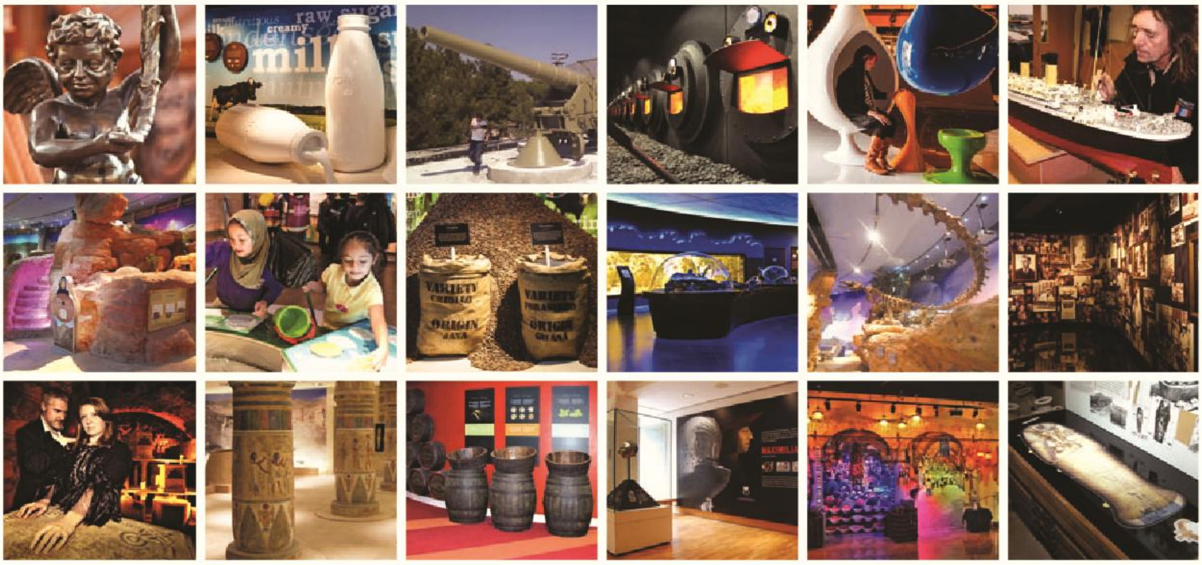
Half Year Report and Accounts

For the six months ended 30 June 2012

Paragon
ENTERTAINMENT LIMITED



Stock Code: PEL.L

CHIEF EXECUTIVE'S REPORT

The first half of the year has seen exciting growth and the continuing development of our stated strategy of developing a diversified attractions business. Group revenues were £2.3 million for the period; a result greater than ever experienced before. The core 'Design and Build' segment has seen its best year to date and has a record contracted order book for the remainder of the year. In addition, we have secured our first site on which to build, own and operate attractions.

Our Vision

"To create a diversified attractions business with the scope to service an extensive global entertainment industry"

We are excited to have achieved a number of strategic priorities which bring us ever closer to realising our vision.

In April, we acquired the entire share capital of The Visitor Attraction Company ("TVAC"), a provider of strategic development, operating and project management services to the leisure attractions industry.

In May, we acquired the trade and assets of Drinkall Dean LLP, a provider of experiential design concepts within the retail sector. We also launched a new division, Paragon Creative Communications, comprising of experienced graphic designers and marketing professionals with a strong track record in the museum, heritage and corporate sectors.

In September, we announced that we had entered into an unconditional agreement with the Westfield Group to enter into a series of leases for an area covering 20,000 square feet at their Merry Hill Shopping Centre, Birmingham, this site being the location of our first attractions.

We are broadening our core service offerings across the value chain such that our core operating divisions now cover:

- **Design and Build** of models, scenic and interactive displays and the provision of specific support services, such as design, consultancy and project feasibility, to third party owners and operators of attractions
- **Attractions** that are owned and operated by the group, using proprietary and licenced branded intellectual property
- **Operations** of attractions that are owned by a third party, but where the group is responsible for part or all of the management and is the appointed operator

Design and Build

Design and Build continues to form the core component of the Paragon group. The first half of the year saw us complete exciting high profile projects, ready for the Easter and Summer periods. These have included the new *Titanic* visitor attraction in Belfast, *Sea City Museum* in Southampton, *Chocolate – York's Sweet Story*, *The Lost Cellars* at Alnwick Castle, the *Cairo Children's Centre for Creativity*, *Giants Causeway Visitor Attraction* and *Web Lab Chrome Experiment* at the Science Museum in London.

For the first half of the year we report revenues of £2.3 million which represents the best ever performance of the design and build element of our business.

