

天馬娛樂控股有限公司



FIRST QUARTERLY REPORT 2013/14



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

Growth Enterprise Market (“GEM”) has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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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 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 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\$0.3 million for the three months ended 30 September 2013, a decrease of loss of HK\$1.2 million or 83.1% when compared to the same period of the previous financial year.
- The Group's revenue was HK\$11.0 million for the three months ended 30 September 2013, an increase of HK\$5.0 million or 82.4% when compared to the same period of the previous financial year.
- Gross profit margin for the three months ended 30 September 2013 was approximately 32.6% which translates into gross profit of HK\$3.6 million.
- The Group's net assets and net current assets as at 30 September 2013 reached HK\$255.0 million and HK\$223.2 million respectively.
- The Board (as defined below) does not recommend the payment of any dividend for the three months ended 30 September 2013.

Unaudited First Quarterly Results

For the three months ended 30 September 2013

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 2013 together with the comparative unaudited figures for the corresponding period in 2012 as follows:

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the three months ended 30 September 2013

		Three months ended 30 September 2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)
	Notes		
Revenue	3	10,995	6,027
Cost of sales		(7,414)	(3,361)
Gross profit		3,581	2,666
Other income and gain	4	482	9
Selling and distribution expenses		(113)	(851)
Administrative expenses		(4,208)	(3,177)
Finance costs	5	(1)	(28)
Other expenses		–	(150)
Loss before tax		(259)	(1,531)
Income tax expense	6	–	–
Loss and total comprehensive expenses for the period attributable to owners of the Company		(259)	(1,531)
Loss per share			
Basic (HK cent)	7	(0.1)	(0.5)

Consolidated Statement of Changes in Equity

For the three months ended 30 September 2013

	Attributable to owners of the Company				
	Share capital/ capital HK\$'000 (Unaudited)	Share premium HK\$'000 (Unaudited)	Other Reserve* HK\$'000 (Unaudited)	Retained profits HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
At 1 Jul 2012	10	-	-	41,081	41,091
Loss and total comprehensive expenses for the period	-	-	-	(1,531)	(1,531)
At 30 September 2012	10	-	-	39,550	39,560
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	4,700	190,310	10	59,966	254,986

* 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 (the "Reorganisation") 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").

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 KY1-111, 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.

2. Basis of preparation

The unaudited consolidated financial statements for the three months ended 30 September 2013 (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 2013 except in relation to the new and revised HKFRSs, 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 application 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 financial performance 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

	Three months ended 30 September	
	2013	2012
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Film production, distribution and licensing income	10,263	5,956
Service income	732	71
	10,995	6,027

4. Other income and gain

	Three months ended 30 September	
	2013	2012
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Bank interest income	38	9
Net exchange gain	414	—
Others	30	—
	482	9

5. Finance costs

	Three months ended 30 September	
	2013	2012
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest on bank borrowings wholly repayable within five years	–	28
Interest on bank overdraft	1	–
	1	28

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 2012 and 2013.

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 had incurred loss for the three months ended 30 September 2012 and 2013 and no provision for EIT 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 2012 and 2013 is based on the following data:

	Three months ended 30 September	
	2013	2012
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Loss		
Loss for the period attributable to owners of the Company for the purpose of basic loss per share	259	1,531
Number of shares		
Weighted average number of ordinary shares for the purpose of basic loss per share	442,608,696	297,029,703

The number of ordinary shares for the purpose of calculating basic loss per share for the three months ended 30 September 2012 has been adjusted for the effect of the Reorganisation.

No diluted loss per share is presented for the three months ended 30 September 2012 and 2013 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 2013 (2012: 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 films to regions including Taiwan, Japan, the United States of America 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”). The Group’s business model and the principal business activities remained as those disclosed in the latest annual report during the period under review.

During the period under review, we generated revenue by licensing films to film distributors and licencees in Hong Kong, the PRC 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 2012 and 2013. Subsequent to 30 September 2013 and up to the date of this report, the Group has released one film, “Baby Blues” (詭嬰). The Group is expected to record the results of this film in the second quarter of this financial year. 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\$11.0 million and HK\$3.6 million respectively for the three months ended 30 September 2013, representing increases of approximately HK\$5.0 million or 82.4% and HK\$0.9 million or 34.3% respectively compared to the same period of the previous financial year. This was mainly due to the impressive revenue from post-released films distribution and licensing contributed by our first large-scale film “Saving General Yang” (忠烈楊家將). Gross profit margin for the three months ended 30 September 2013 was approximately 32.6%, which showed a decrease from that of approximately 44.2% for the same period of the previous financial year. This was mainly due to lower profit margin of large-scale film compared to general scale film of the Group.

