PARAGON
ENTERTAINMENT

Half Yearly Report

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PARAGON ENTERTAINMENT LIMITED

Unaudited interim results for the six months ended 30 June 2012.

Paragon Entertainment Limited (PEL) (the "Company" or the "Group"), the AIM listed attractions design, production and fit-out business is pleased to announce its unaudited interim results for the six months ended 30 June 2013.

Highlights

- £4.56m revenue in the period representing 100% revenue growth vs same period last year
- Underlying EBITDA of £106,000 (H1 2012:£11,000)
- Record contracted order book of £9 million for H2 2013 and into 2014
- Design and Build activity at record levels following significant new project wins and the successful completion of large projects including the *'Me and My Body'* Gallery at Eureka!, Halifax, '*Knights Quest*' at Alnwick Castle, the '*Wallace and Gromit*' ride at Blackpool Pleasure Beach and '*Museum of Rugby*' at Twickenham as well as onging work at '*The Olympic Museum*'in Lausanne, Switzerland
- Cash balance of £308,000 with subsequent equity fundraise of £780,000 and renewal of banking facilities of £800,000

Financial Summary

	Unaudited Six months to June 2013	Unaudited Six months to June 2012	Audited Year to December 2012
	£000s	£000s	£000s
Revenue	4,563	2,290	6,129
Underlying EBITDA (1)	106	11	305
Underlying operating loss (1)	(28)	(19)	(212)
Cash balance	308	1,578	539
Basic earnings per share	(0.68)	(0.75)	(0.98)
Normalised earnings per share (2)	(0.38)	(0.04)	(0.08)

(1) Underlying EBITDA is defined as earnings before depreciation, amortisation, interest, share based payments, exceptional items and tax. Underlying operating loss is Underlying EBITDA less Depreciation and other amortisation.

(2) Adjusted basic earnings per share are earnings per share before amortisation on acquired intangibles, share based payments and exceptional items.

CEO Comment

Mark Pyrah, Chief Executive Officer, commented: "Our growth since admission to AIM in December 2011 has been substantial and we are now delivering more than twice our revenues at that stage. Throughout this year, we have continued to grow revenue in the 'Design and Build' business unit and have successfully filled our order book to the end of the year and into Q1 of 2014. We are focusing on margin management.

During April, we fully opened our first attraction at Merry Hill which has not yet achieved profitability. We continue to investigate further attraction opportunities.

Overall the Group continues to trade well. However, due to the performance in our attractions division, we have exercised prudence and reduced our profit expectations for the second half of the year."

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CHIEF EXECUTIVE'S REPORT

The first half of the year has seen solid revenue growth and the continuing development of our design and build, leisure and attractions business. Group revenues were £4.6 million for the six month period, double the result for the corresponding six months of 2012. The core 'Design and Build' business unit has seen its best year to date and a good order book for the remainder of the year.

Strategic Update

Our vision is to create a diversified attractions business with the scope to service an extensive global entertainment industry.

Our current areas of focus comprise:

- **Design and Build** of family and leisure attractions, heritage and museum exhibits, and experiential brand centres. This includes scenic and theming fit-out, interactive displays and models. We also offer related services in corporate branding & communications and graphic design.
- **Proprietary Attractions** which we build, own and operate for our own account and which are typically based on proprietary intellectual property or that of third parties which we have licensed (eg Hammer House of Horror). We will also seek to acquire existing attractions which we can re-invigorate.
- **Leisure** is a newly established business unit which will commercialise proprietary and third party intellectual property by licensing this to third party operators, and also the distribution of attraction-related products and services on behalf of reputable principals such as Hasbro ('Nerf arenas'), Yu Kids soft play and HiLo climbing domes.
- **Consulting and Operations** offer leisure and attraction consulting through our subsidiary, The Visitor Attraction Company, such as conceptual design, master planning, project feasibility studies and operational support.

We have developed considerably in a very short amount of time. Our second half will be focused on refining our core Design and Build business, building out our proprietary attractions capability, and the development and exploitation of key licence agreements and product partnership sales.

In July we were pleased to report a subscription for shares of £780,000 in the equity of the business. This was necessary partly to support the working capital arising out of the growth of the Design and Build business, and partly for the continued implementation of the strategy of the business.

Design and Build

Design and Build continues to form the core component of the Paragon Group and revenue growth is performing well. For the first half of the year we report external revenues of £4.2 million, which represents the best ever revenue performance of the Design and Build element of our business. Due to increase of our contract size, our margins have not matched our revenue growth, largely due to the timing and nature of this business unit's revenue. However, the refinement and achievement of improved margins remains a significant focus within the business unit.

