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

PEGASUS MOTION PICTURES
天馬電影

(Incorporated in the Cayman Islands with limited liability)
Stock Code : 8039

INTERIM REPORT
2013/14

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET OF THE STOCK EXCHANGE OF HONG KONG LIMITED

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

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

Highlights

- The Group (as defined below) reported a profit attributable to owners of the Company of approximately HK$4.8 million and HK$4.5 million for the three months and six months ended 31 December 2013 respectively.

- The Group's revenue was HK$33.0 million for the six months ended 31 December 2013, an increase of HK$15.6 million or 90.2% when compared to the same period of the previous financial year.

- Gross profit margin for the six months ended 31 December 2013 was approximately 37.0% which translates into gross profit of HK$12.2 million.

- The Group's net assets and net current assets as at 31 December 2013 reached HK$269.4 million and HK$186.2 million respectively.

- The Board (as defined below) does not recommend the payment of any dividend for the six months ended 31 December 2013.

Interim Results

For the six months ended 31 December 2013

The Board of Directors of the Company (the "Board") is pleased to announce the unaudited results of the Company and its subsidiaries (collectively referred to as the "Group") for the three months and six months ended 31 December 2013 together with the comparative unaudited figures for the corresponding period in 2012 as follows:

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 31 December 2013

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

Consolidated Statement of Financial Position

As at 31 December 2013

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

Consolidated Statement of Changes in Equity

For the six months ended 31 December 2013

	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)
At 1 July 2012 (Audited)	10	–	–	–	–	41,081	41,091
Loss and total comprehensive expenses for the period	–	–	–	–	–	(5,931)	(5,931)
Arising on Reorganisation (as defined below)	(10)	–	–	–	10	–	–
Issue of shares upon the loan capitalisation issue	–	50,000	–	–	–	–	50,000
Issue of shares upon capitalisation issue	3,000	(3,000)	–	–	–	–	–
Issue of new shares	1,000	89,000	–	–	–	–	90,000
Cost of issuing new shares	–	(6,315)	–	–	–	–	(6,315)
At 31 December 2012	4,000	129,685	–	–	10	35,150	168,845
At 1 July 2013 (Audited)	**4,000**	**129,685**	**–**	**–**	**10**	**60,225**	**193,920**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**4,511**	**4,511**
Other comprehensive expenses for the period: Share of exchange difference of an associate	**–**	**–**	**–**	**(14)**	**–**	**–**	**(14)**
Total comprehensive income for the period	**–**	**–**	**–**	**(14)**	**–**	**4,511**	**4,497**
Issue of new shares	**800**	**71,200**	**–**	**–**	**–**	**–**	**72,000**
Cost of issuing new shares	**–**	**(1,717)**	**–**	**–**	**–**	**–**	**(1,717)**
Issue of warrants	**–**	**–**	**960**	**–**	**–**	**–**	**960**
Cost of issuing warrants	**–**	**–**	**(250)**	**–**	**–**	**–**	**(250)**
At 31 December 2013	**4,800**	**199,168**	**710**	**(14)**	**10**	**64,736**	**269,410**

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

Condensed Consolidated Statement of Cash Flows

For the six months ended 31 December 2013

	2013 **HK$'000** **(Unaudited)**	2012 HK$'000 (Unaudited)
Net cash used in operating activities	**(39,198)**	(34,077)
Net cash (used in)/from investing activities	**(54,011)**	2
Net cash from financing activities	**71,059**	81,693
Net (decrease)/increase in cash and cash equivalents	**(22,150)**	47,618
Cash and cash equivalents at 1 July	**29,973**	15,937
Cash and cash equivalents at 31 December	**7,823**	63,555
Cash and cash equivalents represented by:		
Bank balances and cash	**20,110**	63,555
Bank overdrafts	**(12,287)**	–
	7,823	63,555

Notes to the Interim Results

1. General information

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

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

2. Basis of preparation

The unaudited consolidated financial statements for the six months ended 31 December 2013 (the "Interim Financial Statements") have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and with the applicable disclosure requirements of Chapter 18 to the GEM Listing Rules.

The Interim Financial Statements have been prepared under the historical cost basis. The principal accounting policies used in the preparation of the Interim Financial Statements are consistent with those used in the annual consolidated financial statements for the year ended 30 June 2013 except for the adoption of the following new significant policy used in the preparation of the Interim Financial Statements.

Interest in an associate

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

The results and assets and liabilities of associates are incorporated in the Interim Financial Statements using the equity method of accounting. Under the equity method, investments in associates are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's in that associate (which includes any long-term interest that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

On acquisition of the investment in an associate, any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate is recognised as goodwill, which is included within the carrying amount of the investment.