Other income and gain

Other income and gain was approximately HK\$0.5 million for the three months ended 30 September 2013, representing an increase of approximately HK\$0.5 million or 5,255.6% compared to the same period of the previous financial year. This is 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 Renminbi against HK\$ whilst no such gain was recognised for the same period of the previous financial year.

Selling and distribution expenses

Selling and distribution expenses decreased by approximately HK\$0.8 million or approximately 86.7% from approximately HK\$0.9 million for the three months ended 30 September 2012 to approximately HK\$0.1 million for the three months ended 30 September 2013. This was mainly due to distribution agency expense for licensing the TV rights of a film in the TV channel of the PRC of approximately HK\$0.6 million recorded in the same period of the previous financial year whilst no such expense was recorded for the three months ended 30 September 2013.

Administrative expenses

Administrative expenses increased by approximately HK\$1.0 million or approximately 32.5% from approximately HK\$3.2 million for the three months ended 30 September 2012 to approximately HK\$4.2 million for the three months ended 30 September 2013. This was mainly due to the increase of the total staff costs by approximately HK\$0.6 million as a result of the average number of employees increased from 27 for the three months ended 30 September 2012 to 29 for the three months ended 30 September 2013 as well as the increase of expenses by approximately HK\$0.2 million in relation to other professional fees paid to compliance adviser, lawyers and other professional parties for providing professional services since the Listing.

Loss for the period

The Group's loss and total comprehensive expenses attributable to owners of the Company decreased by approximately HK\$1.2 million or approximately 83.1% from approximately HK\$1.5 million for the three months ended 30 September 2012 to approximately HK\$0.3 million for the three months ended 30 September 2013. This was primarily as a result of the increase of gross profit and other income and gain and decrease of selling and distribution expenses of which set off against the increase of administrative expenses as aforementioned.

Outlook

The PRC continues to be our major market and co-production arrangement remains an expedient way for us to gain access to the PRC film market. Due to the continued growth of the PRC film industry as well as the encouragement of the PRC Government to the film industry from its issuance of guidelines on promoting the development of the film industry and implementation of the Mainland and Hong Kong Closer Economic Partnership Arrangement, we have identified the PRC as the pivotal market for the Group's future development. We are confident that the outlook for the PRC film industry to be positive and encouraging to industry participants.

Having established a presence in the PRC film market, we have been well positioned as a producer of quality co-productions. In order to capture the prospects and the rapid development of the PRC film market, the Group would diversify the film genres so to satisfy different market needs. In particular, eyeing at the PRC as our major market, the Group will continue to gravitate towards the PRC audience preference so as to grasp the growth opportunities in this market. Apart from our well-known comedy series, the Group will keep on producing other genre such as romance and action films in this financial year. The shooting of our first action film has been scheduled in December 2013 and is expected to be released in this financial year. In addition, the shooting plan of the romance film has been rescheduled to January 2014 and is expected to be released in this financial year mainly due to a change of the leading cast's availability. Currently, two more films are awaiting approvals for the scripts and production will start and are expected to be released in this financial year.

The Group has taken an important step in expanding our film related business and strengthening our existing distribution channels during the period under review. As disclosed in our announcement on 13 August 2013, the Group has entered into an acquisition agreement with a vendor to acquire 40% of the entire issued share capital in Jade Dynasty Holdings Limited which and its subsidiaries are principally engaged in comics publication and owns the intellectual property rights of a database of comics stories and comics heroes that are suitable for reproduction as movies, TV shows as well as for the development into the online games and mobile games. Besides, as disclosed in our announcement on 4 November 2013, the Group received the offer to lease of cinema situated at Langham Place from the landlord of Langham Place for a term of ten years commencing on 23 July 2014 and expiring on 22 July 2024. Langham Place shopping mall is the landmark of Mongkok, a prime retail and commercial district of Kowloon. Currently, cinema situated at Langham Place is the highest box office receipts among cinemas in Hong Kong. The cinema operation will not only provide the Group an opportunity to strengthen the Group's existing distribution channels but also brings further stable revenue stream and cash inflow to the Group.

We are confident in seizing the comics reproduction trends and operation of the top cinema in Hong Kong and hence generate sustainable returns to shareholders of the Company.

On the other hand, digitalisation of films has become a trend whilst digital prints maintains quality and effective costing. With the PRC as our major market, which has the second largest number of digital screens globally, the Group intends to invest in such equipment and in recruiting more staff to participate in the post-production stage in this financial year. We may also consider expanding such business through acquisition or cooperation with other existing post-production companies.

Looking forward, the Group will continue to focus on its core business and utilise our available resources to produce the best films in order to capture the demand for quality film in the PRC film market. Apart from this, the Group will also continue to explore business opportunities associated with its core business so to strengthen its revenue base and maximise the return to the shareholders and the value of the Company.

