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 2015

FINANCIAL HIGHLIGHTS

- The Group (as defined below) recorded revenue of approximately HK$309.4 million for the six months ended 31 December 2015, an increase of approximately HK$269.2 million or approximately 669.4% when compared to the same period of the previous financial year. This was mainly driven by the considerable income derived from the distribution and licensing of the large-scale film produced by the Group, namely "Ip Man 3" (葉問3).

- Gross profit margin for the six months ended 31 December 2015 was approximately 40.4% which translates into gross profit of approximately HK$125.1 million.

- The Group reported a profit attributable to owners of the Company of approximately HK$8.0 million for the six months ended 31 December 2015 as compared to a loss of approximately HK$29.0 million for the same period of the previous financial year, the positive change in the financial performance for the period under review was primarily resulted from the outstanding performance of the film and TV series production and distribution segment.

- The Group's net assets and net current assets as at 31 December 2015 amounted to approximately HK$423.3 million and approximately HK$177.7 million respectively.

- The Board (as defined below) does not recommend the payment of any dividend for the six months ended 31 December 2015.

INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2015

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 2015 together with the comparative unaudited figures for the corresponding period in 2014 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 31 December 2015

		Six months ended 31 December	
		2015	2014
	Notes	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)
Revenue	*3*	**309,381**	40,211
Cost of sales		**(184,248)**	(22,658)
Gross profit		**125,133**	17,553
Other income and gain		**2,173**	646
Selling and distribution expenses		**(49,158)**	(36,067)
Administrative expenses		**(62,966)**	(11,336)
Finance costs	*5*	**(139)**	(10)
Share of results of an associate		**887**	220
Share of results of a joint venture		**(572)**	–
Profit (loss) before tax		**15,358**	(28,994)
Income tax expense	*6*	**(10,181)**	–
Profit (loss) for the period	*7*	**5,177**	(28,994)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Exchange difference on translation of foreign operations		**945**	–
Share of exchange difference of an associate		**–**	3
Other comprehensive income for the period, net of income tax		**945**	3
Total comprehensive income (expense) for the period		**6,122**	(28,991)

	Notes	Six months ended 31 December	
		2015	2014
		HK$'000	*HK$'000*
		(Unaudited)	(Unaudited)
Profit (loss) for the period attributable to:			
Owners of the Company		**8,025**	(28,963)
Non-controlling interests		**(2,848)**	(31)
		5,177	(28,994)
Total comprehensive income (expense) for the period attributable to:			
Owners of the Company		**8,970**	(28,960)
Non-controlling interests		**(2,848)**	(31)
		6,122	(28,991)
			(Restated)
Earnings (loss) per share	*8*		
Basic (HK cents)		**0.3**	(1.4)
Diluted (HK cent)		**0.3**	N/A

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2015

	Notes	**31 December 2015** *HK$'000* **(Unaudited)**	30 June 2015 *HK$'000* (Audited)
Non-current assets			
Property, plant and equipment		**42,451**	45,458
Goodwill		**43,084**	43,084
Intangible assets		**31,691**	37,268
Interest in an associate		**54,979**	54,092
Interest in a joint venture	*9*	**49,448**	–
Prepayment to an artiste		**12,000**	18,000
Available-for-sale investment		**4,056**	4,056
Deferred tax asset		**7,945**	9,580
		245,654	211,538
Current assets			
Film rights		**28,672**	6,931
Film production in progress		**82,665**	181,753
Investments in film/drama production		**33,638**	25,530
Inventories		**1,107**	931
Trade and other receivables	*10*	**18,818**	12,881
Prepayment to an artiste		**12,000**	12,000
Rental deposits		**20,062**	20,130
Amount due from non-controlling interest		**347**	–
Tax recoverable		**56**	224
Pledged bank deposits		**55,105**	31,066
Bank balances and cash		**78,265**	81,750
		330,735	373,196
Current liabilities			
Trade and other payables	*11*	**77,578**	45,508
Receipts in advance		**53,266**	170,683
Amount due to a related company		**2,980**	694
Amount due to non-controlling interest		**–**	7
Tax payable		**8,278**	–
Bank borrowings — due within one year		**10,950**	–
		153,052	216,892
Net current assets		**177,683**	156,304
Total assets less current liabilities		**423,337**	367,842