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

When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 "Impairment of Assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 "Impairment of Assets" to the extent that the recoverable amount of the investment subsequently increases.

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

In the current interim period, the Group has applied the following new and revised Hong Kong Financial Reporting Standards, amendments and interpretations ("new and revised HKFRSs") issued by the HKICPA that are adopted for the first time for the current interim period's financial statements which are or have become effective.

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

The application of these new and revised HKFRSs in the current interim period has had no material impact on the amounts and on disclosures reported in the Interim Financial Statements.

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

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

3. Revenue

	Three months ended 31 December		Six months ended 31 December	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Film production, distribution and licensing income	**21,519**	10,615	**31,782**	16,571
Advertising income	**–**	211	**–**	211
Service income	**447**	475	**1,179**	546
	21,966	11,301	**32,961**	17,328

4. Segment information

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

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

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

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

Geographical information

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

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

Information about major customers

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

	Six month ended 31 December	
	2013	2012
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Customer A	**12,688**	–
Customer B	**6,000**	–
Customer C	**5,292**	–
Customer D	**–**	7,293
Customer E	**–**	2,806

5. Finance costs

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

6. Income tax expense

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

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

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiary is 25% from 1 January 2008 onwards. The PRC subsidiary had incurred loss for the three months and six months ended 31 December 2012 and 2013 and no provision for Enterprise Income Tax were made for these periods.

7. Profit/(loss) for the period

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

8. Earnings/(loss) per share

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

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

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

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

9. Interest in an associate

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

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

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

10. Trade and other receivables

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

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

Generally no credit period is granted to the Group's customers. Distribution and licensing fee from distributors in Hong Kong, the PRC and overseas countries are normally settled upon delivery of film negatives to them. On a case-by-case basis, one to two months of credit period may be granted to its customers. These trade receivables relate to a number of independent customers that have a good repayment history.

Note:

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

11. Pledged bank deposit

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

12. Share capital

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

Notes:

(a) Pursuant to the written resolutions of the then sole shareholder of the Company passed on 5 October 2012, the authorised share capital of the Company was increased from HK$380,000 to HK$80,000,000 by the creation of a further 7,962,000,000 ordinary shares with a nominal value of HK$0.01 each.

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

(c) On 5 October 2012, the Directors were authorised to capitalise a loan due from the Company to Mr. Wong Pak Ming ("Mr. Wong"), in an aggregate sum of HK$50,000,000 by the allotment and issue of 100 shares to Honour Grace (at the direction of Mr. Wong) at an aggregate subscription price of HK$50,000,000.

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

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

On 6 August 2013 and 30 October 2013, the Company issued 70,000,000 shares and 10,000,000 shares respectively by way of placing at a price of HK$0.90 per share.

13. Related party transactions

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

Name of related parties	Notes	Nature of transaction	Three months ended 31 December 2013 HK$'000 (Unaudited)	Three months ended 31 December 2012 HK$'000 (Unaudited)	Six months ended 31 December 2013 HK$'000 (Unaudited)	Six months ended 31 December 2012 HK$'000 (Unaudited)
PM Motion Pictures Limited	(a)	Service income	**447**	474	**1,179**	546
Pegasus Laboratory (International) Limited ("Pegasus Laboratory")	(b)	Film processing service fee	**–**	679	**18**	685
Pure Project Limited	(c)	Rental expense	**120**	90	**210**	180
Chili Advertising & Promotions Limited ("Chili")	(d)	Advertising and promotion services fee	**127**	174	**127**	224
天馬影聯影視文化(北京)有限公司 ("Pegasus Ying Lian")	(e)	Management fee	**57**	56	**113**	111
杭州天馬影視文化有限公司 ("Hangzhou Pegasus")	(f)	Management fee	**38**	37	**76**	74

Notes:

(a) The service income was received from PM Motion Pictures Limited for the Group's provision of film distribution services. Mr. Wong, Mr. Wong Chi Woon Edmond ("Mr. Edmond Wong") and Ms. Wong Yee Kwan Alvina ("Ms. Alvina Wong") (collectively referred to as the "Controlling Shareholders"), all being the Directors, have controlling interest over this company.

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

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

(d) The advertising and promotion services fee was paid to Chili in which Mr. Lam Sze Ho, Owen, spouse of Ms. Alvina Wong, has controlling interest in Chili for the period from 1 July 2012 to 15 April 2013. From 16 April 2013 onwards, Chili is owned by Ms. Wong Kit Fong, sister of Mr. Wong.