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

As at 30 September 2013, 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 Securities and Futures Ordinance (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 Pak Ming ("Mr. Wong")	Interest in a controlled corporation	300,000,000 (Note 1)	Long	63.83% (Note 2)

Note 1: 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 Ms. Wong Yee Kwan Alvina and 20% by Mr. Wong Chi Woon Edmond. Under the SFO, Mr. Wong is deemed to be interested in all the shares registered in the name of Honour Grace.

Note 2: Subsequent to 30 September 2013, 10,000,000 new shares of the Company had been issued on 30 October 2013 at HK\$0.9 per share, therefore, the percentage of the Company's share capital held by Honour Grace was 62.5% as at the date of this report. Further details of the shares subscription arrangement have been set out in the Company's announcement dated 24 October 2013.

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

As at 30 September 2013, 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	63.83% (Note 2)
Ms. Zee Ven Chu Lydia (Note 1)	Interest in a controlled corporation	300,000,000	Long	63.83% (Note 2)

Note 1: Ms. Zee Ven Chu Lydia, 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.

Note 2: Subsequent to 30 September 2013, 10,000,000 new shares of the Company had been issued on 30 October 2013 at HK\$0.9 per share, therefore, the percentage of the Company's share capital held by Honour Grace was 62.5% as at the date of this report. Further details of the shares subscription arrangement have been set out in the Company's announcement dated 24 October 2013.

Save as disclosed above, as at 30 September 2013, 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. 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 2013.

Rights to Acquire Shares or Debentures

Other than those 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 2013 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

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 2013.

Compliance with the Required Standard of Dealings in Securities Transactions by Directors of Listed Issuers

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquires of all the Directors, all the Directors have confirmed that they have complied with the required standard of dealings and the code of conduct regarding securities transactions by Directors adopted by the Company during the three months ended 30 September 2013.

Code on Corporate Governance Practices

The Company is committed to maintaining a high standard of corporate governance practices. It met all the code provisions of the Corporate Governance Code (the “Code”) set out in Appendix 15 of the GEM Listing Rules during the three months ended 30 September 2013 save as the deviation as mentioned in the following section headed “Chairman and Chief Executive Officer”.

The Company will continue to review its corporate governance practices in order to enhance its corporate governance standard, to comply with the increasingly tightened regulatory requirements and to meet the rising expectations of shareholders and investors.

Chairman and Chief Executive Officer

The Company has not yet adopted A.2.1 of the Code. Under the code provision A.2.1 of the Code, the roles of Chairman and Chief Executive Office (“CEO”) should be separated and would not be performed by the same individual. The division of responsibilities between the Chairman and CEO should be clearly established and set out in writing.

Mr. Wong is the Chairman of the Board and is responsible for the overall strategy planning and policy making of the Group. The Chairman also takes the lead to ensure that the Board works effectively and acts in the best interest of the Company by encouraging the Directors to make active contribution in Board’s affairs and promoting a culture of openness and debate.

The Company has no such position as the CEO and therefore the daily operation and management of the Company is monitored by the executive Directors as well as the senior management.

The Board is of the view that although there is no CEO, the balance of power and authority is ensured by the operation of the Board, which comprises experienced individuals who would meet from time to time to discuss issues affecting operation of the Company.

Interest of the Compliance Adviser

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 31 October 2012, the date of the Listing, neither the Compliance Adviser nor its directors, employees or associates had any interests in relation to the Company as at 30 September 2013 which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules.

Event After the Reporting Period

On 30 October 2013, 10,000,000 new shares of the Company had been successfully placed at HK\$0.9 per share, the net proceeds from issuance of these new shares were approximately HK\$8.9 million. Further details of the shares subscription arrangement have been set out in the Company's announcement dated 24 October 2013.

On 4 November 2013, the Group received the offer to lease of cinema situated at Langham Place, Argyle Street, Kowloon, Hong Kong made between an indirect wholly owned subsidiary of the Company as tenant, the Company as the guarantor and Renaissance City Development Company Limited as the landlord for a term of ten years commencing on 23 July 2014 and expiring on 22 July 2024. The Company has agreed to guarantee the full, complete and due performance of the terms of the offer to lease by the tenant and to procure the tenant to comply with the terms of the offer to lease. All parties have agreed to sign a lease agreement and a guarantee of indemnity in respect of the lease arrangement. Further details of the offer to lease have been set out in the Company's announcement dated 4 November 2013.

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 Rules 5.28 to 5.33 of the GEM Listing Rules and the Code. The primary duties of the Audit Committee are mainly to communicate with external auditor; to review the remuneration, terms of engagement, independency and objectivity of the external auditor; to review the accounting policy, financial position and financial reporting procedures of the Company; and to assess the financial reporting system, internal control procedures and risk management function of the Company and making recommendations thereof. The unaudited first quarterly results of the Group for the three months ended 30 September 2013 has been reviewed by the Audit Committee.

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

Hong Kong, 12 November 2013

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.