	31 December 2015	30 June 2015
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Capital and reserves		
Share capital	**6,309**	6,040
Reserves	**410,232**	351,150
Equity attributable to owners of the Company	**416,541**	357,190
Non-controlling interests	**6,796**	10,652
Total equity	**423,337**	367,842

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2015

	Attributable to owners of the Company									
	Share capital	Share premium	Share option reserve	Other reserve*	Exchange reserve	Warrants reserve	Retained profits (accumulated losses)	Sub-total	Non-controlling interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
At 1 July 2014 (Audited)	4,800	199,168	–	10	(23)	710	86,611	291,276	–	291,276
Loss for the period	–	–	–	–	–	–	(28,963)	(28,963)	(31)	(28,994)
Share of exchange difference of an associate	–	–	–	–	3	–	–	3	–	3
Total comprehensive expense for the period	–	–	–	–	3	–	(28,963)	(28,960)	(31)	(28,991)
Capital contribution from non-controlling interests	–	–	–	–	–	–	–	–	1,800	1,800
Issue of new shares	500	62,500	–	–	–	–	–	63,000	–	63,000
Cost of issuing new shares	–	(3,050)	–	–	–	–	–	(3,050)	–	(3,050)
Issue of shares upon exercise of warrants	10	927	–	–	–	(7)	–	930	–	930
At 31 December 2014 (Unaudited)	5,310	259,545	–	10	(20)	703	57,648	323,196	1,769	324,965
At 1 July 2015 (Audited)	**6,040**	**479,313**	**–**	**10**	**(21)**	**495**	**(128,647)**	**357,190**	**10,652**	**367,842**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**–**	**8,025**	**8,025**	**(2,848)**	**5,177**
Exchange difference on translation of foreign operations	**–**	**–**	**–**	**–**	**945**	**–**	**–**	**945**	**–**	**945**
Total comprehensive income (expense) for the period	**–**	**–**	**–**	**–**	**945**	**–**	**8,025**	**8,970**	**(2,848)**	**6,122**
Acquisition of non-controlling interest of a subsidiary	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(1,008)**	**(1,008)**
Recognition of equity-settled share-based payment	**–**	**–**	**25,272**	**–**	**–**	**–**	**–**	**25,272**	**–**	**25,272**
Transfer upon share options lapsed	**–**	**–**	**(25,272)**	**–**	**–**	**–**	**25,272**	**–**	**–**	**–**
Issue of shares upon exercise of warrants	**269**	**25,040**	**–**	**–**	**–**	**(200)**	**–**	**25,109**	**–**	**25,109**
At 31 December 2015 (Unaudited)	**6,309**	**504,353**	**–**	**10**	**924**	**295**	**(95,350)**	**416,541**	**6,796**	**423,337**

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

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

2. BASIS OF PREPARATION

The unaudited consolidated financial statements for the six months ended 31 December 2015 (the "Interim Financial Statements") have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

The Interim Financial Statements have been prepared under the historical cost basis. The principal accounting policies used in the preparation of the Interim Financial Statements are consistent with those used in the annual consolidated financial statements for the year ended 30 June 2015 except for the adoption of the following new and revised significant accounting policies used in the preparation of the Interim Financial Statements.

Investment in a joint venture

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of a joint venture are incorporated in the consolidated financial statements using the equity method of accounting. The financial statements of a joint venture used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profits or loss and other comprehensive income of a joint venture. When the Group's share of losses of a joint venture exceeds the Group's interest in that joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that joint venture.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 "Impairment of Assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with its joint venture, profits and losses resulting from the transactions with the joint venture are recognised in the consolidated financial statements only to the extent of interests in the joint venture that are not related to the Group.

