

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



PEGASUS
MOTION
PICTURES
天馬電影

The background of the cover features a photograph of three men, likely from a film set, viewed through a diagonal frame. The man on the left is in a grey suit, the man in the middle is in a green jacket, and the man on the right is in a blue jacket. The text 'INTERIM REPORT 2014/15' is overlaid on the bottom right of the frame.

INTERIM REPORT 2014/15

Contents

Corporate Information	2
Consolidated Statement of Profit or Loss and Other Comprehensive Income	3
Consolidated Statement of Financial Position	5
Consolidated Statement of Changes in Equity	7
Condensed Consolidated Statement of Cash Flows	9
Notes to the Interim Financial Statements	10
Management Discussion and Analysis	24
Other Information	32

Corporate Information

Board of Directors (The “Board”)

Executive Directors

Mr. Wong Pak Ming (*Chairman*)

Ms. Wong Yee Kwan Alvina

Mr. Wong Chi Woon Edmond

Independent Non-Executive Directors

Mr. Lam Kam Tong

Mr. Lo Eric Tien-cheuk

Mr. Tang Kai Kui Terence

Audit Committee

Mr. Lam Kam Tong (*Chairman*)

Mr. Lo Eric Tien-cheuk

Mr. Tang Kai Kui Terence

Nomination Committee

Mr. Lo Eric Tien-cheuk (*Chairman*)

Mr. Lam Kam Tong

Mr. Tang Kai Kui Terence

Remuneration Committee

Mr. Tang Kai Kui Terence (*Chairman*)

Mr. Lam Kam Tong

Mr. Lo Eric Tien-cheuk

Company Secretary

Mr. Chan Chi Ming CPA FCCA

Compliance Officer

Ms. Wong Yee Kwan Alvina

Authorised Representatives

Mr. Wong Pak Ming

Mr. Chan Chi Ming

Principal Banker

Bank of China (Hong Kong) Limited

1 Garden Road, Central

Hong Kong

Auditor

Deloitte Touche Tohmatsu

35/F, One Pacific Place

88 Queensway

Hong Kong

Registered Office

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

Headquarter and Principal Place of Business in Hong Kong

Rooms 1801-02, Westlands Centre

20 Westlands Road

Quarry Bay

Hong Kong

Principal Share Registrar and Transfer Office

Codan Trust Company (Cayman) Limited

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

Tricor Investor Services Limited

Level 22

Hopewell Centre

183 Queen’s Road East

Hong Kong

Compliance Adviser

Altus Capital Limited

21 Wing Wo Street

Central

Hong Kong

Company’s Website

www.pegasusmovie.com

Stock Code

1326

Interim Results for the Six Months Ended 31 December 2014

The Board is pleased to announce the unaudited results of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 31 December 2014 together with the comparative unaudited figures for the corresponding period in 2013 as follows:

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 31 December 2014

	Notes	Six months ended 31 December 2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Revenue	3	40,211	32,961
Cost of sales		(22,658)	(20,766)
Gross profit		17,553	12,195
Other income and gain		646	653
Selling and distribution expenses		(36,067)	(1,816)
Administrative expenses		(11,336)	(9,803)
Finance costs	5	(10)	(34)
Share of results of an associate		220	3,555
(Loss)/profit before tax		(28,994)	4,750
Income tax expense	6	–	(239)
(Loss)/profit for the period	7	(28,994)	4,511
Other comprehensive income/ (expense)			
<i>Item that may be reclassified subsequently to profit or loss</i>			
Share of exchange difference of an associate		3	(14)
Other comprehensive income/ (expense) for the period, net of income tax		3	(14)
Total comprehensive (expense)/ income for the period		(28,991)	4,497

		Six months ended 31 December	
	Notes	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
(Loss)/profit for the period attributable to:			
Owners of the Company		(28,963)	4,511
Non-controlling interests		(31)	–
		(28,994)	4,511
Total comprehensive (expense)/ income attributable to:			
Owners of the Company		(28,960)	4,497
Non-controlling interests		(31)	–
		(28,991)	4,497
(Loss)/earnings per share			
	8		
Basic (HK cents)		(5.7)	1.0
Diluted (HK cents)		N/A	1.0

