interim results announcement is published on the websites of the Company (www.pegasusmovie.com) and the Stock Exchange (www.hkexnews.hk). The 2014/15 Interim Report will be dispatched to shareholders and available on the above websites in due course.

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

Hong Kong, 26 February 2015

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.