

# First Quarterly Report 2005/06



**International Entertainment Corporation**

國際娛樂有限公司

(Incorporated in the Cayman Islands with limited liability)

## 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.**

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*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”) hereby announces the unaudited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the three months ended 30 June 2005, together with the comparative unaudited figures for the corresponding period in 2004 as follows:

	<i>Notes</i>	<b>Three months ended</b>	
		<b>30 June</b>	
		<b>2005</b>	2004
		<b>(Unaudited)</b>	<i>(Unaudited)</i>
		<b>HK\$'000</b>	HK\$'000
Turnover	2	<b>115,903</b>	3,851
Cost of sales		<b>(95,239)</b>	(2,696)
Gross profit		<b>20,664</b>	1,155
Other operating income	3	<b>1,894</b>	9
Selling and distribution costs		<b>(6,860)</b>	(17)
General and administrative expenses		<b>(12,767)</b>	(4,428)
Other operating expenses		<b>–</b>	(172)
Profit (loss) from operations		<b>2,931</b>	(3,453)
Finance costs		<b>(179)</b>	(580)
Profit (loss) before taxation		<b>2,752</b>	(4,033)
Taxation	4	<b>–</b>	–
Profit (loss) for the period		<b>2,752</b>	(4,033)
Attributable to:			
Equity shareholders of the parent		<b>212</b>	(4,033)
Minority interests		<b>2,540</b>	–
		<b>2,752</b>	(4,033)
Earnings (loss) per share	6		
Basic		<b>HK0.09 cent</b>	HK(2.98) cents
Diluted		<b>HK0.09 cent</b>	N/A

Notes:

## 1. Basis of preparation

The unaudited consolidated results have been prepared in accordance with accounting principles generally accepted in Hong Kong, accounting standards issued by the Hong Kong Institute of Certified Public Accountants and the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. They have been prepared under the historical cost convention.

The accounting policies used in the preparation of the unaudited consolidated results are consistent with used in the annual accounts for the year ended 31 March 2005 except as described below.

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards (“HKFRSs”), Hong Kong Accounting Standards (“HKASs”) and Interpretations (hereinafter collectively referred as “new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants that are effective for accounting periods beginning on or after 1 January 2005.

### *Business Combinations*

In the current period, the Group has applied HKFRS 3 “Business Combinations” which is effective for business combinations for which the agreement date is on or after 1 January 2005.

### *Goodwill*

Any excess of the cost of acquisition over the Group’s share of the fair values of the identifiable assets, liabilities and contingent liabilities of the subsidiaries at the date of acquisition is recognised as goodwill. Goodwill is tested annually for impairment, and whenever there is an indication that the unit may be impaired, by comparing the carrying amount of the unit, including the goodwill, with the recoverable amount of the unit.

The adoption of the new HKFRSs has had no material effect on how the results for the current or prior accounting periods are prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standards or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the financial statements of the Group.

HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS-Int 4	Determining whether an Arrangement Contains a Lease
HKFRS-Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

## 2. Turnover

<b>Three months ended</b>	
<b>30 June</b>	
<b>2005</b>	2004
<b>(Unaudited)</b>	<i>(Unaudited)</i>
<b>HK\$'000</b>	HK\$'000

The Group's turnover comprises:

Sales of goods	<b>824</b>	2,399
Services income	<b>2,907</b>	1,452
Film licensing income	<b>112,172</b>	–
	<b>115,903</b>	3,851

## 3. Other operating income

Other operating income comprises mainly the interest income from bank deposits.

## 4. Taxation

No provision for Hong Kong profits tax has been made as the Group had no assessable profits for the three months ended 30 June 2005 (For the three months ended 30 June 2004: Nil).

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdiction. No provision for overseas taxation has been made as the Group has utilised previously unrecognised tax losses.

No provision for deferred taxation has been recognised as the amount involved is insignificant.

## 5. Dividend

The Board does not recommend the payment of any dividend for the three months ended 30 June 2005 (For the three months ended 30 June 2004: Nil).

## 6. Earnings (loss) per share

The calculation of the basic and diluted earnings (loss) per share is based on the following data:

	<b>Three months ended</b>	
	<b>30 June</b>	
	<b>2005</b>	2004
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
<hr/>		
<b>Earnings (loss)</b>		
Earnings (loss) for the purposes of basic and diluted earnings (loss) per share (profit (loss) for the period)	<b>212</b>	(4,033)
	<hr/>	
Effect of dilutive share options of a subsidiary	<b>(1)</b>	N/A
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Earnings for the purpose of diluted earnings per share	<b>211</b>	N/A
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<b>Number of shares</b>		
Weighted average number of ordinary shares for the purposes of basic and diluted earnings (loss) per share	<b>235,831,447</b>	135,424,854
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Loss per share for the three months ended 30 June 2004 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 ended 30 June 2004 as the Company has no dilutive potential shares.