Consolidated Statement of Financial Position

As at 31 December 2014

	Notes	As at 31 December 2014 HK\$'000 (Unaudited)	As at 30 June 2014 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	10	47,067	1,363
Interest in an associate	11	58,861	58,638
Prepayment to an artiste		18,000	24,000
Available-for-sale investment		4,056	4,056
		127,984	88,057
Current assets			
Film rights		22,854	25,357
Film production in progress		96,070	56,002
Investments in film/drama production		24,498	29,530
Inventories		729	–
Trade and other receivables	12	39,365	35,400
Prepayment to an artiste		12,000	11,000
Rental deposit		18,712	18,712
Tax recoverable		313	–
Pledged bank deposit	13	30,294	30,173
Bank balances and cash		27,703	17,633
		272,538	223,807
Current liabilities			
Other payables		41,719	6,621
Receipts in advance		33,173	9,061
Amounts due to a related company		637	510
Tax payable		–	4,368
		75,529	20,560
Net current assets		197,009	203,247
Total assets less current liabilities		324,993	291,304

	Notes	As at 31 December 2014 HK\$'000 (Unaudited)	As at 30 June 2014 HK\$'000 (Audited)
Capital and reserves			
Share capital	14	5,310	4,800
Reserves		317,886	286,476
Equity attributable to owners of the Company			
Non-controlling interests		323,196	291,276
		1,769	–
Total equity		324,965	291,276
Non-current liability			
Deferred tax liability		28	28
		324,993	291,304

Consolidated Statement of Changes in Equity

For the six months ended 31 December 2014

	Attributable to owners of the Company							Non-controlling interests	Total equity
	Share capital	Share premium	Warrants reserve	Exchange reserve	Other reserve*	Retained profits	Total		
	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)
At 1 July 2013 (Audited)	4,000	129,685	-	-	10	60,225	193,920	-	193,920
Profit for the period	-	-	-	-	-	4,511	4,511	-	4,511
Other comprehensive expenses for the period:									
Share of exchange difference of an associate	-	-	-	(14)	-	-	(14)	-	(14)
Total comprehensive income for the period	-	-	-	(14)	-	4,511	4,497	-	4,497
Issue of new shares	800	71,200	-	-	-	-	72,000	-	72,000
Cost of issuing new shares	-	(1,717)	-	-	-	-	(1,717)	-	(1,717)
Issue of warrants	-	-	960	-	-	-	960	-	960
Cost of issuing warrants	-	-	(250)	-	-	-	(250)	-	(250)
At 31 December 2013 (Unaudited)	4,800	199,168	710	(14)	10	64,736	269,410	-	269,410

	Attributable to owners of the Company								
	Share capital HK\$'000 (Unaudited)	Share premium HK\$'000 (Unaudited)	Warrants reserve HK\$'000 (Unaudited)	Exchange reserve HK\$'000 (Unaudited)	Other reserve* HK\$'000 (Unaudited)	Retained profits HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)	Non-controlling interests HK\$'000 (Unaudited)	Total equity HK\$'000 (Unaudited)
At 1 July 2014 (Audited)	4,800	199,168	710	(23)	10	86,611	291,276	-	291,276
Loss for the period	-	-	-	-	-	(28,963)	(28,963)	(31)	(28,994)
Other comprehensive income for the period:									
Share of exchange difference of an associate	-	-	-	3	-	-	3	-	3
Total comprehensive expense for the period	-	-	-	3	-	(28,963)	(28,960)	(31)	(28,991)
Non-controlling interests arising from capital contribution to a subsidiary of the Company	-	-	-	-	-	-	-	1,800	1,800
Issue of new shares	510	63,427	(7)	-	-	-	63,930	-	63,930
Cost of issuing new shares	-	(3,050)	-	-	-	-	(3,050)	-	(3,050)
At 31 December 2014 (Unaudited)	5,310	259,545	703	(20)	10	57,648	323,196	1,769	324,965

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

Condensed Consolidated Statement of Cash Flows

For the six months ended 31 December 2014

	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Net cash used in operating activities	(16,877)	(39,198)
Net cash used in investing activities	(33,923)	(54,011)
Net cash from financing activities	60,870	71,059
Net increase/(decrease) in cash and cash equivalents	10,070	(22,150)
Cash and cash equivalents at 1 July	17,633	29,973
Cash and cash equivalents at 31 December	27,703	7,823
Cash and cash equivalents represented by:		
Bank balances and cash	27,703	20,110
Bank overdrafts	–	(12,287)
	27,703	7,823

Notes to the Interim Financial Statements

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 "BVI").