Share-based payment arrangement

Equity-settled share-based payment transaction:

Share options granted to consultants

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service. The fair values of the goods or services received are recognised as expenses, with a corresponding increase in equity (share option reserve), when the Group obtains the goods or when the counterparties render services, unless the goods or services qualify for recognition as assets.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards. For those which are effective for accounting period beginning on 1 July 2015, the application has no material impact on the reported results and the financial position of the Group for the current and/or prior accounting periods. For those which are not yet effective, the Group is in the process of assessing their impact on the Group's results and financial position.

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

3. REVENUE

	Six months ended 31 December	
	2015	2014
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Film production, distribution and licensing income	**235,048**	31,476
Film exhibition income	**66,724**	7,760
Post-production income	**988**	241
Advertising income	**2,418**	–
Services income	**–**	734
Advertising, marketing and publication income	**4,203**	–
	309,381	40,211

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.

For the six months ended 31 December 2015, the Group is organised into four main reportable segments as follows:

(i) Film and TV series production and distribution;

(ii) Film exhibition;

(iii) Post-production; and

(iv) Advertising, marketing and publication.

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

Segment revenue and results

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

For the six months ended 31 December 2015:

	Film and TV series production and distribution *HK$'000* **(Unaudited)**	**Film exhibition** *HK$'000* **(Unaudited)**	**Post-production** *HK$'000* **(Unaudited)**	**Advertising, marketing and publication** *HK$'000* **(Unaudited)**	**Total** *HK$'000* **(Unaudited)**
Segment revenue — External customers	**237,466**	**66,724**	**988**	**4,203**	**309,381**
Segment profit (loss)	**69,898**	**(11,611)**	**(2,016)**	**(8,501)**	**47,770**
Unallocated other income and gain					**859**
Unallocated head office and corporate expenses					**(33,447)**
Finance costs					**(139)**
Share of results of an associate					**887**
Share of results of a joint venture					**(572)**
Profit before tax					**15,358**
Income tax expense					**(10,181)**
Profit for the period					**5,177**

For the six months ended 31 December 2014:

	Film and TV series production and distribution *HK$'000* (Unaudited)	Film exhibition *HK$'000* (Unaudited)	Post-production *HK$'000* (Unaudited)	Advertising, marketing and publication *HK$'000* (Unaudited)	Total *HK$'000* (Unaudited)
Segment revenue — External customers	32,210	7,760	241	–	40,211
Segment profit (loss)	2,622	(28,189)	(403)	–	(25,970)
Unallocated other income and gain					168
Unallocated head office and corporate expenses					(3,402)
Finance costs					(10)
Share of results of an associate					220
Loss before tax					(28,994)
Income tax expense					–
Loss for the period					(28,994)

Geographical information

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

	Six months ended 31 December	
	2015	2014
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Hong Kong and Macau	**79,716**	18,336
The People's Republic of China (the "PRC")	**189,340**	18,372
South East Asia region	**9,474**	1,049
Others	**30,851**	2,454
	309,381	40,211

5. FINANCE COSTS

	Six months ended 31 December	
	2015	2014
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Interest on bank borrowings wholly repayable within five years	**64**	–
Interest on bank overdrafts	**75**	10
	139	10

6. INCOME TAX EXPENSE

	Six months ended 31 December	
	2015	2014
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
The income tax expense comprises:		
Hong Kong Profits Tax		
— current	**8,546**	–
Deferred taxation	**1,635**	–
	10,181	–

Income tax expense represented Hong Kong Profits Tax payable by the Group for the six months ended 31 December 2015. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the six months ended 31 December 2015.

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.

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 subsidiaries are 25% from 1 January 2008 onwards. The PRC subsidiaries had incurred losses for the six months ended 31 December 2014 and 2015 and no provision for Enterprise Income Tax were made for these periods.