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

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

Dividend

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

Management Discussion and Analysis

Business review

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

During the period under review, the principal business activities of the Group comprised of (a) production of films; (b) distribution and licensing of our films to regions including Taiwan, Japan, the USA and Europe in addition to our major markets of Hong Kong, the PRC and South East Asia; (c) offering product placement and sponsorship opportunities in our films to derive advertising income; and (d) distribution of films and television series in the film library owned by the Controlling Shareholders (the "Personal Library"). The Group's business model and the principal business activities remain the same that as disclosed in the prospectus of the Company dated 9 October 2012 (the "Prospectus") during the period under review.

During the period under review, we generated revenue by licensing films we produced to co-producers in the PRC and film distributors and licencees in Hong Kong and overseas. In addition, we recognised income from commission received for distributing films and television series in the Personal Library.

The Group has released one film, namely "Baby Blues" (詭嬰), during the six months ended 31 December 2013 and one film, namely "Love is... Pyjamas" (男人如衣服), during the corresponding period in 2012. As disclosed in the Prospectus, due to the limited number of films distributed by the Group, the scale, schedule of release and the result of one film could have significant impact on the Group's results. Given the distinctive business model of the Group, the Group's quarterly and interim financial results may not be indicative of the Group's financial results of a full year and the Group's financial performance would fluctuate from period to period.

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

Financial review

Revenue

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

Other income and gain

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

Selling and distribution expenses

Selling and distribution expenses decreased by approximately HK$3.0 million or 61.9% from approximately HK$4.8 million for the six months ended 31 December 2012 to approximately HK$1.8 million for the six months ended 31 December 2013. This was mainly due to (i) the decrease of costs related to advertising and promotion events as the film released during the period under review is of smaller scale than the film released during the corresponding period in 2012; and (ii) the decrease of processing costs related to the digitalisation of film exhibition in Hong Kong.

Administrative expenses

Administrative expenses increased by approximately HK$2.4 million or 32.9% from approximately HK$7.4 million for the six months ended 31 December 2012 to approximately HK$9.8 million for the six months ended 31 December 2013. This was mainly due to (i) the increase of the total staff costs by approximately HK$1.2 million as a result of (a) a change of arrangement to the directors' remuneration structure in respect of the Listing, as disclosed in the Prospectus; and (b) the average number of employees increasing from 25 for the six months ended 31 December 2012 to 29 for the six months ended 31 December 2013; and (ii) the increase of the legal and professional fee by approximately HK$0.8 million in relation to legal and professional services since the Listing and services fee for providing professional services to certain transactions.

Profit/(loss) for the period

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

Outlook

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

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

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

Liquidity, Financial Resources and Capital Structure

As at 31 December 2013, the Group's bank balances and cash amounted to approximately HK$50.2 million (30 June 2013: HK$60.0 million), which are denominated mainly in HK$, United States Dollar ("US$") and RMB.

As at 31 December 2013, the Group had interest-bearing loans of approximately HK$12.3 million (30 June 2013: Nil). The gearing ratio, representing the ratio of the total interest-bearing loans over the total equity, was approximately 0.05 as at 31 December 2013 (30 June 2013: Nil).

During the periods ended 30 June 2013 and 31 December 2013, the Group has maintained a general banking facility amounted to HK$30.0 million for flexibility. The Group had unutilised credit facilities totaling HK$17.7 million and HK$30.0 million as at 31 December 2013 and 30 June 2013 respectively.

As at 31 December 2013, the Group had non-current assets of approximately HK$83.2 million (30 June 2013: HK$31.9 million), net current assets of approximately HK$186.2 million (30 June 2013: HK$162.0 million) and net assets of HK$269.4 million (30 June 2013: HK$193.9 million). The current ratio of the Group, representing the ratio of current assets over current liabilities, was approximately 5.4 as at 31 December 2013 (30 June 2013: 6.8).

During the period under review, the Group funds its liquidity by the net proceeds from the Listing and placing of new shares as well as resources generated internally. The Group's financial resources are sufficient to support its business and operations. The Group would also consider other financing activities when appropriate business opportunities arise under favorable market conditions.

Employee Information

As at 31 December 2013, the Group had 29 employees (30 June 2013: 27). Staff costs, including directors' remuneration, amounted to approximately HK$5.0 million for the six months ended 31 December 2013 (2012: HK$3.8 million).

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

Charge on Assets

As at 30 June 2013 and 31 December 2013, the Group's bank deposits of approximately HK$30.1 million were pledged to secure a general banking facility of HK$30.0 million available to the Group.

Foreign Exchange Exposure

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

The Group did not engage in any derivatives activities and did not commit to any financial instruments to hedge its statement of financial position exposure during the six months ended 31 December 2013.