As we enter into the second half, we are pleased to report project wins including a significant development at The Olympic Museum in Lausanne, Switzerland, the new Wallace and Gromit dark ride at Blackpool Pleasure Beach, a new visitor gallery at Eureka!, a new visitor experience at York Minster as well as several smaller projects. The impact of these new projects is a record production order book for the remainder of 2012 and into 2013. In total, the value of confirmed orders amounts to £11.7m by the end of 2013

Our pipeline of potential new projects continues to increase and now stands above £50 million. Structural changes within the sector and the Sales and Development department of the Company have led to a resurgence of projects, and the business remains well placed to exploit these opportunities.

Attractions

Our business strategy has always been to enter the attractions market, leveraging upon Paragon Creative's existing track record of delivering attractions to third parties, thereby developing and operating a portfolio of propriety owned and licensed branded attractions.

During the first half of the year, we developed this strategy by acquiring TVAC, a respected industry provider of strategic development, operating and project management services to the leisure attractions industry.

The business model has been well received in the target sectors, but as reported earlier in the year, progress has been slower than expected in finalising appropriate locations. However, we were pleased to be able to announce outline details of our first attraction which is to be located within the Westfield's Merry Hill Shopping Centre in Birmingham.

The initial plan for an extreme High Ropes Course was well received but when 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 comprising of several attractions under the banner of our propriety brand Quest. Our investment into this leisure destination is significant at around £1 million and it is expected to open in November 2012 in time for the important Christmas shopper market.

We are also developing attractions based upon licensed brands. Discussions are on-going with a number of interesting third parties and we will provide an update when those discussions have concluded positively.

Trading update

To date in 2012, we have been pleased with both the number and scale of contracts which have been coming up for tender within the Design and Build division. This has given us confidence that we will be able to meet expectations on revenues and profits.

The success we have had in capitalising upon opportunities in 'Design and Build' has been tempered by delays in the delivery of a roll out of our proprietary attractions. However, our first attraction is to open in 2012 and this will mark the next step of our business development. We are currently in discussions with a number of potential sites for our attractions in the UK and Europe and will update the market on developments as appropriate.

Mark Pyrah
Chief Executive

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2012

	Note	**Six months to June 2012 £000s**	Six months to June 2011 £000s	Year to December 2011 £000s
Revenue		**2,290**	-	-
Cost of sales		**(1,545)**	-	-
Gross Profit		**745**	-	-
Administrative and other operating expenses		**(2,200)**	(881)	(2,888)
Analysed as:				
EBITDA before share based payments and exceptional and other items		**11**	-	(361)
Equity settled share based payment charges		**(6)**	-	(401)
Exceptional and other items	5	**(80)**	-	(2,025)
Amortisation of acquired intangibles		**(1,350)**	-	(100)
Depreciation and other amortisation		**(30)**	-	(1)
Operating loss		**(1,455)**	(881)	(2,888)
Finance costs		**(12)**	-	-
Loss before income tax		**(1,467)**	(881)	(2,888)
Income tax credit		**270**	-	25
Loss and total comprehensive income for the period		**(1,197)**	(881)	(2,863)
Loss and total comprehensive income attributable to the owners of the parent		**(1,197)**	(881)	(2,863)

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	6	**(0.75)**	(1.80)	(5.50)
Diluted earnings per share	6	**(0.75)**	(1.80)	(5.50)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2012

	Note	**June 2012 £000s**	June 2011 £000s	December 2011 £000s
Non-current assets				
Intangible assets		**3,393**	-	4,437
Property, plant and equipment		**859**	-	698
Deferred income tax asset		**84**	-	156
		4,336	-	5,291
Current assets				
Current tax asset		**60**	-	60
Trade and other receivables		**1,736**	4	1,494
Cash and cash equivalents	7	**1,578**	3,305	2,420
		3,374	3,309	3,974
Current liabilities				
Trade and other payables		**2,300**	302	2,489
Deferred income		**456**	-	448
Borrowings	8	**60**	-	163
Current income tax liabilities		**-**	-	1
Total current liabilities		**2,816**	302	3,101
Net current assets		**558**	3,007	873
Non-current liabilities				
Borrowings	8	**341**	-	344
Provisions		**16**	-	65
Deferred income tax liabilities		**371**	-	641
		728	-	1,050
Net assets		**4,166**	3,007	5,114
Equity attributable to the owners of the parent				
Share capital	9	**162**	49	158
Share premium	9	**8,884**	4,665	8,645
Retained earnings		**(4,880)**	(1,707)	(3,689)
Total equity		**4,166**	3,007	5,114

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2012

	Share capital £000s	Share premium £000s	Accumulated Losses £000s	Total £000s
Balance at 1 January 2011	49	4,665	(826)	3,888
Comprehensive income				
Loss for the period	-	-	(881)	(881)
Total comprehensive income	**-**	**-**	**(881)**	**(881)**
Transactions with owners	**-**	**-**	**-**	**-**
Balance at 30 June 2011	**49**	**4,665**	**(1,707)**	**3,007**

