



Pegasus Entertainment Holdings Limited

天馬娛樂控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8039)

THIRD QUARTERLY RESULTS ANNOUNCEMENT FOR THE NINE MONTHS ENDED 31 MARCH 2014

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

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

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

HIGHLIGHTS

- The Group (as defined below) reported a profit attributable to owners of the Company of approximately HK\$2.1 million and HK\$6.6 million for the three months and nine months ended 31 March 2014 respectively.
- The Group recorded revenue of approximately HK\$77.0 million for the nine months ended 31 March 2014, an increase of approximately HK\$21.0 million or approximately 37.4% when compared to the same period of the previous financial year.
- Gross profit margin for the nine months ended 31 March 2014 was approximately 40.2% which translates into gross profit of approximately HK\$31.0 million.
- The Group's net assets and net current assets as at 31 March 2014 amounted to approximately HK\$271.5 million and approximately HK\$190.2 million respectively.
- The Board (as defined below) does not recommend the payment of any dividend for the nine months ended 31 March 2014.

UNAUDITED THIRD QUARTERLY RESULTS

For the nine months ended 31 March 2014

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the nine months ended 31 March 2014

	Notes	Three months ended 31 March		Nine months ended 31 March	
		2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Revenue	3	44,080	38,754	77,041	56,082
Cost of sales		(25,279)	(20,097)	(46,045)	(27,432)
Gross profit		18,801	18,657	30,996	28,650
Other income and gain	4	123	17	776	78
Selling and distribution expenses		(7,831)	(7,594)	(9,647)	(12,362)
Administrative expenses		(6,119)	(4,121)	(15,922)	(11,498)
Finance costs	5	(42)	(18)	(76)	(53)
Other expenses		–	–	–	(3,805)
Share of results of an associate		(1,827)	–	1,728	–
Profit before tax		3,105	6,941	7,855	1,010
Income tax expense	6	(986)	(804)	(1,225)	(804)
Profit for the period attributable to owners of the Company		2,119	6,137	6,630	206
Other comprehensive expenses					
Share of exchange difference of an associate		–	–	(14)	–
Other comprehensive expenses for the period		–	–	(14)	–
Total comprehensive income for the period attributable to owners of the Company		2,119	6,137	6,616	206
Earnings per share	7				
Basic (HK cents)		0.4	1.5	1.4	0.1
Diluted (HK cents)		0.4	N/A	1.4	N/A

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 31 March 2014

	Attributable to owners of the Company						Total HK\$'000 (Unaudited)
	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)	
At 1 July 2012 (Audited)	10	-	-	-	-	41,081	41,091
Profit and total comprehensive income for the period	-	-	-	-	-	206	206
Arising on Reorganisation (as defined below)	(10)	-	-	-	10	-	-
Issue of shares upon the loan capitalisation issue	-	50,000	-	-	-	-	50,000
Issue of shares upon capitalisation issue	3,000	(3,000)	-	-	-	-	-
Issue of new shares	1,000	89,000	-	-	-	-	90,000
Cost of issuing new shares	-	(6,315)	-	-	-	-	(6,315)
At 31 March 2013	<u>4,000</u>	<u>129,685</u>	<u>-</u>	<u>-</u>	<u>10</u>	<u>41,287</u>	<u>174,982</u>
At 1 July 2013 (Audited)	4,000	129,685	-	-	10	60,225	193,920
Profit for the period	-	-	-	-	-	6,630	6,630
Other comprehensive expenses for the period:							
Share of exchange difference of an associate	-	-	-	(14)	-	-	(14)
Total comprehensive income for the period	-	-	-	(14)	-	6,630	6,616
Issue of new shares	800	71,200	-	-	-	-	72,000
Cost of issuing new shares	-	(1,717)	-	-	-	-	(1,717)
Issue of warrants	-	-	960	-	-	-	960
Cost of issuing warrants	-	-	(250)	-	-	-	(250)
At 31 March 2014	<u>4,800</u>	<u>199,168</u>	<u>710</u>	<u>(14)</u>	<u>10</u>	<u>66,855</u>	<u>271,529</u>

