

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



First Quarterly Report 2012/2013

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

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This report, 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 Growth Enterprise Market 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 report 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 report misleading.



Highlights

- The Group (as defined below) reported a loss attributable to owners of the Company of approximately HK\$1.5 million for the three months ended 30 September 2012
- The Group's revenue was HK\$6.0 million for the three months ended 30 September 2012, an increase of HK\$5.3 million compared to the same period of the previous financial year
- Gross profit margin for the three months ended 30 September 2012 was approximately 44.2% which translates into gross profit of HK\$2.7 million
- The Board (as defined below) does not recommend the payment of any dividend for the three months ended 30 September 2012

Unaudited First Quarterly Results

For the three months ended 30 September 2012

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 2012 together with the comparative unaudited figures for the corresponding period in 2011 as follows:

Combined Statement of Comprehensive Income

For the three months ended 30 September 2012

| | Notes | 2012 HK\$'000 (Unaudited) | 2011 HK\$'000 (Unaudited) |
|---|-------|---------------------------------|---------------------------------|
| Revenue | 3 | 6,027 | 677 |
| Cost of sales | | (3,361) | – |
| Gross profit | | 2,666 | 677 |
| Other income and gain | 4 | 9 | 502 |
| Selling and distribution expenses | | (851) | (837) |
| Administrative expenses | | (3,177) | (1,669) |
| Finance costs | 5 | (28) | (60) |
| Other expenses | | (150) | – |
| Loss before tax | | (1,531) | (1,387) |
| Income tax expense | 6 | – | – |
| Loss and total comprehensive expense for the period attributable to owners of the Company | | (1,531) | (1,387) |
| Loss per share | | | |
| Basic (HK cent) | 7 | (0.5) | (0.5) |

Combined Statement of Changes in Equity

For the three months ended 30 September 2012

| | Attributable to owners of the Company | | |
|--|---------------------------------------|--|----------------------------------|
| | Capital HK\$'000 (Unaudited) | Retained profits HK\$'000 (Unaudited) | Total HK\$'000 (Unaudited) |
| At 1 July 2011 | 10 | 20,100 | 20,110 |
| Loss and total comprehensive expense for the period | – | (1,387) | (1,387) |
| At 30 September 2011 | 10 | 18,713 | 18,723 |
| At 1 July 2012 | 10 | 41,081 | 41,091 |
| Loss and total comprehensive expense for the period | – | (1,531) | (1,531) |
| At 30 September 2012 | 10 | 39,550 | 39,560 |

Notes to the Quarterly Results

1. General information and reorganisation

1.1 General information

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

The 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 film production, distribution and licensing of film rights.

1.2 Reorganisation

Under a group reorganisation exercise (the "Reorganisation") on 5 October 2012 to rationalise the structure of the Group in preparation for the listing of the Company's shares on GEM of the Stock Exchange (the "Listing"), the Company became the holding company of the companies now comprising the Group.

Details of the Reorganisation are set out in the paragraph headed "Reorganisation" in Appendix IV to the prospectus dated 9 October 2012 issued by the Company (the "Prospectus").

The Reorganisation involved business combinations of entities under common control. Accordingly, the unaudited combined first quarterly financial statements for the three months ended 30 September 2012 (the “First Quarterly Financial Statements”) and the related notes thereto have been prepared on a combined basis by applying the principles of merger accounting in accordance with the Accounting Guideline 5 “Merger accounting for common control combinations” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). On this basis, the First Quarterly Financial Statements, including comparative figures, are presented as if the current group structure had been in existence throughout the three months ended 30 September 2011 and 2012, or since the respective dates of incorporation of entities under common control, where this is a shorter period.

2. Basis of preparation

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 HKICPA and applicable disclosures required by 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 combined financial statements for the year ended 30 June 2012 except in relation to the new and revised standards, amendments and interpretations (“new and revised HKFRSs”) issued by the HKICPA that are adopted for the first time for the current period’s financial statements. The adoption of these new and revised HKFRSs has had no material impact on the First Quarterly Financial Statements.

