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Third Quarterly Report 2004/05

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. 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 and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors (the “Directors”) of International Entertainment Corporation (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: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

RESULTS

The board of directors (the "Board") of International Entertainment Corporation (the "Company"), formerly known as Cyber On-Air Group Company Limited, hereby announces the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the three months and nine months ended 31 December 2004, together with the comparative unaudited figures for the corresponding periods in 2003 as follows:

	Notes	Three months ended		Nine months ended	
		31 December 2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	31 December 2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Turnover	2	5,041	4,106	10,762	13,717
Cost of sales		(3,482)	(2,863)	(7,221)	(9,999)
Gross profit		1,559	1,243	3,541	3,718
Interest income		31	2	63	8
Other revenue		-	7	-	14
Depreciation and amortisation		(381)	(413)	(1,197)	(1,469)
Advertising and promotion expenses		(1)	(3)	(25)	(26)
General and administrative expenses		(1,982)	(2,054)	(8,784)	(8,525)
Amortisation of goodwill		(171)	(1,851)	(515)	(5,553)
Loss from operations		(945)	(3,069)	(6,917)	(11,833)
Finance costs		(181)	(130)	(940)	(704)
Loss before taxation		(1,126)	(3,199)	(7,857)	(12,537)
Taxation	4	-	-	-	-
Loss attributable to shareholders		(1,126)	(3,199)	(7,857)	(12,537)
Loss per share – basic	6	HK\$(0.01)	HK\$(3.85)	HK\$(0.04)	HK\$(15.08)

Notes:

1. Basis of preparation

The unaudited consolidated results have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants. They have been prepared under the historical cost convention.

The accounting policies and methods of computation used in the preparation of the unaudited consolidated results are consistent with those used in the annual accounts for the year ended 31 March 2004.

Certain comparative figures have been reclassified to conform with the current period's presentation.

2. Turnover

	Three months ended 31 December 2004		Nine months ended 31 December 2004	
	(Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	(Unaudited) HK\$'000	2003 (Unaudited) HK\$'000

The Group's turnover comprises:

Sales of goods	1,083	2,088	4,555	6,959
Revenue from short-term contracts	3,958	2,013	6,205	6,536
Services income				
Continuing operations	–	5	2	28
Discontinuing operations (<i>Note 3</i>)	–	–	–	194
	5,041	4,106	10,762	13,717

3. Discontinuing operations

The content licensing and recruitment services operations were discontinued from 30 September 2003 and 31 March 2004 respectively. The results of these operations for the three months and nine months ended 31 December 2004, together with the comparative figures for the corresponding periods in 2003 were as follows:

	Content licensing				Recruitment services			
	Three months		Nine months		Three months		Nine months	
	ended 31 December		ended 31 December		ended 31 December		ended 31 December	
	2004	2003	2004	2003	2004	2003	2004	2003
(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Turnover								
- External sales	-	-	-	-	-	-	-	194
- Inter-segment sales	-	-	-	-	-	-	-	17
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>211</u>
Operating costs	-	-	-	-	-	-	-	(212)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1)</u>
Loss before taxation	-	-	-	-	-	-	-	(1)
Taxation	-	-	-	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Loss after taxation	-	-	-	-	-	-	-	(1)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1)</u>

4. Taxation

No provision for Hong Kong profits tax has been made as the Group had no assessable profits for the three months and nine months ended 31 December 2004 (for the three months and nine months ended 31 December 2003: nil).

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operated, based on the existing legislation, interpretations and practices in respect thereof.

No provision for deferred taxation has been recognised for the three months and nine months ended 31 December 2004 and the corresponding periods in 2003 in respect of the tax losses due to the unpredictability of future profit streams.

5. Dividend

The Board does not recommend the payment of any dividend for the nine months ended 31 December 2004 (for the nine months ended 31 December 2003: nil).