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

NOTES TO THE QUARTERLY RESULTS

1. GENERAL INFORMATION

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

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

2. BASIS OF PREPARATION

The unaudited consolidated financial statements for the nine months ended 31 March 2014 (the "Third Quarterly Financial Statements") have been prepared in accordance with the accounting principles generally accepted in Hong Kong and comply with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and applicable disclosure requirements of Chapter 18 to the GEM Listing Rules.

The Third Quarterly Financial Statements have been prepared under the historical cost basis. The principal accounting policies used in the preparation of the Third Quarterly Financial Statements are consistent with those used in the annual consolidated financial statements for the year ended 30 June 2013 and the adoption of the accounting policy "Interest in an associate" used in the preparation of the unaudited consolidated financial statements for the six months ended 31 December 2013.

The HKICPA has issued a number of new and revised HKFRSs, amendments and interpretations. For those which are effective for the Group's accounting period beginning 1 July 2013, the application has no material impact on the Group's reported results and the financial position for the current and/or prior accounting periods. For those which are not yet effective, the Group is in the process of assessing their impact on the Group's results and financial position.

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

3. REVENUE

	Three months ended		Nine months ended	
	31 March		31 March	
	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Film production, distribution and licensing income	40,867	37,789	72,649	54,360
Advertising income	2,680	242	2,680	453
Service income	533	723	1,712	1,269
	<u>44,080</u>	<u>38,754</u>	<u>77,041</u>	<u>56,082</u>

4. OTHER INCOME AND GAIN

	Three months ended 31 March		Nine months ended 31 March	
	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Bank interest income	43	17	135	78
Net exchange gain	52	–	304	–
Others	28	–	337	–
	<u>123</u>	<u>17</u>	<u>776</u>	<u>78</u>

5. FINANCE COSTS

	Three months ended 31 March		Nine months ended 31 March	
	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Interest on bank borrowings wholly repayable within five years	–	–	–	35
Interest on bank overdrafts	42	18	76	18
	<u>42</u>	<u>18</u>	<u>76</u>	<u>53</u>

6. INCOME TAX EXPENSE

	Three months ended 31 March		Nine months ended 31 March	
	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Current tax				
Hong Kong	986	521	1,225	521
People's Republic of China ("PRC")	–	283	–	283
	<u>986</u>	<u>804</u>	<u>1,225</u>	<u>804</u>

Hong Kong Profits Tax is calculated at 16.5% (2013: 16.5%) of the estimated assessable profits for the three months and nine months ended 31 March 2014.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiary is 25% from 1 January 2008 onwards. PRC Enterprise Income Tax has been provided for the assessable profits arising from the PRC subsidiary for the three months and nine months ended 31 March 2013. The PRC subsidiary had incurred losses during the three months and nine months ended 31 March 2014 and no provision for Enterprise Income Tax were made for these periods.

7. EARNINGS PER SHARE

The calculations of the basic and diluted earnings per share attributable to owners of the Company for the three months and nine months ended 31 March 2013 and 2014 respectively are based on the following:

	Three months ended		Nine months ended	
	31 March		31 March	
	2014	2013	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Earnings				
Profit for the period attributable to owners of the Company for the purposes of basic and diluted earnings per share	<u>2,119</u>	<u>6,137</u>	<u>6,630</u>	<u>206</u>
Number of shares				
Weighted average number of ordinary shares for the purpose of basic earnings per share	<u>480,000,000</u>	<u>400,000,000</u>	<u>466,386,861</u>	<u>354,151,912</u>
Effect of dilutive ordinary shares arising from issue of warrants	<u>10,971,429</u>		<u>4,404,588</u>	
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>490,971,429</u>		<u>470,791,449</u>	

The numbers of ordinary shares for the purpose of calculating basic earnings per share for the nine months ended 31 March 2013 had been adjusted for the effect of the Reorganisation and capitalisation issues in preparation for the Listing.