The Group has not early adopted any new and revised HKFRSs that have been issued but are not yet effective, the Group is in the process of accessing their impact on the Group's results and financial position.

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

3. Revenue

| | For the three months ended 30 September | |
|---|--|---------------------------------|
| | 2012 HK\$'000 (Unaudited) | 2011 HK\$'000 (Unaudited) |
| Film production, distribution and licensing income | 5,956 | – |
| Service income | 71 | 677 |
| | 6,027 | 677 |

4. Other income and gain

| | For the three months ended 30 September | |
|--|--|---------------------------------|
| | 2012 HK\$'000 (Unaudited) | 2011 HK\$'000 (Unaudited) |
| Bank interest income | 9 | 7 |
| Interest income from loan receivable from a related company | – | 19 |
| Net exchange gain | – | 426 |
| Income from making-of | – | 50 |
| | <hr/> | <hr/> |
| | 9 | 502 |

5. Finance costs

| | For the three months ended 30 September | |
|---|--|---------------------------------|
| | 2012 HK\$'000 (Unaudited) | 2011 HK\$'000 (Unaudited) |
| Interest on bank borrowings wholly repayable within five years | 28 | 40 |
| Interest on bank overdraft | – | 4 |
| Interests on advances from a director and a related company | – | 16 |
| | <hr/> | <hr/> |
| | 28 | 60 |

6. Income tax expense


No provision for Hong Kong Profits Tax is required as the Group has no estimated assessable profit for the three months ended 30 September 2011 and 2012.

Under the Law of the People's Republic of China (the "PRC") on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiary is 25% from 1 January 2008 onwards. The PRC subsidiary had incurred loss for the three months ended 30 September 2011 and 2012 and no provision for PRC Enterprise Income Tax was made during these periods.

7. Loss per share

The calculation of the basic loss per share attributable to owners of the Company for the three months ended 30 September 2011 and 2012 is based on the following data:

| | For the three months ended 30 September | |
|--|--|-------------|
| | 2012 | 2011 |
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) |
| Loss | | |
| Loss for the period attributable to owners of the Company for the purposes of basic loss per share | 1,531 | 1,387 |
| Number of shares | | |
| Weighted average number of ordinary shares for the purpose of basic loss per share | 297,029,703 | 297,029,703 |



The number of ordinary shares for the purpose of calculating basic loss per share for the three months ended 30 September 2011 and 2012 has been adjusted for the effect of the Reorganisation and the capitalisation issue summarised as follows:

On 5 October 2012, the Company acquired the entire issued share capital of Green Riches Holdings Limited from Honour Grace, in consideration of which the Company allotted and issued 9,999 fully paid up new shares to Honour Grace and credited as fully paid at par the one nil-paid subscriber share then held by Honour Grace. Further details are set out in the paragraph headed “Reorganisation” in Appendix IV to the Prospectus.

The Directors were authorised to capitalise a loan due from the Company to Mr. Wong Pak Ming (“Mr. Wong”), a director of the Company, in an aggregate sum of HK\$50,000,000 by the allotment and issue of 100 shares to Honour Grace (at the direction of Mr. Wong) at an aggregate subscription price of HK\$50,000,000.

No diluted loss per share is presented for the three months ended 30 September 2011 and 2012 as there were no potential ordinary shares outstanding.

Dividend

The Board does not recommend the payment of any interim dividend for the three months ended 30 September 2012 (2011: Nil).

Management Discussion and Analysis

Business Review

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

During the period under review, the principal business activities of the Group comprised (a) production of films; (b) distribution and licensing of our films to regions including Taiwan, Japan, the U.S. and Europe in addition to our major markets of Hong Kong, the PRC and South East Asia; (c) offering product placement and sponsorship opportunities in our films to derive advertising income; and (d) distribution of films and television (“TV”) series in the film library owned by our controlling shareholders (the “Personal Library”).