7. PROFIT (LOSS) FOR THE PERIOD

	Six months ended 31 December	
	2015	2014
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Profit (loss) for the period has been arrived at after charging:		
Directors' emoluments	**8,304**	1,908
Other staff costs	**11,040**	4,313
Retirement benefit scheme contributions, excluding those of Directors	**450**	251
Total staff costs	**19,794**	6,472
Depreciation of property, plant and equipment	**3,813**	999
Amortisation of intangible assets	**5,577**	–
Cost of film rights recognised as an expense	**148,659**	18,987
Cost of services provided	**34,385**	3,537
Cost of inventories sold	**1,204**	134
Impairment loss on other receivables	**2,011**	–
Minimum lease payments under operating leases in respect of:		
Premises	**2,069**	955
Cinema	**28,545**	24,718
Contingent rents incurred for cinema	**750**	75
Share-based payment expense	**25,272**	–
Net exchange losses	**3,161**	64
and after crediting:		
Bank interest income	**859**	168
Handling service income	**1,070**	–

8. EARNINGS (LOSS) PER SHARE

The calculation of the basic and diluted earnings (loss) per share attributable to owners of the Company for the six months ended 31 December 2014 and 2015 is based on the following data:

	Six months ended 31 December	
	2015	2014
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Earnings (loss)		
Profit (loss) for the period attributable to owners of the Company for the purpose of basic and diluted earnings (loss) per share	**8,025**	(28,963)

	Six months ended 31 December	
	2015	2014
	(Unaudited)	(Unaudited) (restated)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share	**2,462,834,063**	2,042,978,260
Effect of dilutive ordinary shares arising from issue of warrants	**128,962,910**	
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**2,591,796,973**	

The weighted average number of ordinary shares for the purpose of basic and diluted loss per share has been adjusted for the share subdivision effective on 22 July 2015 (please refer to the circular of the Company dated 3 July 2015 for the details). The basic loss per share for the six months ended 31 December 2014 has been restated accordingly.

No adjustment had 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. INTEREST IN A JOINT VENTURE

	31 December 2015	30 June 2015
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Cost of unlisted investment in a joint venture	**50,020**	–
Share of post-acquisition loss and other comprehensive expense	**(572)**	–
	49,448	–

Bounty Productions Limited ("BPL") is a special purpose entity incorporated in Hong Kong with limited liability for film production and distribution.

Pursuant to the Co-Production and Co-Financing Agreement entered into between the Group, Harmonious Entertainment (Shanghai) Co., Ltd. ("HES") and Bounty Yoohanhwesa ("BY"), the Group, HES and BY held 40.00%, 25.51% and 34.49% equity interest in BPL respectively. The board of directors of BPL, the governing body which directs the relevant activities that significantly affects the returns of BPL, consists of three directors of which the Group, HES and BY can appoint one director each to the board of directors of BPL. The relevant activities required to be approved unanimously by all these three directors. Therefore, BPL is jointly controlled by the Group, HES and BY. As the joint arrangement does not result in either parties having rights to assets and obligations to liabilities of BPL, it is accounted for as a joint venture of the Group.

10. TRADE AND OTHER RECEIVABLES

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

	31 December 2015	30 June 2015
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade receivables:		
0–30 days	**3,720**	1,983
31–60 days	**–**	3,479
61–90 days	**–**	1
91–180 days	**366**	98
181–365 days	**14**	458
	4,100	6,019
Other receivables, deposits and prepayments	**14,442**	6,454
Other deposits and prepayments for cinema operation	**276**	408
	18,818	12,881

Generally, with the exception of post-production and advertising, marketing and publication customers, who are generally granted credit period ranging from 30 to 60 days and 90 to 120 days respectively, no credit period is granted to the Group's customers. Distribution and licensing fee from distributors in Hong Kong, the PRC and overseas countries are normally settled upon delivery of film negatives to them. On a case-by-case basis, one to two months of credit period may be granted to its customers with good repayment history.