The shares of the Company were listed on GEM of the Stock Exchange on 31 October 2012 and have been transferred from GEM to Main Board of the Stock Exchange on 9 January 2015. The Company is an investment holding company. The Group is principally engaged in film and television ("TV") series production, distribution and licensing of film rights, film exhibition and post-production.

2. Basis of preparation

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

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

Inventories

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

Revenue recognition

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

- (i) income from box office takings for film exhibition is recognised upon the sale of tickets and when the film is released;
- (ii) revenue from the sales of goods, including merchandise and concessionary in the cinema, is recognised upon the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed;
- (iii) income from the screen advertising is recognised when relevant advertisements and programme are exhibited pursuant to the terms of the relevant agreements; and
- (iv) membership income is recognised on a straight-line basis over the membership period.

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

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

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

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

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

3. Revenue

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

4. Segment information

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

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

- (i) Film and TV series production and distribution;
- (ii) Film exhibition; and
- (iii) Post-production.

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

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

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

Geographical information

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

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

Information about major customers

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

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

5. Finance costs

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

6. Income tax expense

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

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

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

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiary is 25% from 1 January 2008 onwards. The PRC subsidiary had incurred losses for the six months ended 31 December 2013 and 2014 and no provision for Enterprise Income Tax were made for these periods.

7. (Loss)/profit for the period

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

8. (Loss)/earnings per share

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

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

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

9. Dividends

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

10. Property, plant and equipment

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

11. Interest in an associate

	31 December 2014 HK\$'000 (Unaudited)	30 June 2014 HK\$'000 (Audited)
Cost of investment in an associate, unlisted	54,000	54,000
Share of post-acquisition profits and other comprehensive expenses	4,861	4,638
	58,861	58,638

The Group holds 40% of the entire issued share capital of Jade Dynasty Holdings Limited ("JDH") and voting power on the board of directors of JDH and therefore, JDH is an associate of the Group. JDH is an investment holding company incorporated in the BVI with limited liability and its subsidiaries (collectively known as the "JDH Group"), are principally engaged in comic publication and owns the intellectual property rights of a database of comic stories and comic heroes. The management of the Company anticipates that the Group would make use of the intellectual property rights of the associate (including but not limited to the comic stories and comic characters) that the Group consider to be suitable for reproduction as films.

12. 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 end of the reporting period is as follows:

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

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

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

13. Pledged bank deposit

As at 31 December 2014, the amount represented a bank deposit of HK\$30,294,000 pledged to a bank to secure short-term banking facilities granted to the Group and carried interest at a fixed rate of 0.50% per annum. The pledged bank deposit will mature on 24 March 2015.

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

14. Share capital

	Notes	31 December 2014		30 June 2014	
		Number of shares	HK\$'000 (Unaudited)	Number of shares	HK\$'000 (Audited)
Ordinary shares of HK\$0.01 each:					
At 31 December 2014 and 30 June 2014		8,000,000,000	80,000	8,000,000,000	80,000
Issued and fully paid:					
At the beginning of the period		480,000,000	4,800	400,000,000	4,000
Issue of new shares	(a)&(b)	50,000,000	500	80,000,000	800
Issue of warrant shares	(c)	1,000,000	10	-	-
At the end of the period		531,000,000	5,310	480,000,000	4,800

Notes:

- (a) On 6 August 2013 and 30 October 2013, the Company issued 70,000,000 new shares and 10,000,000 new shares respectively at a price of HK\$0.90 per new share. The aggregate gross proceeds and net proceeds from the issuance of new shares are approximately HK\$72,000,000 and HK\$70,283,000 respectively.
- (b) On 12 September 2014, the Company issued 50,000,000 new shares at a price of HK\$1.26 per share. The aggregate gross proceeds and net proceeds from the issuance of new shares are approximately HK\$63,000,000 and HK\$60,000,000 respectively.