No diluted earnings per share was presented for the three months and nine months ended 31 March 2013 as there were no potential dilutive ordinary shares outstanding.

DIVIDEND

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

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

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

The principal business activities of the Group comprised of (i) production of films; (ii) distribution and licensing of our films to regions including Taiwan, Japan, the United States of Americas and Europe in addition to our major markets of Hong Kong, the PRC and South East Asia; (iii) offering product placement and sponsorship opportunities in our films to derive advertising income; and (iv) distribution of films and television series in the film library owned by our controlling shareholders (the “Personal Library”). The Group’s business model and the principal business activities remain the same that as disclosed in the prospectus of the Company dated 9 October 2012 (the “Prospectus”) during the period under review.

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

The Group released two films, namely “Baby Blues” (詭嬰) and “Hello Babies” (六福喜事), during the nine months ended 31 March 2014 and two films, namely “Love is...Pyjamas” (男人如衣服) and “Hotel Deluxe” (百星酒店), 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 quarterly and interim financial results may not be indicative of the Group’s financial results of a full year and the Group’s financial performance would fluctuate from period to period.

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

Financial review

Revenue

Revenue and gross profit of the Group were approximately HK\$77.0 million and HK\$31.0 million respectively for the nine months ended 31 March 2014, representing increases of approximately HK\$21.0 million or approximately 37.4% and approximately HK\$2.3 million or approximately 8.2% respectively compared to the same period of the previous financial year. This was mainly due to the films released during the period under review are wholly-owned by us, whilst one of the films released during the corresponding period in 2013, namely “Love is... Pyjamas” (男人如衣服), is jointly controlled by the Group and the PRC co-producer and revenue was recognised based on the income and expenses derived in respect of the Group’s share of the distribution rights. In addition, the rise in revenue was significantly attributable to the post-released income of a large-scale film, namely “Saving General Yang” (忠烈楊家將) and there were no such sales during the corresponding period in 2013. Gross profit margin for the nine months ended 31 March 2014 was approximately 40.2%, a decrease from that of approximately 51.1% for the corresponding period in 2013. This was mainly due to the lower profit margin of post-released sales of large-scale films compared to the Group’s usual films, which are of smaller scale.

Other income and gain

Other income and gain was approximately HK\$0.8 million for the nine months ended 31 March 2014, representing an increase of approximately HK\$0.7 million or approximately 894.9% compared to the same period of the previous financial year, mainly due to (i) the net exchange gain of approximately HK\$0.3 million from the appreciation of Renminbi against HK\$ during settlement of contributions from the PRC co-producers; and (ii) contribution of approximately HK\$0.3 million from artiste management service provided.

Selling and distribution expenses

Selling and distribution expenses decreased by approximately HK\$2.7 million or approximately 22.0% from approximately HK\$12.4 million for the nine months ended 31 March 2013 to approximately HK\$9.6 million for the nine months ended 31 March 2014. This was mainly due to (i) the decrease of costs related to advertising and promotion events as one of the films released during the period under review is of smaller scale compared to the film released during the corresponding period in 2013; and (ii) the decrease of processing costs related to the digitalisation of film exhibition in Hong Kong.

Administrative expenses

Administrative expenses increased by approximately HK\$4.4 million or approximately 38.5% from approximately HK\$11.5 million for the nine months ended 31 March 2013 to approximately HK\$15.9 million for the nine months ended 31 March 2014. This was mainly due to (i) the increase of the total staff costs by approximately HK\$1.9 million as a result of (a) a change of arrangement to the directors’ remuneration structure in respect of the Listing, as disclosed in the Prospectus; and (b) the average number of employees increasing from 27 for the nine months ended 31 March 2013 to 29 for the nine months ended 31 March 2014; and (ii) the increase of the legal and professional fee by approximately HK\$2.3 million in relation to legal and professional services since the Listing and services fee for providing professional services to certain transactions.