11. TRADE AND OTHER PAYABLES

The aged analysis of the Group's trade payables at the end of the reporting period is as follows:

	31 December 2015	30 June 2015
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade payables：		
Within 60 days	**23,627**	17,058
	23,627	17,058
Other payables and accruals	**53,389**	26,602
Deposits received	**562**	1,848
	77,578	45,508

The average credit period on purchases of goods is 60 to 90 days. The aging analysis of trade payables presented is based on the invoice date at the end of the reporting period.

DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 31 December 2015 (2014: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

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

During the six months ended 31 December 2015, the Group has taken important steps towards its expansion into a diversified cultural business and established a strong foothold in the film sector. With the successful positioning of the Company and implementation of corporate strategies, the Group has made remarkable achievements by recording increases in revenue for all of its business segments as abovementioned.

During the period under review, the Group generated total revenue of approximately HK$309.4 million and gross profit of approximately HK$125.1 million, representing an increase of approximately 669.4% and 612.9% respectively as compared to that of the corresponding period in the previous financial year. The Group's profit and total comprehensive income attributable to owners of the Company for the six months ended 31 December 2015 amounted to approximately HK$8.0 million and HK$9.0 million respectively, as compared to a loss or total comprehensive expense attributable to owners of the Company of approximately HK$29.0 million during the same period of the previous financial year. The positive change in the financial performance for the period under review was primarily resulted from the outstanding performance of the film and TV series production and distribution segment.

Film and TV series production and distribution

The increase in the Group's revenue was mainly driven by the considerable income derived from the distribution and licensing of the large-scale film produced by the Group that was released during the period under review, namely, "Ip Man 3" (葉問3), which accounted for approximately 71.9% of the total revenue for the six months ended 31 December 2015. Being the third sequel in the "Ip Man" (葉問) film series and starring Donnie Yen (甄子丹) and boxing legend Mike Tyson (拳王泰臣), the film was released in late December 2015 as scheduled, achieving impressive box office receipts exceeding HK$60.2 million in Hong Kong as at the date of this announcement according to the statistics from Hong Kong Box Office Limited and ranking top among all local films showed during the period from the film's official release date and up to the date of this announcement. In geographical regions outside Hong Kong (excluding the PRC where the film is expected to be released in March 2016), according to the data provided by the Group's respective film distributors, the film had achieved aggregate box office receipts exceeding HK$198.4 million as at the date of this announcement, which was contributed predominantly by the South East Asia region. As at the date of this announcement, "Ip Man 3" (葉問3) had successfully grossed over HK$258.6 million in total box office receipts worldwide (which had not included the PRC). Riding on the success of the box office performance thus far, the Directors have confidence that "Ip Man 3" (葉問3) will perform well in the PRC market. Given the film was still showing after 31 December 2015, the complete performance of the film will be reflected in the results of the full financial year ending 30 June 2016.

Apart from "Ip Man 3" (葉問3), the Group also released a general-scale film, namely, "Wong Ka Yan" (王家欣), during the period under review. Since the revenue for the six months ended 31 December 2015 was still mainly contributed by the aforementioned large-scale film which incurred relatively higher production costs, as opposed to revenue in the corresponding period of the previous financial year being mostly contributed by a general-scale film, the overall gross profit margin for the six months ended 31 December 2015 slightly decreased to approximately 37.4% from approximately 41.1% in the corresponding period of the previous financial year.

Currently, the Group has a number of films and TV series in its production pipeline which are scheduled to be completed and released within 2016, including "S Storm" (S風暴), a general-scale action film which is a sequel to the Group's previously released film called "Z Storm" (Z風暴), starring Louis Koo (古天樂) and Julian Cheung (張智霖); and "Bounty Hunters" (賞金獵人), a large-scale adventure action film produced by a joint venture formed between the Group and production companies from Korea and the PRC, starring Lee Min Ho (李敏鎬) and Wallace Chung (鍾漢良). The Directors believe these films when released will contribute considerable revenue to the Group.