6. Loss per share

The calculation of the basic loss per share for the three months and nine months ended 31 December 2004 is based on the respective unaudited net loss attributable to shareholders of HK\$1,126,000 and HK\$7,857,000 (three months and nine months ended 31 December 2003: HK\$3,199,000 and HK\$12,537,000) and the weighted average number of 204,831,447 and 181,864,175 (three months and nine months ended 31 December 2003: 831,447) ordinary shares in issue during the periods. Loss per share for the nine months ended 31 December 2004, and the three months and nine months ended 31 December 2003 has been adjusted for the share consolidation of every 100 ordinary shares of HK\$0.01 each into one share of HK\$1.00 each, which became effective on 22 April 2004.

No diluted loss per share has been presented for the three months and nine months ended 31 December 2004 and the corresponding periods in 2003 as the company has no dilutive potential shares.

7. Reserves

	Share premium (Unaudited) <i>HK\$'000</i>	Merger reserve (Unaudited) <i>HK\$'000</i>	Accumulated losses (Unaudited) <i>HK\$'000</i>	Total (Unaudited) <i>HK\$'000</i>
The Group				
At 1 April 2003	–	53,022	(90,616)	(37,594)
Loss for the period	–	–	(12,537)	(12,537)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2003	–	53,022	(103,153)	(50,131)
	<hr/>	<hr/>	<hr/>	<hr/>
At 1 April 2004	–	53,022	(126,168)	(73,146)
Issue of shares at premium by the Company as a result of the settlement of loan notes, including unpaid accrued interest	40,569	–	–	40,569
Loss for the period	–	–	(7,857)	(7,857)
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At 31 December 2004	40,569	53,022	(134,025)	(40,434)
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MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

The Group's turnover for the nine months ended 31 December 2004 was approximately HK\$10.8 million, representing a decrease of approximately 21.5%, as compared with approximately HK\$13.7 million for the previous corresponding period under review. The decrease in turnover was the result of keen competition for bidding projects.

The Group's gross profit was slightly decreased approximately 4.8% to approximately HK\$3.5 million for the nine months ended 31 December 2004 from approximately HK\$3.7 million in the last corresponding period.

The operating loss was approximately HK\$6.9 million for the nine months ended 31 December 2004, which represented a significant decrease of approximately 41.5% when compared with approximately HK\$11.8 million in the previous corresponding period. This was due to the significant decrease in amortisation of goodwill and the effective cost control by management.

During the nine months ended 31 December 2004, the staff cost and rental expenses were reduced by approximately 29.5% and 39.8% respectively, compared with last corresponding period.

Business Review

1. *Wireless application and network solutions*

Wireless application solutions are applications that are incorporated with wireless system including mobile networks or wireless local area networks ("WLAN") whereas network solutions include solutions for computer networks, data communication networks, WLAN and synchronization networks.

During the nine months ended 31 December 2004, revenue derived from the network solutions was decreased to approximately HK\$4.6 million from approximately HK\$7.0 million in the last corresponding period. The decrease was due to strong competition for projects.

Apart from the continuous sales of WLAN security system to customers, the vendor of the Group also re-positioned the existing WLAN security system to an adaptive security platform for both wired and wireless network. The new positioning will help the Group to broaden sales market from wireless to wired network.

With the introduction of new products from one of existing vendor, the Group has figured out a new networking solution from one of the new products which enable to help mobile operators to increase their network coverage for remote areas or areas where leased circuits are difficult to be provided by fixed network operators.

In addition to the network solutions, the Group also fully utilize its engineer's expertise in both wireless and synchronization to provide service to its customers. In the past few months, the Group obtained orders from one of the public transportation companies in Hong Kong for the synchronization service and from one of the logistics companies for the test and commissioning of the newly built WLAN system.

2. *Project and engineering services*

The competition is still very keen in the market. The turnover from project services decreased to approximately HK\$5.1 million from approximately HK\$6.1 million in the last corresponding period while the engineering services increased to approximately HK\$1.1 million when compared with approximately HK\$0.4 million for the corresponding period in last year.