- (c) On 16 September 2014, the Company issued 1,000,000 new shares, pursuant to 1,000,000 warrants conferring rights to subscribe for 1,000,000 warrant shares at the warrant exercise price of HK\$0.93 per warrant share. The aggregate gross and net proceeds from the issuance of new shares are approximately HK\$930,000.

15. 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	Six months ended	
			2014	2013
			HK\$'000	HK\$'000
			(Unaudited)	(Unaudited)
PM Motion Pictures Limited	(a)	Service income	734	1,179
Pegasus Laboratory (International) Limited ("Pegasus Laboratory")	(b)	Film processing services fee	527	18
Pure Project Limited	(c)	Rental expenses	240	210
Chili Advertising & Promotions Limited ("Chili")	(d)	Advertising and promotion services fee	81	127
天馬影聯影視文化(北京)有限公司 ("Pegasus Ying Lian")	(e)	Management fee	113	113
杭州天馬影視文化有限公司 ("Hangzhou Pegasus")	(f)	Management fee	76	76

Notes:

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

- (b) The film processing services fee was paid to Pegasus Laboratory in which the Controlling Shareholders have controlling interest over this company.
- (c) The rental expenses were 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 Ms. Wong Kit Fong, sister of Mr. Wong, has controlling interest over this company.
- (e) The management fee was paid to Pegasus Ying Lian in which a member of key management of the Group had controlling interest up to May 2014. From May 2014 onward, Mr. Wong has controlling interest over this company.
- (f) The management fee was paid to Hangzhou Pegasus in which a member of key management of the Group has controlling interest over this company.

16. Operating lease commitment

At the end of the reporting period, the Group had committed for future minimum lease payments under non-cancellable operating leases which will fall due as follows:

	31 December 2014 HK\$'000 (Unaudited)	30 June 2014 HK\$'000 (Audited)
Within one year	59,290	36,173
In the second to fifth year inclusive	246,012	243,597
Over five years	305,017	336,962
	610,319	616,732

Operating lease payments represent rentals payable for the Group's office premises and cinema. Leases have term from two to ten years.

17. Commitments

At the end of the reporting period, the Group had outstanding commitments as follows:

	31 December 2014 HK\$'000 (Unaudited)	30 June 2014 HK\$'000 (Audited)
Capital commitments:		
Capital expenditure in respect of renovation of the cinema contracted for but not provided in the consolidated financial statements	–	2,436
Capital expenditure in respect of renovation of the cinema authorised but not contracted for	–	36,998
Registered capital to be paid up in respect of an investment in an entity established in the PRC	7,500	–

Other commitment:

In addition, the Group entered into a contract to invest in a TV series production with an independent third party in the PRC for a contractual amount of RMB18,500,000 (equivalent to HK\$23,310,000). As at 31 December 2014, the Group paid RMB11,500,000 (equivalent to HK\$14,490,000) for the investment in the TV series production and the amount had been included in the film production in progress as the film right will be jointly controlled by the Group and the independent third party upon completion of the TV series production.

Management Discussion and Analysis

Business review and Outlook

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

During the period under review, the Group had continued to carry out its business plan as disclosed in the prospectus of the Company dated 9 October 2012 (the “Prospectus”). The Group had achieved another milestone following the Listing by taking important steps towards its expansion into a diversified cultural business. The Group has continued to develop its business with a view to achieve better operational performance and has expanded its core business of film and TV series production and distribution and licensing of film rights to include film exhibition and post-production. Cinema City Langham Place, the Group’s flagship cinema located in the prime area of Mongkok (a popular shopping and entertainment district in Hong Kong) had been opened for trial operation in mid-November 2014 and officially commenced operation in January 2015. The cinema has six auditoriums equipped with the most advanced projection and sound systems. The introduction of the “4Dx”, an exclusive viewing technology from South Korea (the “Exclusive Viewing Technology”) will also bring an unprecedented new experience of film viewing to Hong Kong. In September 2014, the Group established its in-house post-production arm through cooperating with a post-production house in Hong Kong with over twenty years of experience in the post-production industry to participate in digital media post-production operation with a view to forming an integrated film production chain so as to achieve economies of scale and synergies. Given that post-production is integral to the production process, the establishment of the in-house post-production arm will enable the Group to undertake post-production of its films which had previously been outsourced to external service providers.