The first half of the year saw us complete exciting high profile projects in time for the Easter and Summer periods, and engage in new projects. These have included 'Me and My Body' gallery at Eureka! National Children's Museum, 'Knights Quest' at Alnwick Castle, the 'Wallace and Gromit' ride at Blackpool Pleasure Beach and 'Museum of Rugby' at Twickenham.

As we enter into the second half of the year, we are pleased to report that we have a full order book, including the significant development at 'The Olympic Museum' in Lausanne, Switzerland, 'Kapsarc' in Saudi Arabia, Al Jaber in Kuwait and Hamleys in Russia. In total, our confirmed orders amount to around £6m in the second half of the year with a further £3m in 2014. Our pipeline of potential new projects continues to increase and now stands in excess of £70 million, of which we are currently tendering on £18.1m.

To support the increase in Design and Build growth, we continue to invest in the development of workshop facilities allowing us to deliver more work directly to our clients rather than outsourcing it at lower margins.

Attractions

Our corporate strategy remains to enter the attractions market, leveraging on Paragon Creative's existing track record of delivering attractions to third parties, thereby developing and operating a portfolio of proprietary and licensed branded attractions. However, our pace in this area has been slower than anticipated due to identifying and securing locations which have the appropriate footfall and price.

Our first attraction, located within Westfield's Merry Hill Shopping Centre in Birmingham, was initially based on an extreme indoor high ropes climbing course. As more space became available at Merry Hill this gave us the opportunity to add a number of co-located attractions which we also own and operate, creating a family leisure destination within the shopping centre under the name of 'Quest', our proprietary brand. Our investment into this leisure destination is approximately £1.3 million and it opened fully in April 2013.

Financial performance for this attraction has been disappointing and it is not yet generating an operating profit. However, as an attractions 'show room', it has been instrumental in securing significant new business for Design and Build and our Leisure business unit. Nonetheless, we are monitoring this attraction closely and we have recently commenced a number of remedial initiatives in relation to marketing and awareness in conjunction with the landlord to lead to profitability. However, given the current position, we have taken a prudent view to impair the investment down to a net book value of £600,000 at 30 June 2013 and this will be further reviewed at the end of the year.

We continue to seek a site for Hammer House of Horror in London and our efforts have started to yield some interesting opportunities.

Leisure

Leisure has been in development for about 12 months and has recently been established and resourced as a separate business unit to take advantage of key third party intellectual property, licences and partnership & distribution agreements. This business unit will be steadily building a base of long term annuity-based licensees and is expected to start to contribute positively to EBITDA in the latter part of 2014.

Financial Performance

The Group has traded profitability at the adjusted EBITDA level, generating £106,000 during the six months. This is split between the profitable areas of Design and Build generating adjusted EBITDA of £454,000 and the other segments of Attractions and Head Office, contributing a loss of £130,000 and £218,000, respectively.

At the end of June, the cash balance was £308,000. The Group also renewed and increased its overdraft facility to £800,000 for a further 12 months to cover the business until July 2014. Subsequent to the half year, the Group engaged in an equity fundraise by way of a subscription, raising a further £780,000 which has been earmarked for providing sufficient working capital to support the growth within Design and Build and to aid further development of the Leisure division.

Trading update

We have been gratified with both the number and scale of contracts which have been won by the Design and Build business unit. However the success we have had in capitalising upon such opportunities which has allowed us to meet those profit expectations has been tempered by the matters raised above in relation to our Attractions . While I am satisfied that matters surrounding footfall at the Merry Hill attraction are now wel in hand through the development of a marketing and awareness plan in conjunction with the landlord, the Board has decided to exercise prudence and has reduced its profit expectations for the second half of 2013.

Team Changes

The following changes have been made:

- Mark Watts has resigned from the board and Marwyn is no longer providing advisory services to the Group.
- Mark Taylor will move from Commercial Director to Vice Chairman to work more closely with me.
- We have recently made senior appointments in our Leisure and Attractions business and we continue to seek exceptional talent for the Group.

I remain confident that the Group is taking, and has taken, appropriate steps to ensure that it is well-placed for success in the future.