	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)	(1,191)
Total comprehensive income	**-**	**-**	**(1,197)**	**(1,191)**
Transactions with owners				
Issue of share capital	4	239	-	243
Equity-settled share based payment transactions	-	-	6	6
Transactions with owners	**4**	**239**	**6**	**243**
Balance at 30 June 2012	**162**	**8,884**	**(4,880)**	**4,166**

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2012

	Note	**Six months to June 2012 £000s**	Six months to June 2011 £000s	Year to December 2011 £000s
Cash flows from operating activities				
Cash used in operations	10	**(558)**	(608)	(2,014)
Net cash used by operating activities before interest and taxes		**(558)**	(608)	(2,014)
Interest paid		**(2)**	-	-
Income taxes paid		**(8)**	-	-
Net cash used by operating activities		**(568)**	(608)	(2,014)
Cash flows from investing activities				
Purchase of property, plant and equipment		**(156)**	-	-
Acquisition of subsidiary, net of cash acquired		**6**	-	(1,786)
Net cash used in investing activities		**(150)**	-	(1,786)
Cash flows from financing activities				
Proceeds of issuance of ordinary shares		**43**	-	2,457
Cash repayments of borrowings		**(35)**	-	-
Payment for share issue costs		**-**	-	(282)
Net cash generated from financing activities		**8**	-	2,175
Net decrease in cash and cash equivalents		**(710)**	(608)	(1,625)
Cash and cash equivalents and bank overdrafts at beginning of period		**2,288**	3,913	3,913
Cash and cash equivalents at end of period	7	**1,578**	3,305	2,288

Notes to the Condensed Set of Financial Statements

1. General information

Paragon Entertainment Limited is a limited company incorporated in the Cayman Islands 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 and UK Establishment registration number BR015952.

The condensed consolidated interim financial information, including the financial information for the year ended 31 December 2011 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 2011 is derived from the non-statutory accounts for that financial period.

The non-statutory accounts for the year ended 31 December 2011 were approved on 22 June 2012 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 18 September 2012.

Basis of preparation

The condensed consolidated interim financial information for the period ended 30 June 2012 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 2011 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 2012 of £1.6 million. 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 2011 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

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses. IFRS 8 requires disclosure of the operating segments that are reported to the Chief Operating Decision Maker ("CODM").

The CODM has been identified as the Board of Directors, which has responsibility for planning and controlling the activities of the Group. The Group's single reportable segment has been identified as the 'design and building of models, scenic and interactive displays and provision of specific support services to third party owners and operators of attractions' ("Design and Build"). All activities encompassed in this segment are performed to a set specification as defined by the customer and outlined in a written contract. Trading activities in this segment are performed by the legal entities Paragon Creative Limited, Drinkall Dean (London) Limited and The Visitor Attraction Limited. The Group is also developing other segments identified as the 'owning and operating proprietary and licenced branded visitor attractions ' ("Attractions") and the 'operating of third party owned visitor attractions' ("Operations").

However, both attractions and operations had no material trading revenues in the period and as such the Group only has one reportable segment, no further segmental information is disclosed.

4. Business combinations

Acquisition of The Visitor Attraction Company Limited

On 5 April 2012 the Group acquired the entire share capital of The Visitor Attraction Company Limited ("TVAC") by means of a share for share exchange for a total consideration of up to £300,000. TVAC is a well-respected industry leading provider of strategic development, operating and project management services to the leisure attractions industry. The acquisition was strategic to the Group to enable it to extend its range of services it can offer to the attractions industry.

Paragon's strategy was to bring together the core of its design and build core, together with a strong management team and leverage this position to create a portfolio of attractions which are owned and managed by the Group. TVAC has extensive expertise in the development and operation of leisure attractions and complements Paragon's array of attraction services. The acquisition was therefore in line with Paragon's broader strategy, announced late last year, to expand through organic and acquisitive means and thereby gain access to more of the value chain in its core leisure attractions market.

The details of the business combination are as follows:	Fair value £000s
Cash and cash equivalents	6
Intangible assets	150
Trade and other receivables	65
Trade and other payables	(76)
Deferred tax liability	(30)
Total identifiable net assets	115
Provisional Goodwill	185
Total net assets	300
Consideration satisfied by:	
Fair value of shares issued	200
Deferred consideration (payable in shares)	100

Total consideration	**300**

Consideration transferred

The consideration was settled on completion by the issue of 2,317,497 ordinary shares at the market price of 8.63 pence per share, amounting to fair value of £200,000. The purchase agreement also included an element of deferred consideration which is to be settled, subject to certain performance criteria, by the issue of ordinary shares of the company at the prevailing share price at the time of issue, subject to a maximum number of shares of 1,158,750. The amount will become payable on the anniversary of the acquisition.