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

The Group has released one film, namely “Kung Fu Angels” (青春鬥), during the six months ended 31 December 2014 and one film, namely “Baby Blues” (詭嬰), during the corresponding period in 2013. As disclosed in the Prospectus, due to the limited number of films distributed by the Group, the scale, schedule of release and the result of one film could have significant impact on the Group’s results. Given the distinctive business model of the Group, the Group’s interim financial results may not be indicative of the Group’s financial results of a full year and the Group’s financial performance would fluctuate from period to period.

In 2014, the film industry in the PRC has seen a very rapid pace of development with (i) total box office receipts exceeding RMB29.0 billion, representing a year-on-year rise of 36.2%; and (ii) total number of cinema admissions increasing by 34.5% to 830 million, clearly indicating that the PRC film market has entered a golden phase of development. Given the continuing growth of the PRC cultural industry as well as the encouragement of the PRC government, the Group is confident in the PRC cultural industry’s outlook which is encouraging for industry participants in terms of the increasing support from the PRC government. In order to capture the opportunities offered by the rapid development of the PRC cultural market, the Group will continue to expand its production capacities.

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

The Group has been cautious in its selection of genre and scale of films that are largely subject to the preference of the broad audience which may change according to market trends. In the meantime, due to the significant expansion of domestic films development in the PRC, time required to obtain initial approval for the film production by the State Administration of Press, Publication, Radio, Film and Television (國家新聞出版廣播電視總局) (“SAPPRFT”) has extended beyond expectation. As such, the main casts and production crew availability has also been affected by this unexpected delay in approval schedules. Given this, the Directors had evaluated the Group’s film business plan and believed that four films would be released during the year ending 30 June 2015 of which one film, being “Kung Fu Angels” (青春鬥), had already been released during the first half of this financial year and three films will be released in the second half of this financial year. Up to the date of this report, the Group’s Chinese New Year film, namely “An Inspector Calls” (浮華宴), is now showing in the PRC and Hong Kong cinemas, while the Group has completed the production of a film, which is being scheduled for screening and another film is in the post-production stage. All three of these films are expected to be released during the year ending 30 June 2015. Further, due to the unexpected delay in approval of the scripts of two films from the SAPPRFT, which were

previously expected to be released during this financial year, the release of these two films have been postponed to the following financial year. The Group is currently in the process of identifying PRC co-producers and production will commence accordingly.

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

The JDH Group had positively contributed to the results of the Group. Apart from its principal business in comics publication, its business will expand so as to make use of its valuable database of comic stories and comics heroes to develop films and TV series as well as the aspect of mobile and online game. The Group believes the JDH Group will continue to have a positive contribution to the results of the Group.

Cinema City Langham Place officially commenced business in January 2015. With the combination of the desirable locale and the offer of the Exclusive Viewing Technology, the Directors believe that the cinema will be able to have positive contribution to the future results of the Group. Pursuant to the lease agreement entered into between the Group and the landlord of the cinema, a rent-free period of four months commencing from 23 July 2014 was offered by the landlord as compensation for the renovation period during which the cinema was not in operation. In light of the accounting principles, practices and policies adopted by the Group under the applicable accounting standards, such incentive provided by the landlord is to be treated as a uniform reduction of rental expenses (that is, on a straight-line basis over the lease term). With the lease term having commenced on 23 July 2014, rental expenses have been immediately recognised under the abovementioned accounting treatment. However, revenue has only been generated after the cinema commences operation in the fourth quarter of 2014.

In addition to enabling the Group to better monitor and control its production costs, time and quality of its films which will benefit the Group in terms of improved production efficiency, cost effectiveness as well as providing the flexibility of fine tuning its films, the post-production arm will also enable the Group to participate in digital media post-production business to external customers to generate positive return to the Group.