With the introduction of 3G service by another two mobile operators in Hong Kong, other operators that do not have the 3G license become more aggressive to improve their network by improving their network coverage, optimization of existing networks as well as replacing existing systems to new systems in order to provide more value-added services to customers.

During the nine months ended 31 December 2004, the Group has completed several projects including the radio communication systems at Tate's Cairns Tunnel, Lai King MTR Station and Parkland.

3. *Media/Entertainment business*

On 14 October 2004, Mediamaster Limited, a wholly owned subsidiary of the Company, entered into an acquisition agreement pursuant to which Mediamaster Limited conditionally agreed to acquire approximately 51.0% of total voting rights in M8 Entertainment Inc. ("M8") for a total cash consideration of US\$11,626,203 (equivalent to approximately HK\$90.6 million). M8, a company incorporated in Canada, is principally engaged in the acquisition, financing, production and worldwide licensing of theatrical feature films in a variety of genres. The acquisition of M8 was completed on 22 December 2004.

The acquisition of M8 enables the Group to take a further step into the media/entertainment industry through investing in an established independent picture production/distribution group in North America. M8 can also contribute to the business growth and broaden the revenue base of the Group.

Since the acquisition of M8 was completed on 22 December 2004, the results of M8 during the period from the completion of the acquisition to 31 December 2004 were not taken up in the unaudited consolidated results of the Group for the three months and nine months ended 31 December 2004.

Future Outlook

In addition to looking for new products which are price competitive, the Group has also introduced new solutions from one of the existing vendor for mobile operators which assists them in quickly launch new coverage for those areas that they are having difficulty to set up base stations.

A trial has been conducted by one of the mobile operators and demo has been carried out with other fixed network operators and government departments. The result is promising and the Group believes this solution may raise the demand from other mobile operators as well.

On the other hand, the Group is also utilizing its engineer's expertise to provide professional service which has a higher margin. With such professional service, sales is expected to be increased as network solutions can be introduced to customers by its engineers.

Since the Company announced the acquisition of M8, on 23 November 2004, the Company has taken a further step into the media/entertainment industry by entering into a sale and purchase agreement for the possible acquisition of the hotel and entertainment operations in the Philippines and Macau. Details of the proposed acquisition are set out in the announcement of the Company dated 23 November 2004.

On 18 January 2005, the Company announced the signing of a placing and subscription agreement. The Company issued a total of 31,000,000 shares of the Company at subscription price of HK\$8.50 per share. The net proceeds from the subscription of approximately HK\$256 million would be for the general working capital of the Company and its subsidiaries.

The Group will continue to explore the market and identify any business opportunities may provide growth and development potential and strive for better return to the shareholders.

INTERESTS AND SHORT POSITIONS OF DIRECTORS AND CHIEF EXECUTIVE IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2004, the interests and short positions of the Directors and the chief executive in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (the "SFO")) which were notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required, pursuant to the rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors, to be notified to the Company or the Stock Exchange, were as follows:

Name of Directors	Number of ordinary shares of HK\$1.00 each in the share capital of the Company				Total	Approximate percentage of the issued share capital of the Company
	Personal interest	Family interest	Corporate interest	Other interest		
Choi Wing Kin	1,329,600	–	–	–	1,329,600	0.65%
So Kam Wing	91,200	–	–	–	91,200	0.04%
Lo Lin Shing, Simon	–	–	364,800	–	364,800	0.18%
			(Note)			

Note: These shares are held by Wellington Equities Inc., which is wholly-owned by Mr. Lo Lin Shing, Simon.

Save as disclosed above, none of the Directors or the chief executive has any interests or short positions in the shares, underlying shares and debentures 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 the provisions of Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required, pursuant to the rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors, to be notified to the Company or the Stock Exchange as at 31 December 2004.

