



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: 8039)

FIRST QUARTERLY RESULTS ANNOUNCEMENT FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2014

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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) recorded revenue of approximately HK\$13.5 million for the three months ended 30 September 2014, an increase of approximately HK\$2.5 million or approximately 22.4% when compared to the same period of the previous financial year.
- Gross profit margin for the three months ended 30 September 2014 was approximately 49.0% which translates into gross profit of approximately HK\$6.6 million.
- As announced on 23 September 2014, in compliance with the relevant accounting standard, rental expenses in relation to the cinema located in Langham Place had been recognised from 23 July 2014 whilst revenue will only be generated after the cinema commences operation in the fourth quarter of 2014. As a result, the Group reported a loss attributable to owners of the Company of approximately HK\$12.9 million for the three months ended 30 September 2014 as compared to a loss of approximately HK\$0.3 million for the same period of the previous financial year.
- The Group's net assets and net current assets as at 30 September 2014 amounted to approximately HK\$339.3 million and approximately HK\$251.1 million respectively.
- The Board (as defined below) does not recommend the payment of any dividend for the three months ended 30 September 2014.

UNAUDITED FIRST QUARTERLY RESULTS

For the three months ended 30 September 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 ended 30 September 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 three months ended 30 September 2014

		Three months ended	
		30 September	
		2014	2013
	Notes	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Revenue	3	13,458	10,995
Cost of sales		<u>(6,860)</u>	<u>(7,414)</u>
Gross profit		6,598	3,581
Other income and gain	4	146	482
Selling and distribution expenses		(14,648)	(113)
Administrative expenses		(5,219)	(4,208)
Finance costs	5	(6)	(1)
Share of results of an associate		<u>278</u>	<u>–</u>
Loss before tax		(12,851)	(259)
Income tax expense	6	<u>–</u>	<u>–</u>
Loss for the period attributable to owners of the Company		(12,851)	(259)
Other comprehensive income			
<i>Item that may be reclassified subsequently to profit or loss</i>			
Share of exchange difference of an associate		<u>3</u>	<u>–</u>
Loss and total comprehensive expenses for the period attributable to owners of the Company		<u>(12,848)</u>	<u>(259)</u>
Loss per share	7		
Basic (HK cents)		(2.6)	(0.1)
Diluted (HK cents)		<u>N/A</u>	<u>N/A</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 30 September 2014

	Attributable to owners of the Company						Total HK\$'000 (Unaudited)
	Share capital HK\$'000 (Unaudited)	Share premium HK\$'000 (Unaudited)	Other reserve* HK\$'000 (Unaudited)	Exchange reserve HK\$'000 (Unaudited)	Warrants reserve HK\$'000 (Unaudited)	Retained profits HK\$'000 (Unaudited)	
At 1 July 2013	4,000	129,685	10	-	-	60,225	193,920
Loss and total comprehensive expenses for the period	-	-	-	-	-	(259)	(259)
Issue of new shares	700	62,300	-	-	-	-	63,000
Cost of issuing new shares	-	(1,675)	-	-	-	-	(1,675)
At 30 September 2013	<u>4,700</u>	<u>190,310</u>	<u>10</u>	<u>-</u>	<u>-</u>	<u>59,966</u>	<u>254,986</u>
At 1 July 2014	4,800	199,168	10	(23)	710	86,611	291,276
Loss for the period	-	-	-	-	-	(12,851)	(12,851)
Share of exchange difference of an associate	-	-	-	3	-	-	3
Loss and total comprehensive expenses for the period	-	-	-	3	-	(12,851)	(12,848)
Issue of new shares	510	63,427	-	-	(7)	-	63,930
Cost of issuing new shares	-	(3,050)	-	-	-	-	(3,050)
At 30 September 2014	<u>5,310</u>	<u>259,545</u>	<u>10</u>	<u>(20)</u>	<u>703</u>	<u>73,760</u>	<u>339,308</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 completed on 5 October 2012 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 films and television ("TV") series production, distribution and licensing of film rights.

2. BASIS OF PREPARATION

The unaudited consolidated financial statements for the three months ended 30 September 2014 (the "First 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 First Quarterly Financial Statements have been prepared under the historical cost basis. The principal accounting policies used in the preparation of the First Quarterly Financial Statements are consistent with those used in the annual consolidated financial statements for the year ended 30 June 2014.

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 2014, 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 First Quarterly Financial Statements are presented in Hong Kong dollars ("HK\$"), which is the Company's functional and presentation currency.