During the period under review, we generated revenue by licensing films we produced to film distributors and licencees in Hong Kong and overseas. In addition, we 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 2011 and 2012. Subsequent to 30 September 2012 and up to the date of this report, the Group has released one film, “Love is ... Pyjamas” (男人如衣服). The Group is expected to record the results of this film in the second quarter of the current financial year.

Financial Review

Revenue

Revenue and gross profit of the Group were approximately HK\$6.0 million and HK\$2.7 million respectively for the three months ended 30 September 2012. The increases of approximately HK\$5.3 million or 790.3% and HK\$2.0 million or 293.8% respectively compared to the same period of the previous financial year were largely as a result of contributions from post-released distribution and licensing of our films, “All’s Well End’s Well 2012” (八星抱喜) and “Magic To Win” (開心魔法). Gross profit margin for the three months ended 30 September 2012 was approximately 44.2%, the gross profit margin of the same period of the previous financial year was not comparable due to the revenue comprised only income from commission received for distributing films and TV series in the Personal Library.

Other income and gain

Other income and gain was approximately HK\$9,000 for the three months ended 30 September 2012. A decrease of approximately HK\$0.5 million or 98.2% compared to the same period of the previous financial year, mainly as a result of decrease in net exchange gain of approximately HK\$0.4 million. The net exchange gain recorded in previous period was mainly due to the appreciation of Renminbi against HK\$ when we settled the film production expenses incurred during the shooting of “Saving General Yang” (忠烈楊家將) in the PRC at the prevailing transaction rate.

During the same period in the previous financial year, the Group granted a loan to a related party, Pegasus Laboratory (International) Limited and received interest income. The loan has been settled during the year ended 30 June 2012 and no such loan was granted during the three months ended 30 September 2012.

Administrative expenses

Administrative expenses increased by approximately HK\$1.5 million or 90.4% from approximately HK\$1.7 million for the three months ended 30 September 2011 to approximately HK\$3.2 million for the three months ended 30 September 2012. This was mainly due to the increase of the total staff costs by approximately HK\$1.2 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 increased from 13 for the three months ended 30 September 2011 to 27 for the three months ended 30 September 2012.

Other expenses

During the three months ended 30 September 2012, other expenses represented the professional fees and expenses relating to the Listing.

Loss for the period

The Group's loss and total comprehensive expense attributable to owners of the Company increased by approximately HK\$0.1 million or 11.7% from approximately HK\$1.4 million for the three months ended 30 September 2011 to approximately HK\$1.5 million for the three months ended 30 September 2012. This was primarily as a result of the increase in administrative expenses and decrease in other income and gain of which set off against the increase of gross profit as aforesaid. During the both periods, selling and distribution expenses and finance costs are remained relatively stable.



Outlook

The PRC is our major market and co-production arrangement is an expedient way for us to gain access to the PRC film market. Due to the continued growth of box office receipts, number of screens and cinemas, specifically in second and third tier cities in the PRC as well as the encouragement of the PRC Government to the film industry by issuing guidelines on promoting the development of the film industry and implementation of the Mainland and Hong Kong Closer Economic Partnership Arrangement, we believe that the outlook for the PRC film industry is positive and encouraging to industry participants.

Having established a presence in the PRC market, we have been well positioned in the PRC film market to capture these prospects and the rapid development of the PRC film market and will further develop the source of income by expanding our production capacities and the range of films in various genres to be produced.

Going forward, the Group will continue to focus on its core business and use all of our resources available to produce the best films to capture the growth potential of the PRC film market.

Directors' and Chief Executives' Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Company and its Associated Corporations

The shares of the Company were listed on GEM of the Stock Exchange on 31 October 2012. As at 30 September 2012, none of the Directors and Chief Executive of the Company has any interest and short positions in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which will have to be notified to the Company pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests which they are taken or deemed to have under such provisions of the SFO).