Other than film production, the Group has also invested in an international sci-fi movie entitled "Inversion" (tentative name) which is slated for worldwide theatrical distribution in the first half of 2017. Since additional time is required for preparation due to changes to the film director's schedule and the shooting location, the principal photography of the film is expected to commence on or before 30 June 2016. With the outstanding pre-sale performance track record, the Directors expect that the film will receive a positive market response upon its release. Meanwhile, the Group will continue to identify quality investment opportunities in film and TV series projects worldwide to diversify the revenue base of the Group. The Directors believe that, in the long term, such participation in projects with prominent production houses will enhance the Group's network span in the sector and provide the Group access to the latest industry knowledge and practices of overseas market players.

Film exhibition

The increase in the Group's revenue for the period under review was also attributable to the remarkable box office performance of Cinema City Langham Place, the Group's flagship cinema complex (with approximately 1,100 seats) which officially commenced operations in January 2015 and is the only cinema in Hong Kong that is equipped with "4Dx" viewing technology. According to the statistics from Hong Kong Box Office Limited, the cinema had accumulated over HK$121 million in box office receipts for the last 12-month period from 1 February 2015 to 31 January 2016, and ranked top among all cinemas in Hong Kong for such 12 consecutive months. The revenue contributed by film exhibition from Cinema City Langham Place accounted for approximately 21.6% of the total revenue for the period under review as compared to revenue of only one month being recorded during the same period of the previous financial year, whereas the gross profit margin for film exhibition remained stable at approximately 54.0% for both the six months ended 31 December 2014 and 2015.

As for film exhibition in the PRC, the Group's next cinema (with approximately 1,400 seats) to be located in "Vivo City", a new large-scale retail complex in the Central Business District (CBD) of southwest Shanghai, has its construction work currently proceeding as planned and the expected commencement of operations will be in the second half of 2016. The Group will continue to explore suitable sites in Hong Kong and the PRC for further expansion of its film exhibition business. The Directors believe the income derived from film exhibition and the sales of related goods and services will continue to grow steadily and contribute significantly to the future revenue of the Group.

Post-production

As an integral part of the Group's integrated film production value chain, the post-production business, which was established in September 2014, recorded a growth in revenue of approximately 310.0% for the six months ended 31 December 2015 as compared to that of the corresponding period in the previous financial year. Apart from providing the post-production services to external customers which increases the Group's revenue stream, the Directors believe that having an in-house post-production arm is also able to benefit the Group's film production business in terms of production efficiency and cost control, thereby achieving economies of scale and operational synergies in the long term.

Advertising, marketing and publication

The acquisition by the Group of the film advertising and marketing business, as well as the publication operations of a monthly luxury lifestyle magazine called "Platinum of UnionPay" (銀聯白金), had completed in June 2015 during the previous financial year. Accordingly, the income derived from such businesses started to contribute to the Group's revenue during the period under review. The Directors believe that the film marketing expertise acquired will help to further strengthen the Group's film production and distribution business by increasing the flexibility and cost effectiveness when formulating promotional strategies for the Group's films, which forms an important part of the Group's film production value chain.

As disclosed in the prospectus of the Company dated 9 October 2012 and the reports published in previous financial years, 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 might fluctuate from period to period.

Outlook

In recent years, the film industry in the PRC has entered a golden phase of rapid development, continuously breaking records in terms of box office receipts and the number of new cinemas and admissions. According to the State Administration of Press, Publication, Radio, Film and

Television (國家新聞出版廣電總局) ("SAPPRFT"), the total box office receipts in the PRC for the year of 2015 surpassed Renminbi("RMB")44 billion, representing a year-on-year growth of approximately 48.7%, which achieved the second highest annual growth rate since the year of 2004. Furthermore, the number of new cinemas and screens established during 2015 exceeded 1,200 and 8,035 respectively, and the total number of admissions in 2015 reached 1.26 billion which represented a year-on-year growth of approximately 51.1%.