Mark Pyrah
Chief Executive Officer

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2013

	Note	**Six months to June 2013 £000s**	Six months to June 2012 £000s	Year to December 2012 £000s
Revenue		**4,563**	2,290	6,129
Cost of sales		**(3,460)**	(1,545)	(4,174)
Gross Profit		**1,103**	745	1,955
Administrative and other operating expenses		**(2,338)**	(2,200)	(3,808)
Analysed as:				
EBITDA before share based payments and exceptional and other items		**106**	11	305
Equity settled share based payment charges		**(15)**	(6)	(21)
Exceptional and other items	4	**(24)**	(80)	(104)
Amortisation of acquired intangibles		**(562)**	(1,350)	(1,940)
Impairment of property, plant and equipment		**(606)**	-	-
Depreciation and other amortisation		**(134)**	(30)	(93)
Operating loss		**(1,235)**	(1,455)	(1,853)
Finance costs		**(26)**	(12)	(30)
Loss before income tax		**(1,261)**	(1,467)	(1,883)
Income tax credit		**158**	270	308

Loss and total comprehensive income for the period		**(1,103)**	(1,197)	(1,575)
Loss and total comprehensive income attributable to the owners of the parent		**(1,103)**	(1,197)	(1,575)

Earnings per share from continuing operations attributable to the equity holders of the Company during the period (expressed in pence per share)

Basic earnings per share	5	**(0.68)**	(0.75)	(0.98)
Diluted earnings per share	5	**(0.68)**	(0.75)	(0.98)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2013

	Note	**June 2013 £000s**	June 2012 £000s	December 2012 £000s
Non-current assets				
Intangible assets		**2,298**	3,393	2,862
Property, plant and equipment		**1,737**	859	2,005
Deferred income tax asset		**44**	84	44
Total non-current assets		**4,079**	4,336	4,911
Current assets				
Inventories		**6**	-	6
Current tax asset		**-**	60	-
Deferred income tax asset		**185**	-	149
Trade and other receivables		**2,421**	1,736	1,882
Cash and cash equivalents	6	**308**	1,578	539
Total current assets		**2,920**	3,374	2,576
Total assets		**6,999**	7,710	7,487
Current liabilities				
Trade and other payables		**3,541**	2,300	2,847
Deferred income		**125**	456	99
Borrowings	7	**84**	60	56
Total current liabilities		**3,750**	2,816	3,002
Non-current liabilities				
Borrowings	7	**327**	341	365
Provisions		**20**	16	18
Deferred income tax liabilities		**187**	371	299
Total non-current liabilities		**534**	728	682
Net liabilities		**4,284**	3,544	3,684

Equity attributable to the owners of the parent				
Share capital	8	**162**	162	162
Share premium	8	**8,884**	8,884	8,884
Retained earnings		**(6,331)**	(4,880)	(5,243)
Total equity		**2,715**	4,166	3,803
Total equity and liabilities		**6,999**	7,710	7,487

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2013

	Share capital £000s	Share premium £000s	Accumulated Losses £000s	Total £000s
Balance at 1 January 2012	158	8,645	(3,689)	5,114
Comprehensive income				
Loss for the period	-	-	(1,197)	(1,197)
Total comprehensive income	**-**	**-**	**(1,197)**	**(1,197)**
Transactions with owners				
Issue of share capital	4	239	-	243
Equity-settled share based payment transactions	-	-	6	6
	4	**239**	**6**	**249**
Balance at 30 June 2012	**162**	**8,884**	**(4,880)**	**4,166**

Balance at 1 January 2013	162	8,884	(5,243)	3,803
Comprehensive income				
Loss for the period	-	-	(1,103)	(1,103)
Total comprehensive income	**-**	**-**	**(1,103)**	**(1,103)**
Transactions with owners				
Equity-settled share based payment transactions	-	-	15	15
Transactions with owners	**-**	**-**	**15**	**15**
Balance at 30 June 2013	**162**	**8,884**	**(6,331)**	**2,715**

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2013

	Note	**Six months to June 2013 £000s**	Six months to June 2012 £000s	Year to December 2012 £000s
Cash flows from operating activities				
Cash from/(used in) operations	9	**264**	(558)	(426)