Contingent Liabilities

As at 30 June 2013 and 31 December 2013, the Group did not have any significant contingent liabilities.

Comparison between Business Plan and Actual Business Progress

The following is a comparison between the Group's business plan as set out in the Prospectus and the actual business progress for the six months ended 31 December 2013.

Business plan for the six months ended 31 December 2013 as stated in the Prospectus	Actual business progress up to 31 December 2013
Expansion of our film production business:	
• We will continue to monitor the market trends of the film industry in Hong Kong and the PRC and will release three films with genres according to the prevailing market trends and our observation on audiences' preference.	• As referred to the modified business plan as disclosed in the Company's annual report 2012/13 dated 23 September 2013 (the "Annual Report"), the Group will release one film during the period from 1 July 2013 to 31 December 2013. "Baby Blues" (詭嬰) has been released during this period.
• We will continue to explore more territories and channels for distributing and licensing our films.	• The Group increased its territory of customers of the existing distributing and licensing platform, these new customers are consist of a number of customers located in Africa and South East Asia.

Investing in equipment for post-production and staff recruitment:

- We will invest in equipment for post-production, including digital film editing and processing and accordingly recruiting more staff.
- Digitalisation of films has become a trend whilst digital prints maintains quality and effective costing. The Group is in progress to assess the investment in such equipment and in recruiting more staff to participate in the post-production stage in this financial year. We may also consider expanding such business through acquisition or cooperation with other existing post-production companies.

Use of Proceeds from the Listing

The business plan and planned use of proceeds from the Listing as disclosed in the Prospectus were based on the best estimation of future market conditions made by the Group at the time of preparing the Prospectus, while the proceeds were applied in accordance with the actual development of the market.

From the date of the Listing to 31 December 2013, the net proceeds from the Listing had been applied as follows:

	Total use of proceeds as described in the Prospectus HK$'million	Actual use of proceeds from the date of the Listing to 31 December 2013 HK$'million
Expansion of film production business	58.4	32.5
Invest in equipment for post-production	9.8	–
Staff recruitment	2.8	1.0
General working capital	2.5	2.5
Total	73.5	36.0

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

The Directors will constantly evaluate the Group's business objective and will change or modify plans against the changing market condition to ascertain the business growth of the Group. The Group intended to release five films for the year ending 30 June 2014 of which one film and four films will be released in the first and second half of the year ending 30 June 2014 under the modified business plan as stated in the Annual Report. According to the current PRC film market condition, the initial approval for the film production by State Administration of Radio Film and Television (國家廣播電影電視總局) has further taken much more time than expected which is mainly due to the significant expansion of domestic films development in the PRC. The Directors had evaluated the Group's business plan and considered that there will be four films to be released during the year ending 30 June 2014 of which two films have been released up to the date of this report and two films will be released in the second half of the year ending 30 June 2014. The Group will keep abreast of the latest trends and development of the film industry and continue to provide updates on the Group's business plan.

Save as disclosed above, the Directors had considered that no modification of the use of proceeds as described in the Prospectus and the Annual Report were required.

Directors' and Chief Executives' Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Company and its Associated Corporations

As at 31 December 2013, the interests of Directors and chief executive of the Company in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests which they are taken or deemed to have under such provisions of the SFO) and required to be entered in the register maintained by the Company pursuant to Section 352 of the SFO or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Long position in shares and underlying shares of the Company

Name of Director	Company/name of associated company	Nature of interest	Number of shares	Position	Percentage of the Company's issued share capital
Mr. Wong	Company	Interest in a controlled corporation	300,000,000 (Note 1)	Long	62.50%
	Honour Grace	Beneficial owner	9 shares of US$1.00 each	Long	60.00%

Notes:

1. These shares are registered in the name of Honour Grace, the entire issued share capital of which is legally and beneficially owned as to 60% by Mr. Wong, 20% by Mr. Edmond Wong and 20% by Ms. Alvina Wong. Under the SFO, Mr. Wong is deemed to be interested in all the shares registered in the name of Honour Grace.

2. As notified by Mr. Wong, he has acquired 4,180,000 shares of the Company, which represented 0.87% of the Company's issued share capital subsequent to 31 December 2013 and up to the date of this report.