As a result of (i) the expansion of the Group's business activities to include film exhibition and post-production with both being in the initial stages; and (ii) the unexpected delay on script approval schedules from SAPPRFT, this is a challenging year of the Group. Based on (i) the latest available information including, but not limited to, the current release schedule of films whereby two films are expected to be postponed to beyond this financial year; and (ii) the expected aggregate rental expenses of approximately HK\$60.0 million incurred for the cinema premise (which will be compensated by income derived from the cinema operations) for the year ending 30 June 2015 due to the abovementioned accounting treatment of the compensation, barring unforeseen circumstances, the Group expects that its financial results for the year ending 30 June 2015 will experience a significant deterioration from its financial results for the year ended 30 June 2014. Despite the above, the Directors consider that the overall operations of the Group remain sound and intact. The Group's overall financial position also remains healthy.

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

Financial review

Revenue

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

Selling and distribution expenses

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

Administrative expenses

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

Share of results of an associate

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

(Loss)/profit for the period

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

As disclosed in various announcements of the Company, according to the lease agreement entered into between the Group and the landlord of the cinema located in Langham Place, a rent-free period of four months commencing from 23 July 2014 was offered by the landlord as compensation for the renovation period during which the cinema is not in operation. In light of the accounting principles, practices and policies adopted by the Group under the applicable accounting standards, such incentive provided by the landlord will be treated as a uniform reduction of rental expenses (that is, on a straight-line basis over the lease term). With the lease term having commenced on 23 July 2014, rental expenses will be immediately recognised under the abovementioned accounting treatment. However, revenue will only be generated after the cinema commenced operation in November 2014. As such, the Group's results for the six months ended 31 December 2014 was adversely affected.

Liquidity, Financial Resources and Capital Structure

As at 31 December 2014, the Group's bank balances and cash amounted to approximately HK\$58.0 million (30 June 2014: HK\$47.8 million), which are denominated mainly in HK\$, United States Dollar ("US\$") and RMB.

As at 31 December 2014, the Group did not have any interest-bearing loans (30 June 2014: Nil).

The Group had unutilised credit facilities totaling HK\$35.0 million and HK\$30.0 million as at 31 December 2014 and 30 June 2014 respectively. The Group had maintained these general banking facilities for flexibility.

As at 31 December 2014, the Group had non-current assets of approximately HK\$128.0 million (30 June 2014: HK\$88.1 million), net current assets of approximately HK\$197.0 million (30 June 2014: HK\$203.2 million) and net assets of approximately HK\$325.0 million (30 June 2014: HK\$291.3 million). The current ratio of the Group, representing the ratio of current assets over current liabilities, was approximately 3.6 as at 31 December 2014 (30 June 2014: 10.9).

During the period under review, the Group funds its liquidity by the net proceeds from the Listing and placement 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 2014, the Group had 67 full-time employees (30 June 2014: 29). Staff costs, including Directors' remuneration, amounted to approximately HK\$6.5 million for the six months ended 31 December 2014 (31 December 2013: HK\$5.0 million).

The Group offers a comprehensive and competitive remuneration and benefits package to all of its employees. 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 2014 and 31 December 2014, the Group's bank deposit of approximately HK\$30.2 million and HK\$30.3 million respectively 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 2014.

Contingent Liabilities

As at 30 June 2014 and 31 December 2014, the Group did not have any significant contingent liabilities.

Use of Proceeds from the Listing

The 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 31 October 2012, the date of the Listing, to 31 December 2014, the net proceeds from the Listing had been applied as follows:

	Total use of proceeds as described in the Prospectus	Actual use of proceeds from the date of the Listing to 31 December 2014
	HK\$'million	HK\$'million
Expansion of film production business	58.4	55.7
Invest in equipment for post-production	9.8	7.2
Staff recruitment	2.8	1.8
General working capital	2.5	2.5
Total	73.5	67.2

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

The Group intended to expand of film production business by releasing eleven films during the two years ended 30 June 2013 and 2014. Out of these eleven films, seven films had been released up to the date of this report with two films expected to be released during the year ending 30 June 2015 and the remaining films expected to be released for the year ending 30 June 2016. The Directors expected that the remaining net proceeds will keep on to contribute the remaining films.