A total of £15,000 in directly related acquisition costs has been charged to the operating expenses of the business and are included within exceptional and other items.

Identifiable net assets

A number of adjustments have been made to the value of net assets to account for the fair values.

Fair value adjustments relate to identifiable intangibles relating to the value of customer relationships. The total fair value of customer relationships is considered to be £150,000.

Goodwill

The purchased goodwill of £185,000 is primarily related to growth expectations and the ability to be able to leverage on the company's substantial skill and expertise within both its existing sector and the expansion into the ownership and operation of licensed and proprietary visitor attractions. Goodwill has been allocated to the 'Design and Build' segment and is not expected to be deductible for tax purposes.

5. Exceptional and other items

	Six months to June 2012 £000s	Six months to June 2011 £000s	Year to December 2011 £000s
Costs of the acquisition of Paragon Creative Limited	**45**	-	387
Costs of the acquisition of The Visitor Attraction Company Limited	**15**	-	-
Costs associated with acquiring onerous contracts	**20**	-	-
Exceptional pre-acquisition costs of the company not related to current business	**-**	-	1,638
Total Exceptional and other items	**80**	-	2,025
Amortisation on acquired intangibles	**1,350**	-	100
Equity settled share based payment charges	**6**	-	401
	1,436	-	2,526

6. Earnings per share

	Six months to June 2012		Six months to June 2011		Year to December 2011	
	Earnings £000s	**EPS p**	Earnings £000s	EPS p	Earnings £000s	EPS P
Weighted average number of shares in issue (‘000s)	**160,418**	**(0.75)**	49,000	(1.80)	52,089	(5.50)
Loss for the period	**(1,197)**		(881)		(2,863)	
Exceptional Items and other items net of taxation	**1,166**		-		2,501	
Loss for the period before exceptional items attributable to the equity holders of the company	**(31)**	**(0.02)**	(881)	(1.80)	(362)	(0.69)

Basic earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2012 was based upon the attributable loss to the equity holders of the company of £1,191,000 (2011: £882,000) and a weighted average number of ordinary shares outstanding of 160.4 million (2011: 49 million).

Diluted loss per share is the same as loss per share as the Group is loss making for the period (and comparative period).

Normalised earnings per share

The calculation of Normalised earnings per share for the six months ended 30 June 2011) was based upon the attributable loss to ordinary shareholders of £31,000 (2011: £882,000) and a weighted average number of ordinary shares outstanding of 160.4 million (2011: 49 million).

7. Cash and cash equivalents

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

	June 2012 £000s	June 2011 £000s	December 2011 £000s
Cash at bank	**1,578**	3,305	2,420
Cash and cash equivalents (excluding overdrafts)	**1,578**	3,305	2,420

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

	June 2012 £000s	June 2011 £000s	December 2011 £000s
Cash and cash equivalents (excluding overdrafts)	**1,578**	3,305	2,420
Bank overdrafts	**-**	-	(132)
Cash and cash equivalents	**1,578**	3,305	2,288

8. Borrowings

	June 2012 £000s	June 2011 £000s	December 2011 £000s
Current liabilities			
Bank overdrafts	**-**	-	132
Bank loans	**20**	-	19
Hire purchase liabilities	**40**	-	12
	60	-	163
Non-current liabilities			
Bank loans	**324**	-	337
Hire purchase liabilities	**17**	-	7
	341	-	344
Total borrowings	**401**	-	507

9. Share capital and share premium

Issued and fully paid	Number of shares	Ordinary Shares £000s	Share premium £000s	Total £000s
At 1 January 2011	49,000,000	49	4,665	4,714
At 30 June 2011	**49,000,000**	**49**	**4,665**	**4,714**
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**

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.

Additional shares were issued during the year as follows:

On 10 January 2012, the company completed its December 2011 placing and raised £43,000, gross, by way of placing a further 1,075,000 ordinary shares of 0.1p each at a price of 4p.

On 5 April 2012, the company issued 2,317,497 ordinary shares of 0.1p each at a price of 8.63p per share pursuant to a sale and purchase agreement to acquire the share capital of The Visitor Attraction Company Limited.

10. Cash used in operations

	Six months to June 2012 £000s	Six months to June 2011 £000s	Year to December 2011 £000s
Loss before taxation	**(1,467)**	(881)	(2,888)
Adjustments for:			
- depreciation	**30**	-	1
- amortisation	**1,350**	-	100
- share based payments	**6**	-	401
- trade and other receivables	**(238)**	4	(184)
- trade and other payables	**(251)**	269	556
- Interest expense	**12**	-	-
Cash used by operations	**(558)**	(608)	(2,014)

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