Net cash from/(used in) operating activities before interest and taxes		**264**	(558)	(426)
Interest paid		**(17)**	(2)	(8)
Income taxes refunded/(paid)		**4**	(8)	(8)
Net cash generated from /(used by) operating activities		**250**	(568)	(442)
Cash flows from investing activities				
Purchase of property, plant and equipment		**(472)**	(156)	(1,327)
Acquisition of subsidiary, net of cash acquired		**-**	6	6
Net cash used in investing activities		**(472)**	(150)	(1,321)
Cash flows from financing activities				
Proceeds of issuance of ordinary shares		**-**	43	43
Cash repayments of borrowings		**(9)**	(35)	(379)
Payment for share issue costs		**-**	-	350
Net cash (used in)/ from financing activities		**(9)**	8	14
Net decrease in cash and cash equivalents		**(231)**	(710)	(1,749)
Cash and cash equivalents and bank overdrafts at beginning of period		**539**	2,288	2,288
Cash and cash equivalents at end of period	6	**308**	1,578	539

Notes to the Condensed Set of Financial Statements

1. General information

Paragon Entertainment Limited is a limited company incorporated in the Cayman Islands, company registration number MC-234241, and domiciled in the UK. The address of its registered office is PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. The company has its primary listing on the Alternative Investment Market (AIM) on the London Stock Exchange. The company is registered with Companies House in the United Kingdom as a UK Establishment of an overseas company, company number FC030890.

The condensed consolidated interim financial information, including the financial information for the year ended 31 December 2012 set out in this interim financial information does not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. The information for the period ended 30 June 2012 is derived from the non-statutory accounts for that financial period.

The non-statutory accounts for the year ended 31 December 2012 were approved on 27 March 2013 and have been delivered to the Registrar of Companies. The Auditor's report on those accounts was unqualified and did not draw attention to any matters by way of emphasis of matter.

This condensed consolidated interim financial information is unaudited and was approved for issue by the Board on 29 September 2012.

Basis of preparation

The condensed consolidated interim financial information for the period ended 30 June 2013 has been prepared in accordance with applicable accounting standards.

The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the period ended 31 December 2012 which have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Going concern

The Group has net cash at 30 June 2013 of £0.3 million. In addition, the Group renewed its overdraft facility of £800,000 with HSBC Bank plc in June 2013 for a period of 12 months and raised additional equity funds in July by way of a subscription of £780,000. As with all business, there is a certain degree of uncertainty over the future demand for the Group's services. The Group's forecasts and projections, after taking account of sensitivity analysis of changes in trading performance, show that the Group is well placed to operate within this level of cash resource for the foreseeable future.

Therefore, the Directors confirm that they have a reasonable expectation that the Group has adequate resources to enable it to continue in existence for the foreseeable future and, accordingly, the consolidated interim financial information has been prepared on a going concern basis.

2. Accounting policies

The principal accounting policies of the Group are consistent with those set out in the Group's 2012 Annual Report and Accounts.

A number of new and amended standards have become effective since the beginning of the previous financial year. None of the new standards and amendments are expected to materially affect the Group.

3. Segmental analysis

Management currently identifies the Group's three operating segments. These operating segments are monitored by the Group's chief operating decision maker and strategic decisions are made on the basis of adjustment segment operating results.

Performance is measured based on EBITDA before exceptional items as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

Inter-segment pricing is determined on an arm's length basis. The information provided to the Board comprises the Statement of Comprehensive Income for each segment, and Statements of Financial Position and Cash Flows and other financial and non-financial information used to manage the business on a consolidated basis.

The "Head Office" segment comprises the corporate activities which are unrelated to the individual segments and the elimination of inter-segmental transactions.

Segment information for the reporting periods is as follows:

Period to 31 June 2013

	Design and Build £000s	Attractions £000s	Head Office £000s	Total £000s
Total Revenues	4,691	255	630	5,576
Of which from external customers	4,308	255	-	4,563
Segment revenues	**4,691**	**255**	**630**	**5,576**
EBITDA before share based payments, exceptional items and head office recharges	**454**	**(130)**	**(218)**	**106**

Period to 31 June 2012

	Design and Build £000s	Attractions £000s	Head Office £000s	Total £000s
Total Revenues	2,290	-	-	2,290
Of which from external customers	2,290	-	-	2,290
Segment revenues	**2,290**	**-**	**-**	**2,290**
EBITDA before share based payments and exceptional items	**432**	**-**	**(421)**	**11**

4. Exceptional and other items

	Six months to June 2013 £000s	Six months to June 2012 £000s	Year to December 2012 £000s
Costs of the acquisition of Paragon Creative Limited	**-**	33	43
Costs of the acquisition of The Visitor Attraction Company Limited	**-**	15	21
Costs associated with acquiring onerous contracts	**-**	20	28
Cost of legal restructuring of Group	**-**	12	12
Costs of the disposal of Drinkall Dean Limited	**11**	-	-
Costs associated with equity fundraising	**13**	-	-
Total Exceptional and other items	**24**	80	104
Amortisation on acquired intangibles	**562**	1,350	1,940
Impairment of tangible asset	**606**	-	-
Equity settled share based payment charges	**15**	6	21
	1,207	1,436	2,065