The PRC Government provides continuous support to the development of the cultural and film industries. One of the favourable policies was issued in May 2014 by central government ministries and departments including the Ministry of Finance (財政部) and State Administration of Taxation (國家稅務總局) in conjunction with SAPPRFT, namely, the "Notice on Certain Economic Policies for the Support of the Development of the Film Industry"《關於支持電影發展若干經濟政策的通知》, which provides preferential taxation and financing supports and subsidies to industry participants. Furthermore, at the Executive Meeting of the State Council (國務院) of the PRC in September 2015, the "People's Republic of China Film Industry Promotion Act (draft)" 《中華人民共和國電影產業促進法(草案)》 was announced to further promote the development of the PRC's movie industry.

In addition, the Hong Kong Government in its "2016 Policy Address" announced its plans to continue fostering the development of the film industry, including encouraging more local film production, nurturing new talent, building up audiences and promoting the Hong Kong film brand, as well as attracting overseas production crews to use Hong Kong as a base for location filming, production and post-production activities. The Hong Kong Government also considered the option of requiring property developers to include cinemas in their development projects as terms and conditions of the land lease.

With the latest growth trends and the favourable government policies, the Directors are optimistic in the future prospect of the film industry. Looking forward, the Group will continue to strategically focus on its core businesses to strengthen the integration of its film production value chain and effectively utilise its available resources to capture the business opportunities in the PRC film industry, maximising the Group's value and returns to the shareholders of the Company.

Financial review

Revenue and gross profit

Revenue and gross profit of the Group were approximately HK$309.4 million and HK$125.1 million respectively for the six months ended 31 December 2015, representing increases of approximately HK$269.2 million or 669.4% and HK$107.6 million or 612.9% respectively compared to the same period of the previous financial year. This was mainly due to the impressive revenue contributed by the large-scale film produced by the Group, namely, "Ip Man 3" (葉問3), which accounted for approximately 71.9% of the total revenue for the period under review; as well as the revenue contributed by film exhibition from Cinema City Langham Place which accounted for approximately 21.6% of the total revenue for the period under review as compared to revenue of only one month for the same period of the previous financial year since its commencement of operations in late November 2014. The overall gross profit margin for the six months ended 31 December 2015 was approximately 40.4%, which showed a slight decrease from approximately 43.7% in the corresponding period of the previous financial year. This was mainly due to the fact that, revenue for the six months ended 31 December 2015 was mainly contributed by the aforementioned large-scale film which incurred relatively higher production costs as opposed to revenue in the corresponding period of the previous financial year being mostly contributed by a general-scale film. In addition, the gross profit margin for film exhibition remained stable at approximately 54.0% for both the six months ended 31 December 2014 and 2015.

Other income and gain

Other income and gain was approximately HK$2.2 million for the six months ended 31 December 2015, representing an increase of approximately HK$1.5 million or 236.4% compared to the same period of the previous financial year. This was mainly due to a new service income generated from online ticketing of the film exhibition business of approximately HK$1.1 million during the current period.

Selling and distribution expenses

Selling and distribution expenses increased by approximately HK$13.1 million or 36.3% from approximately HK$36.1 million for the six months ended 31 December 2014 to approximately HK$49.2 million for the six months ended 31 December 2015. This was mainly due to (i) the increase in the rental related expenses of Cinema City Langham Place and other direct costs for cinema operations, which were recorded since the lease commenced on 23 July 2014 and since the cinema's commencement of operations in late November 2014 respectively, of approximately HK$11.5 million in aggregate during the current period; and (ii) the larger scale of the film released by the Group during the period under review leading to additional costs of approximately HK$1.6 million incurred on film advertising and promotion events.