Income tax expense

The income tax expense of the Group during the nine months ended 31 March 2014 amounted to approximately HK\$1.2 million (2013: HK\$0.8 million) at the effective tax rate of 20.0% (2013: 79.6%). The significant decrease in effective tax rate during the period under review was mainly due to the non-tax-deductible nature of certain expenses directly relating to the Listing during the corresponding period in 2013 whilst no such expenses was recorded during the period under review.

Profit for the period

The Group's profit and total comprehensive income attributable to owners of the Company for the nine months ended 31 March 2014 amounted to approximately HK\$6.6 million (2013: HK\$0.2 million). The profit for the period under review compared to the corresponding period in 2013 was primarily a result of the increase in gross profit, other income and gain and the decrease of selling and distribution expenses and other expenses of which set off against the increase in administrative expenses and income tax expense as aforesaid.

Outlook

The Group will continue to focus on its core business in production and distribution of films and television series. Followed by a notable annual growth of the PRC total box office receipts of 27.5% during the year of 2013, the PRC total box office receipts recorded an increase from RMB5.2 billion in the first quarter of 2013 to RMB6.8 billion in the first quarter of 2014, representing a period to period growth of 30.8%. Due to the continuing growth of the PRC film and television industry as well as the encouragement of the PRC Government, the Group is confident that the outlook for the PRC film and television industry remains to be positive and encouraging for industry participants. In order to capture the prospects and the rapid development of film and television markets in the PRC, which is the Group's major market, the Group will diversify the genres of films and television programme to satisfy other market demands in addition to our well-known comedy series. The Group will continue to gravitate towards the PRC audience preference so as to grasp the growth opportunities in this market.

We currently have our first action film as well as a drama production in post-production. The action film is scheduled to be released within this financial year, while the release of the drama film is dependent on availability of cinema circuits' screening schedules, which is currently expected to be the first quarter of the following financial year. We have also approved two scripts, for which the Group is currently in the process of identifying suitable PRC co-producers. It is expected that production will commence soon.

The Group's newly acquired associate is continuing to contribute positive results to the Group with its business in comic publication and licensing of intellectual property rights of comic stories and heroes database, which are suitable for (i) reproduction in movies and television shows; and (ii) development into online games and mobile games. The Group believes that not only does this associate diversify our existing businesses; it will also bring further business opportunity to the Group through utilisation of its database of comic stories and heroes for reproduction as films and television series.

The Group's successful procurement of the ten-year lease for the cinema situated in Langham Place (a prime location in Mongkok and a popular shopping and entertainment area in Hong Kong) commencing in July 2014 will provide a platform for the further development of the Group's film distribution business through operation of cinemas and related operations in the cinema. This will also broaden the Group's revenue base and achieve better return of the shareholders of the Company. Based on the current plan, the Group will commence the operation of the Langham Place cinema as soon as practicable after the commencement of the lease term.

Going forward, the Group will utilise its available resources to seize the opportunities presented by the bright prospects of the PRC cultural industry market. The Group will also continue to explore business opportunities associated with its core business to strengthen its revenue base and maximise the return of the shareholders and the value of the Company.

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 nine months ended 31 March 2014.

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

Hong Kong, 9 May 2014

As at the date of this announcement, the executive Directors are Mr. Wong Pak Ming, Ms. Wong Yee Kwan Alvina and Mr. Wong Chi Woon Edmond and the independent non-executive Directors are Mr. Lam Kam Tong, Mr. Lo Eric Tien-cheuk and Mr. Tang Kai Kui Terence.

This announcement will remain on the "Latest Company Announcements" page of the GEM website (www.hkgem.com) for at least seven days from the date of its posting and on the Company's website (www.pegasusmovie.com).