As at the date of this report, the interests of Directors and chief executive of the Company in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests which they are taken or deemed to have under such provisions of the SFO) and required to be entered in the register maintained by the Company pursuant to Section 352 of the SFO or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Long position in shares and underlying shares of the Company

| Name of director | Nature of interest | Number of shares | Position | Percentage of the Company's issued share capital |
|------------------|--------------------------------------|-----------------------|----------|--|
| Mr. Wong | Interest in a controlled corporation | 300,000,000 (Note) | Long | 75% |

Note: These shares are registered in the name of Honour Grace, the entire issued share capital of which is legally and beneficially owned as to 60% by Mr. Wong, 20% by Mr. Wong Chi Woon Edmond and 20% by Ms. Wong Yee Kwan Alvina. Under the SFO, Mr. Wong is deemed to be interested in all the shares registered in the name of Honour Grace.

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

The shares of the Company were listed on GEM of the Stock Exchange on 31 October 2012. As at 30 September 2012, there was no interest in the shares and underlying shares of the Company which were required to be notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO and entered in the register maintained by the Company pursuant to Section 336 of the SFO.

As at the date of this report, the interest of the persons, other than Directors or chief executive of the Company, in the shares and underlying shares of the Company which were notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO and entered in the register maintained by the Company pursuant to Section 336 of the SFO, or otherwise notified to the Company were as follows:

| Name of shareholder | Nature of interest | Number of shares | Position | Percentage of the Company's issued share capital |
|------------------------------|--------------------------------------|------------------|----------|--|
| Honour Grace | Beneficial owner | 300,000,000 | Long | 75% |
| Ms. Zee Ven Chu Lydia (Note) | Interest in a controlled corporation | 300,000,000 | Long | 75% |

Note: Ms. Zee Ven Chu Lydia, the spouse of Mr. Wong, is deemed under the SFO to be interested in all the shares in which Mr. Wong is deemed to be interested.

Save as disclosed above, as at 30 September 2012 and the date of this report, the Company had not been notified by any persons (other than Directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall under the provisions of Divisions 2 and 3 of Part XV of the SFO to be disclosed to the Company, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

Share Option Scheme

The Company operates a share option scheme (the “Scheme”) for the purpose of providing incentives and rewards to eligible persons who contribute to the success of the Group’s operations. The Scheme has been approved by the then sole shareholder on 5 October 2012. Since the Scheme came into effect after the Company was listed on GEM of the Stock Exchange, no share options were granted, exercised or cancelled by the Company under the Scheme during the period under review and there were no outstanding share options under the Scheme as at 30 September 2012 and at the date of this report.

Rights to Acquire Shares or Debentures

Other than as disclosed under the sections “Share Option Scheme” and “Directors’ and chief executives’ interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations” above, at no time during the three months ended 30 September 2012 and since the date of the Listing up to the date of this report, was the Company or any of its subsidiaries, or any of its fellow subsidiaries, a party to any arrangement to enable the Directors or chief executives of the Company or their respective associates (as defined in the GEM Listing Rules) to have any right to subscribe for securities of the Company or any of its associated corporations as defined in the SFO or to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

Interests in Competing Business

None of the Directors or the controlling shareholders of the Company or their respective associates as defined in the GEM Listing Rules has any interest in any business which competes or may compete with the business of the Group during the period under review.

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

Since the shares of the Company were listed on GEM of the Stock Exchange on 31 October 2012, 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 2012 and up to the date of this report.

Interests of the Compliance Adviser

As at the date of this report, as notified by the Company's compliance adviser, Altus Capital Limited (the "Compliance Adviser"), except for the compliance adviser agreement entered into between the Company and the Compliance Adviser dated 5 October 2012 effective on the date of the Listing, neither the Compliance Adviser nor its directors, employees or associates had any interests in relation to the Company which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules.

Audit Committee

The Audit Committee has three members comprising three independent non-executive directors, Mr. Lam Kam Tong (Chairman of the Audit Committee), Mr. Lo Eric Tien-cheuk and Mr. Tang Kai Kui Terence, with written terms of reference in compliance with the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control systems of the Group. The first quarterly results of the Group for the three months ended 30 September 2012 has been reviewed by the Audit Committee.

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

Hong Kong, 13 November 2012

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