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS IN SHARES AND UNDERLYING SHARES

So far as is known to the Directors or chief executive of the Company, as at 31 December 2004, shareholders (other than the Directors or chief executive of the Company) who had interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name of Shareholders	Capacity	Number of ordinary shares of HK\$1.00 each in the share capital of the Company	Approximate percentage of the issued share capital of the Company
Mediastar International Limited ("Mediastar")	Beneficial owner	120,000,079	58.58%
Chow Tai Fook Enterprises Limited ("CTF")	Interest of a controlled corporation	120,000,079 (Note 1)	58.58%
Cheung Chung Kiu	Beneficial owner	17,654,000	8.62%
Young China Investments Ltd.	Beneficial owner	19,000,000	9.28%
Chow Shiu Leung	Interest of a controlled corporation	19,000,000 (Note 2)	9.28%

Notes:

- (1) Mediastar is wholly-owned by CTF. Accordingly, CTF is deemed to be interested in 120,000,079 shares of the Company held by Mediastar under the SFO.
- (2) Young China Investments Ltd. is wholly-owned by Mr. Chow Shiu Leung. Accordingly, Mr. Chow Shiu Leung is deemed to be interested in 19,000,000 shares of the Company by Young China Investments Ltd. under the SFO.

Save as disclosed above, as at 31 December 2004, the Company has not been notified by any persons (other than the 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 to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

SHARE OPTION SCHEMES

(a) Pre-IPO share option scheme

A pre-IPO share option scheme ("Pre-IPO Scheme") was adopted pursuant to a resolution passed by the board of directors of the Company on 17 July 2000. Under the Pre-IPO Scheme, the board of directors may, at its discretion, grant options to employees, directors and consultant of the Group to subscribe for shares in the Company.

No options can be granted under the Pre-IPO Scheme upon the listing of the Company on GEM. There were no share options outstanding under the Pre-IPO Scheme as at 31 December 2004.

(b) Post-IPO share option scheme

In addition, a post-IPO share option scheme (the "Post-IPO Scheme") was adopted pursuant to a resolution passed by the board of directors of the Company on 17 July 2000. Under the Post-IPO Scheme, the board of directors may, at its discretion, grant options to full-time employees, including executive directors of the Company and its subsidiaries to subscribe for shares in the Company.

No options have been granted, exercised or cancelled during the nine months ended 31 December 2004 and there were no share options outstanding under the Post-IPO Scheme as at 31 December 2004. The Post-IPO Scheme was terminated and replaced by a new share option scheme (the "New Scheme") pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 20 August 2004.

(c) New share option scheme

Pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 20 August 2004, the New Scheme was adopted. The summary of the principal terms of the New Scheme is set out in Appendix II of the circular of the Company dated 27 July 2004.

No options have been granted, exercised or cancelled during the nine months ended 31 December 2004 and there were no share options outstanding under the New Scheme as at 31 December 2004.

COMPETING BUSINESS

During the nine months ended 31 December 2004, none of the directors or the management shareholders of the Company and their respective associates (as defined under the GEM Listing Rules) has any interests in a business which competes or may compete with the business of the Group or has any other conflict of interest with the Group.

AUDIT COMMITTEE

The Company has established an audit committee in July 2000 with written terms of reference in compliance with the GEM Listing Rules. The audit committee has three members, comprising two independent non-executive directors and a non-executive director, Mr. Cheung Hon Kit, Mr. Wong Chi Keung and Mr. Wu Wing Kin. The primary duties of the audit committee are to review and supervise the financial reporting process and internal controls of the Group. The audit committee has reviewed the unaudited third quarterly report for the nine months ended 31 December 2004.

PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the nine months ended 31 December 2004, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

By order of the Board
Cheng Kar Shun
Chairman

Hong Kong, 3 February 2005

As at the date of this report, the Board comprises the following members:

Executive Directors:

Cheng Kar Shun (*Chairman*)
Lo Lin Shing, Simon
Choi Wing Kin
So Kam Wing

Non-executive Director:

Wu Wing Kin

Independent non-executive Directors:

Cheung Hon Kit
Kwee Chong Kok, Michael
Wong Chi Keung