The Group has intended to undertake certain post-production works on its own by investing up to HK\$11.0 million from the net proceeds in post-production equipment and recruiting staff for its operation. In September 2014, the Group established its in-house post-production arm through cooperating with a post-production house in Hong Kong with over twenty years of experience in the post-production industry to participate in digital media post-production operation with a view to forming an integrated film production chain so as to achieve economies of scale and synergies. The Directors expected that the remaining net proceeds will continue to be applied for procuring the post-production equipment and in recruiting more staff to strengthen the business operation.

The Directors considered that no modification of the planned use of proceeds described in the Prospectus was required.

Other Information

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 2014, 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 Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules") (as the Company was only transferred to list on Main Board since 9 January 2015, the GEM Listing Rules was still applicable to relevant disclosure requirements as at and during the six months ended 31 December 2014 in this report), 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/ associated company's issued share capital
Mr. Wong	Company	Interest in a controlled corporation	300,000,000 (Note)	Long	56.50%
	Company	Beneficial owner	4,180,000	Long	0.78%
			304,180,000		57.28%
	Honour Grace	Beneficial owner	9 shares of US\$1.00 each	Long	60.00%

Note: 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. Wong Chi Woon Edmond and 20% by Ms. Wong Yee Kwan Alvina. Under the SFO, Mr. Wong is deemed to be interested in all the shares registered in the name of Honour Grace.

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

As at 31 December 2014, the interest of the persons, other than the interest disclosed above in respect of 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	56.50%
Mr. Wong	Interest in a controlled corporation	300,000,000 (Note 1)	Long	56.50%
	Beneficial owner	4,180,000	Long	0.78%
		304,180,000		57.28%
Ms. Zee Ven Chu Lydia (Note 2)	Deemed interest	304,180,000	Long	57.28%

Notes:

- 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. Wong Chi Woon Edmond and 20% by Ms. Wong Yee Kwan Alvina. Under the SFO, Mr. Wong is deemed to be interest in all the shares registered in the name of Honour Grace.
- 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.

Save as disclosed above, as at 31 December 2014, 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 2014 and there were no outstanding share options under the Scheme as at 31 December 2014.

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 2014 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 note 15 "Related parties transactions" in Notes to the Interim Financial Statements 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 2014.

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company during the six months ended 31 December 2014.

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 all reasonable enquires, 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 2014.

Code on Corporate Governance Practices

The Company is committed to maintaining a high standard of corporate governance practices. It met all the code provisions of the Corporate Governance Code (the “Code”) set out in Appendix 15 of the GEM Listing Rules during the six months ended 31 December 2014 save as the deviation as mentioned in the following section headed “Chairman and Chief Executive Officer”.

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

Chairman and Chief Executive Officer

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

Mr. Wong 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 2014 which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules.

Audit Committee

The audit committee of the Company (the "Audit Committee") has three members comprising three independent non-executive Directors, Mr. Lam Kam Tong (Chairman of the Audit Committee), Mr. Lo Eric Tien-cheuk and Mr. Tang Kai Kui Terence, with written terms of reference in compliance with the Rules 5.28 to 5.33 of the GEM Listing Rules and the Code. Since 9 January 2015, the written terms of reference of the Audit Committee was in compliance with Rules 3.21 to 3.23 of the Listing Rules and Corporate Governance Code set out in Appendix 14 of the Listing Rules. The primary duties of the Audit Committee are mainly to communicate with external auditor; to review the remuneration, terms of engagement, independency and objectivity of the external auditor; to review the accounting policy, financial position and financial reporting procedures of the Company; and to assess the financial reporting system, internal control procedures and risk management function of the Company and making recommendation thereof. The unaudited interim financial results of the Group for the six months ended 31 December 2014 has been reviewed by the Audit Committee.

On behalf of the Board

Pegasus Entertainment Holdings Limited

Wong Pak Ming

Chairman

Hong Kong, 26 February 2015

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.