Administrative expenses

Administrative expenses increased by approximately HK$51.7 million or 455.5% from approximately HK$11.3 million for the six months ended 31 December 2014 to approximately HK$63.0 million for the six months ended 31 December 2015. This was mainly due to (i) the increase in total staff costs by approximately HK$11.3 million as a result of discretionary bonuses paid to the Directors to reward their contributions to the Group and the average number of employees increasing from 42 for the six months ended 31 December 2014 to 92 for the six months ended 31 December 2015; (ii) the grant of share options by the Company on 13 July 2015 which resulted in a charge of approximately HK$25.3 million to the administrative expenses during the period under review; (iii) the impairment loss of an advance payment made to an independent third party in relation to a concert investment of approximately HK$2.0 million which was fully recognised during the current period due to the doubtfulness of its recoverability; (iv) the net exchange losses of approximately HK$3.2 million resulted from the depreciation of RMB against HK$ by the prevailing rate at the end of the current reporting period; and (v) the amortisation of intangible assets for the advertising, marketing and publication segment of approximately HK$5.6 million during the period under review.

Share of results of an associate

During the period under review, the operation of Jade Dynasty Holdings Limited and its subsidiaries (collectively referred to as "JDH Group"), of which the Group owns as to 40% interest, recorded a profit attributable to the Group of approximately HK$0.9 million. JDH Group generates revenue from the businesses of comic publication and licensing of its database of comic stories and comic heroes for film, TV series and theme park development as well as related product merchandising. As compared to a profit from the same period of the previous financial year of approximately HK$0.2 million, the increase in the results contributed by JDH Group was mainly due to the rise in the licensing income derived from its database of comic stories and comic heroes for film, TV series and theme park development.

Share of results of a joint venture

During the period under review, BPL was set up by the Group and two independent third parties for the production and distribution of the film, namely, "Bounty Hunters" (賞金獵人), of which the Group owns as to 40% interest. As the film is currently in the production stage and is expected to be released in the second half of 2016, no revenue had yet been recognised during the period under review and the operation of BPL recorded a loss attributable to the Group of approximately HK$0.6 million, which mainly represented the share of administrative expenses of BPL by the Group.

Profit (loss) for the period

The Group's profit and total comprehensive income attributable to owners of the Company for the six months ended 31 December 2015 amounted to approximately HK$8.0 million (31 December 2014: loss of HK$29.0 million) and HK$9.0 million (31 December 2014: total comprehensive expense of HK$29.0 million) respectively. The change during the period under review was primarily resulted from the significant increases in revenue and gross profit from film and TV series production and distribution as well as film exhibition, being set off against the increase in the operating expenses of the Group as aforementioned.

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 2015.

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 14 of the Listing Rules during the six months ended 31 December 2015, save as the deviations as mentioned in the following sections headed "Chairman and Chief Executive Officer" and "General Meetings" in this announcement.

The Company will continue to review its corporate governance practices in order to enhance its corporate governance standard, to comply with the increasingly tightened regulatory requirements and to meet the rising expectations of the shareholders of the Company 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 actively participate in the Board's affairs and promoting a culture of openness and debate.

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

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

General Meetings

Code provision A.6.7 of the Code stipulates that the independent non-executive Directors should attend general meetings and develop a balanced understanding of the views of the shareholders of the Company. Mr. Lam Kam Tong was unable to attend the extraordinary general meeting of the Company held on 21 July 2015 and the annual general meeting of the Company held on 17 November 2015 as he had other business engagement.

AUDIT COMMITTEE

The Audit Committee has three members comprising three independent non-executive Directors, Mr. Lam Kam Tong (Chairman of the Audit Committee), Mr. Lo Eric Tien-cheuk and Mr. Tang Kai Kui Terence, with written terms of reference in compliance with the Rules 3.21 to 3.23 of the Listing Rules and the Code. The primary duties of the Audit Committee are mainly to communicate with external auditor; to review the remuneration, terms of engagement, independency and objectivity of the external auditor; to review the accounting policy, financial position and financial reporting procedures of the Company; and to assess the financial reporting system, internal control procedures and risk management function of the Company and making recommendation thereof. The unaudited interim financial results of the Group for the six months ended 31 December 2015 has been reviewed by the Audit Committee.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

The interim results announcement is published on the websites of the Company (www.pegasusmovie.com) and the Stock Exchange (www.hkex.com.hk). The Interim Report 2015/16 will be dispatched to the shareholders of the Company in due course.

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

Hong Kong, 29 February 2016

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.