3. REVENUE

	Three months ended	
	30 September	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Film production, distribution and licensing income	12,976	10,263
Service income	482	732
	13,458	10,995

4. OTHER INCOME AND GAIN

	Three months ended 30 September	
	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Bank interest income	66	38
Net exchange gain	–	414
Others	80	30
	<u>146</u>	<u>482</u>

5. FINANCE COSTS

	Three months ended 30 September	
	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Interest on bank overdraft	6	1

6. INCOME TAX EXPENSE

No provision for Hong Kong Profits Tax is required as the Group has no estimated assessable profits for the three months ended 30 September 2013 and 2014.

Under the Law of the People's Republic of China (the "PRC") on Enterprise Income Tax (the "EIT") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiary is 25% from 1 January 2008 onwards. The PRC subsidiary has incurred loss for the three months ended 30 September 2013 and 2014 and no provision for EIT was made during these periods.

7. LOSS PER SHARE

The calculations of the basic loss per share attributable to owners of the Company for the three months ended 30 September 2013 and 2014 respectively are based on the following data:

	Three months ended	
	30 September	
	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Loss		
Loss for the period attributable to owners of the Company for the purpose of basic loss per share	<u>12,851</u>	<u>259</u>
Number of shares		
Weighted average number of ordinary shares for the purpose of basic loss per share	<u>490,489,130</u>	<u>442,608,696</u>

No diluted loss per share was presented for the three months ended 30 September 2013 as there were no potential dilutive ordinary shares outstanding. No adjustment has been made to the basic loss per share presented for the three months ended 30 September 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.

DIVIDEND

The Board does not recommend the payment of any interim dividend for the three months ended 30 September 2014 (2013: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

The Group is principally engaged in films and TV series production, distribution and licensing of films rights in Hong Kong, the PRC and South East Asia through its established distribution channels. The Group has been producing films and TV series in Chinese language with the PRC as its major market.

During the period under review, the principal business activities of the Group comprised of (a) production of films and TV series; (b) distribution and licensing of the Group's films to regions including Asia, Latin America, the United States of America and Europe in addition to its major markets of Hong Kong, the PRC and South East Asia; (c) offering product placement and sponsorship opportunities in the Group's films to derive advertising income; and (d) distribution of films and TV series in the film library owned by the Group's controlling shareholders (the "Personal Library"). The Group's business model and the principal business activities during the period under review remain the same as disclosed in the Company's prospectus dated 9 October 2012 (the "Prospectus") and the annual report 2013/14 dated 18 September 2014 (the "2014 Annual Report"). In addition to the current business activities, the Group's film exhibition and post-production business will be launched in this financial year subsequent to the period under review.

During the period under review, the Group generated revenue by licensing films it produced to film distributors and licencees in Hong Kong and overseas. In addition, the Group recognised income from commission received for distributing films and TV series in the Personal Library.

No film has been released during the three months ended 30 September 2013 and 2014. As disclosed in the Prospectus and the 2014 Annual Report, 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\$13.5 million and HK\$6.6 million respectively for the three months ended 30 September 2014, representing increases of approximately HK\$2.5 million or approximately 22.4% and approximately HK\$3.0 million or approximately 84.3% respectively compared to the same period of the previous financial year. The increase was contributed by the distribution and licensing of post-released films mainly due to the recognition of the Group's share of box office receipts from cinema circuit with regards to "Z Storm" (Z風暴), a film released near the end of the previous financial year in June 2014, whilst no such income was recorded for the three months ended 30 September 2013. Gross profit margin for the three months ended 30 September 2014 was approximately 49.0% which showed a significant increase from that of approximately 32.6% for same period of the previous financial year. This was mainly due to the revenue contributed by the general-scale post-released films during the period under review as opposed to a large-scale film for the corresponding period in the previous financial year. Due to the relatively large costs involved, larger scale production inherently has a lower gross profit margin.

Other income and gain

Other income and gain was approximately HK\$0.1 million for the three months ended 30 September 2014, representing a decrease of approximately HK\$0.4 million or approximately 69.7% compared to the same period of the previous financial year. This was mainly due to the net exchange gain of approximately HK\$0.4 million recorded for the three months ended 30 September 2013 as a result of appreciation of Reminbi against HK\$ whilst no such gain was recognised during the period under review.