5. Earnings per share

	Six months to June 2013 Pence per share	Six months to June 2012 Pence per share	Year to December 2012 Pence per share
Basic	**(0.68)**	(0.75)	(0.98)
Diluted	**(0.68)**	(0.75)	(0.98)

Earnings per share have been calculated by dividing the loss attributable to shareholders by the weighted average number of ordinary shares in issued during the period. As basic earnings per share is a loss, a dilution does not take place.

The calculations of basic and diluted loss per share are:

	Six months to June 2013 £000s	Six months to June 2012 £000s	Year to December 2012 £000s
Loss for year attributable to shareholders	**(1,103)**	(1,197)	(1,575)

Weighted number of shares in issue:

	Six months to June 2013 Number	Six months to June 2012 Number	Year to December 2012 Number
Basic	**161,680,550**	160,417,708	161,049,642

Normalised earnings per share:

	Six months to June 2013 Pence per share	Six months to June 2012 Pence per share	Year to December 2012 Pence per share
Basic normalised earnings/(loss) per share	**(0.38)**	(0.04)	0.08

Normalised earnings per share have been calculated by dividing the loss attributable before amortisation, charges for share options and exceptional items by the weighted average number of ordinary shares in issue during the period. The numbers used in calculating the normalised basic earnings per share are reconciled below:

	Six months to June 2013 £000s	Six months to June 2012 £000s	Year to December 2012 £000s
Loss before tax	**(1,235)**	(1,455)	(1,883)
Amortisation	**562**	1,350	1,940
Charges for share options	**15**	6	21
Exceptional items	**24**	80	104
Normalised (loss)/earnings attributable to shareholders	**(634)**	(19)	182
Current year tax (charge)/credit excluding the tax effect of the above items	**26**	(46)	(57)
Normalised (loss)/earnings	**(608)**	(65)	125

6. Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise the following:

	June 2013 £000s	June 2012 £000s	December 2012 £000s
Cash at bank	**308**	1,578	539
Cash and cash equivalents (excluding overdrafts)	**308**	1,578	539

Cash and cash equivalents include the following for the purposes of the statement of cash flows:

	June 2013 £000s	June 2012 £000s	December 2012 £000s
Cash and cash equivalents (excluding overdrafts)	**308**	1,578	539
Bank overdrafts	**-**	-	-
Cash and cash equivalents	**308**	1,578	539

7. Borrowings

	June 2013 £000s	June 2012 £000s	December 2011 £000s

Current liabilities			
Bank loans	**36**	20	22
Hire purchase liabilities	**48**	40	34
	84	60	56
Non-current liabilities			
Bank loans	**300**	324	326
Hire purchase liabilities	**27**	17	39
	327	341	365
Total borrowings	**411**	401	421

8. Share capital and share premium

Issued and fully paid	Number of shares	Ordinary Shares £000s	Share premium £000s	Total £000s
At 1 January 2012	158,288,053	158	8,645	8,803
Issues of ordinary shares	1,075,000	1	42	43
Shares issued in exchange for acquisition of TVAC	2,317,497	3	197	200
At 30 June 2012	**161,680,550**	**162**	**8,884**	**9,046**
At 1 January 2013	161,680,550	162	8,884	9,046
At 30 June 2013	**161,680,550**	**162**	**8,884**	**9,046**

Share Capital
The share capital of Paragon Entertainment Limited consists only of Ordinary shares. The Ordinary shares carry one vote per share and carry the right to receive dividends when declared. They rank *pari passu* with each other in all respects including receipt of dividends and proceeds in the winding up of the company.

9. Cash used in operations

	Six months to June 2013 £000s	Six months to June 2012 £000s	Year to December 2012 £000s
Loss before taxation	**(1,261)**	(1,467)	(1,883)
Adjustments for:			
- depreciation	**134**	30	93
- impairment of tangible assets	**606**	-	-
- amortisation	**562**	1,350	1,940
- share based payments	**15**	6	21
- trade and other receivables	**(539)**	(238)	(379)
- trade and other payables	**721**	(251)	(248)
- Interest expense	**26**	12	30
Cash from/(used in) operations	**264**	(558)	(426)

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