Substantial Shareholders' Interests and Short Positions in the Shares and Underlying Shares of the Company

As at 31 December 2013, the interest of the persons, other than Directors or chief executive of the Company, in the shares and underlying shares of the Company which were notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO and entered in the register maintained by the Company pursuant to Section 336 of the SFO, or otherwise notified to the Company were as follows:

Name of shareholder	Nature of interest	Number of shares	Position	Percentage of the Company's issued share capital
Honour Grace	Beneficial owner	300,000,000	Long	62.50%
Mr. Wong	Interest in a controlled corporation	300,000,000 (Note 1)	Long	62.50%
Ms. Zee Ven Chu Lydia (Note 2)	Deemed interest	300,000,000	Long	62.50%

Notes:

1. These shares are registered in the name of Honour Grace, the entire issued share capital of which is legally and beneficially owned as to 60% by Mr. Wong, 20% by Mr. Edmond Wong and 20% by Ms. Alvina Wong. Under the SFO, Mr. Wong is deemed to be interest in all the shares registered in the name of Honour Grace.

2. Ms. Zee Ven Chu Lydia, spouse of Mr. Wong, is deemed under the SFO to be interested in all the shares in which Mr. Wong is deemed to be interested.

3. As notified by Mr. Wong, he has acquired 4,180,000 shares of the Company, which represented 0.87% of the Company's issued share capital subsequent to 31 December 2013 and up to the date of this report.

Save as disclosed above, as at 31 December 2013, the Company had not been notified by any persons (other than Directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall under the provisions of Divisions 2 and 3 of Part XV of the SFO to be disclosed to the Company, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

Share Option Scheme

The Company operates the Scheme for the purpose of providing incentives and rewards to eligible persons who contribute to the success of the Group's operations. The Scheme has been approved by the then sole shareholder on 5 October 2012. No share options were granted, exercised or cancelled by the Company under the Scheme during the six months ended 31 December 2013 and there were no outstanding share options under the Scheme as at 31 December 2013.

Rights to Acquire Shares or Debentures

Other than as disclosed under the sections "Share Option Scheme" and "Directors' and chief executives' interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations" above, at no time during the six months ended 31 December 2013 was the Company or any of its subsidiaries, or any of its fellow subsidiaries, a party to any arrangement to enable the Directors or chief executives of the Company or their respective associates (as defined in the GEM Listing Rules) to have any right to subscribe for securities of the Company or any of its associated corporations as defined in the SFO or to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

Interests in Competing Business

Save as disclosed in the section headed "Related Parties Transactions" in this report of which certain Directors engaged in film-related business, none of the Directors nor the Controlling Shareholders nor their respective associates as defined in the GEM Listing Rules has any interest in any business which competes or may compete with the business of the Group during the six months ended 31 December 2013.

Purchase, Sale or Redemption of the Listed Securities of the Company

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company during the six months ended 31 December 2013.

Compliance with the Required Standard of Dealings in Securities Transactions by Directors of Listed Issuers

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquires of all the Directors, all the Directors have confirmed that they have complied with the required standard of dealings and the code of conduct regarding securities transactions by Directors adopted by the Company during the six months ended 31 December 2013.

Code on Corporate Governance Practices

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

The Company will continue to review its corporate governance practices in order to enhance its corporate governance standard, to comply with the increasingly tightened regulatory requirements and to meet the rising expectations of shareholders and investors.

Chairman and Chief Executive Officer

The Company has not yet adopted A.2.1 of the Code. Under the code provision A.2.1 of the Code, the roles of Chairman and Chief Executive Officer ("CEO") should be separated and would not be performed by the same individual. The division of responsibilities between the Chairman and CEO should be clearly established and set out in writing.

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

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

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

Interests of the Compliance Adviser

As notified by the Company's compliance adviser, Altus Capital Limited (the "Compliance Adviser"), except for the compliance adviser agreement entered into between the Company and the Compliance Adviser dated 5 October 2012 effective on 31 October 2012, the date of the Listing, neither the Compliance Adviser nor its directors, employees or associates had any interests in relation to the Company as at 31 December 2013 which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules.

Audit Committee

The Audit Committee has three members comprising three independent non-executive Directors, Mr. Lam Kam Tong (Chairman of the Audit Committee), Mr. Lo Eric Tien-cheuk and Mr. Tang Kai Kui Terence, with written terms of reference in compliance with the Rules 5.28 to 5.33 of the GEM Listing Rules and the Code. The primary duties of the Audit Committee are mainly to communicate with external auditor; to review the remuneration, terms of engagement, independency and objectivity of the external auditor; to review the accounting policy, financial position and financial reporting procedures of the Company; and to assess the financial reporting system, internal control procedures and risk management function of the Company and making recommendation thereof. The unaudited interim financial results of the Group for the six months ended 31 December 2013 has been reviewed by the Audit Committee.

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

Hong Kong, 12 February 2014

As at the date of this report, 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.