Selling and distribution expenses

Selling and distribution expenses increased by approximately HK\$14.5 million from approximately HK\$0.1 million for the three months ended 30 September 2013 to approximately HK\$14.6 million for the three months ended 30 September 2014. This was mainly due to the cinema circuit distribution expenses of "Z Storm" (Z風暴) of approximately HK\$2.2 million and rental expenses of the cinema located in Langham Place for the film exhibition business commenced on 23 July 2014 of approximately HK\$11.8 million whilst no such expenses were recorded for the same period of the previous financial year.

Administrative expenses

Administrative expenses increased by approximately HK\$1.0 million or approximately 24.0% from approximately HK\$4.2 million for the three months ended 30 September 2013 to approximately HK\$5.2 million for the three months ended 30 September 2014. This was mainly due to the increase of the total staff costs by approximately HK\$0.2 million as a result of the average number of employees increasing from 29 for the three months ended 30 September 2013 to 30 for the three months ended 30 September 2014 as well as the increase of expenses by approximately HK\$0.6 million in relation to corporate promotion and marketing expenses 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 Group's associate, Jade Dynasty Holdings Limited ("JDH"), had contributed approximately HK\$0.3 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. No such results have been shared for the same period of the previous financial year as the completion of the acquisition of 40% of the equity interest of JDH had taken place on 22 November 2013.

Loss for the period

The Group's loss and total comprehensive expenses attributable to owners of the Company for the three months ended 30 September 2014 amounted to approximately HK\$12.8 million (2013: HK\$0.3 million). The loss for the period under review compared to the same period of the previous financial year was primarily a result of the significant increase in selling and distribution expenses set off against the net increase of the profit and loss items as aforesaid.

As disclosed in the announcement dated 23 September 2014, 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 commences operation in the fourth quarter of 2014. As such, the Group's first quarterly results was adversely affected.

Outlook

During the period under review, the Group had continued to carry out its business plan as disclosed in the Prospectus and the 2014 Annual Report. The Group had achieved another milestone following the Listing by taking important steps towards its expansion into a diversified cultural business.

Having established a presence in the PRC film market, the Group has been well positioned as a producer of quality co-productions. The Group is confident in the PRC cultural industry's outlook which is encouraging for industry participants in view 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 and explore suitable investment projects in film related business. Up to the date of this announcement, the Group has completed production of two films, which are being scheduled for screening and has one film in the post-production stage as well as one film currently in the shooting stage. All of these films are expected to be released in this financial year. Currently, scripts of two additional films are awaiting script approvals from the State Administration of

Press, Publication, Radio, Film and Television (國家新聞出版廣電總局). The Group is currently in the process of identifying PRC co-producers and production is expected to commence in this financial year.

JDH had continuing positively contributed to the results of the Group since the acquisition completed in November 2013. 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 JDH will continue to have a positive contribution to the results of the Group.

The Group's first cinema "Cinema City Langham Place", which will be the Group's flagship cinema in Hong Kong, was opened for trial operation this week. The cinema has six auditoriums equipped with the most advanced projection and sound systems. Further, the Group had introduced "4Dx", an exclusive viewing technology from South Korea (the "**Exclusive Viewing Technology**") which will bring an unprecedented new experience of film viewing to Hong Kong. In particular, the Exclusive Viewing Technology is tailored to deliver fully immersive cinematic experience to the audiences whereby the dedicated auditorium of Cinema City Langham Place will equip with motion chairs mimicking the actions in the film and special equipment creating environmental effects, such as wind, bubbles and scent that work in perfect synchronicity with the action on screen. Based on the historical box office receipts of the cinema, together with the Exclusive Viewing Technology, the Group believes the cinema will be able to have a positive contribution to the results of the Group. According to the lease agreement for Cinema City Langham Place, a rent-free period for the first four months of approximately HK\$19.3 million was offered as compensation for the renovation period during which the cinema is not in operation. In light of the accounting policy adopted by the Group under the applicable accounting standard, such incentive provided by the landlord is 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 once the cinema commences operation in the fourth quarter of 2014. As such, it is expected the Group's quarterly and interim financial results as well as a full financial results of the film exhibition business of this financial year may be adversely affected. The Group intends to expand its cinema business in Hong Kong and the PRC by leveraging its established brand in the PRC.

In September 2014, the Group established its in-house post-production arm by way of cooperation with a post-production house in Hong Kong to participate in digital media post-production business, which commenced operations in November 2014. The Group, as a film producer, had substantial knowledge in the post-production process through co-operating with various post-production studios. The Group believes that given the extensive post-production experience of the post-production house, the in-house post-production arm will enable 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.

Looking forward, the Group will continue to focus on its core as well as the extended businesses 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.

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 three months ended 30 September 2014.

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

Hong Kong, 12 November 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).