## 7. Reserves

	Attributable to equity shareholders of the parent						
	Share premium	Merger reserve	Exchange reserve	Accumulated losses	Total	Minority interests	Total
	<i>(Unaudited)</i> HK\$'000	<i>(Unaudited)</i> HK\$'000	<i>(Unaudited)</i> HK\$'000	<i>(Unaudited)</i> HK\$'000	<i>(Unaudited)</i> HK\$'000	<i>(Unaudited)</i> HK\$'000	<i>(Unaudited)</i> HK\$'000
The Group							
At 1 April 2004	-	53,022	-	(126,168)	(73,146)	-	(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	-	40,569
Loss for the period	-	-	-	(4,033)	(4,033)	-	(4,033)
At 30 June 2004	40,569	53,022	-	(130,201)	(36,610)	-	(36,610)
At 1 April 2005	263,832	53,022	(2,793)	(145,463)	168,598	77,377	245,975
Exchange differences on translation of overseas operation not recognised in income statement	-	-	(84)	-	(84)	(65)	(149)
Profit for the period	-	-	-	212	212	2,540	2,752
At 30 June 2005	<b>263,832</b>	<b>53,022</b>	<b>(2,877)</b>	<b>(145,251)</b>	<b>168,726</b>	<b>79,852</b>	<b>248,578</b>

## Management Discussion and Analysis

### Financial Review

The Group's turnover for the three months ended 30 June 2005 was approximately HK\$115.9 million, an increase of approximately 29.1 times as compared with approximately HK\$3.9 million for the corresponding period in 2004 whilst the gross profit increased approximately 16.9 times from approximately HK\$1.2 million in the last corresponding period to HK\$20.7 million for the period under review. The increases in turnover and gross profit were mainly contributed by the revenue from entertainment business.

Selling and distribution costs, general and administrative expenses, and other operating expenses increased by approximately 3.3 times to approximately HK\$19.6 million for the three months ended 30 June 2005 from approximately HK\$4.6 million in the last corresponding period. The increase was mainly attributable to the inclusion of the expenses incurred by M8 Entertainment Inc. and its subsidiaries after the completion of the acquisition in December 2004.

The Group recorded an operating profit for the three months ended 30 June 2005, amounted to approximately HK\$2.9 million. The operating results was improved in this quarter when compared to the last corresponding period. This was mainly attributable to the operating profit from production and licensing of theatrical motion pictures.

### Business Review

The principal activities of the Group are provision of application solutions, network solutions, project services, and the acquisition, financing, production and worldwide licensing of theatrical feature films in a variety of genres.

#### 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 networks and synchronization networks.

During the three months ended 30 June 2005, the revenue derived from the network solutions was approximately HK\$0.8 million, compared to approximately HK\$2.4 million in the last corresponding period. The decrease in revenue was due to strong competition for projects.

#### 2. *Project and engineering services*

For the three months ended 30 June 2005, the Group completed certain projects, revenue derived from the provision of project and engineering services was approximately HK\$2.9 million, compared to approximately HK\$1.5 million in the corresponding period. The increase in revenue was mainly attributable to the demand of services from mobile operators in Hong Kong.



3. *Media/Entertainment business*

The revenue derived from the media/entertainment business for the three months ended 30 June 2005 was approximately HK\$112.2 million. Since the acquisition of M8 Entertainment Inc. was completed on 22 December 2004, no revenue was derived from the media/entertainment business in the last corresponding period. The revenue comprised primarily from sales of the theatrical feature films, *Running Scared* and *Santa's Slay*. *Running Scared* is written and directed by Wayne Kramer and stars Paul Walker and *Santa's Slay* is a horror-comedy produced in association with Brett Ratner.

## **Future Outlook**

With the improvement of the economic climate, more and more companies are willing to invest and improve their networks. Therefore, the Group is going to expand the sales force to increase the solution sales especially on the network security solution. Under existing product range with existing vendor, the Group is able to provide internal wireless and wire line network access security solution. The Group is going to look for potential vendors and partner to achieve a total solution which is marketable and meets the demands of customers.

Competition is still severe for project services. The Group will re-position our project service team as a total wireless solution team for the indoor radio coverage. The project service team will not only offer project implementation and management service but also the design and supply of the indoor wireless network for potential customers.

The Group has taken a further step into the media/entertainment industry by entering into a conditional sale and purchase agreement for the acquisition of the hotel and entertainment operations in the Philippines and Macau on 23 November 2004. Details of the acquisition are set out in the announcements of the Company dated 23 November 2004 and 17 March 2005. As at the date of this report, the acquisition has not been completed. The Group will continue to explore the market and identify any business opportunities may provide its long term growth and development potential, enhance long term profitability, 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 30 June 2005, 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:

### Long positions in the ordinary shares of the Company

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	0.56%	
So Kam Wing	49,200	–	–	–	49,200	0.02%	
Lo Lin Shing, Simon	–	–	364,800	–	364,800	0.15%	
			(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 30 June 2005.

## 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 30 June 2005, 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 as having an interest in 5% or more of the issued share capital of the Company were as follows:

### Long positions in the ordinary shares of the Company

Name of shareholders	Capacity	Number of ordinary share of HK\$1.00 each in the share capital of the Company	Number of unissued share	Number of underlying shares	Aggregate interest	Approximate percentage of the issued share capital of the Company
Mediastar International Limited ("Mediastar")	Beneficial owner	120,000,079	-	-	120,000,079	50.88%
Cross-Growth Co., Ltd.	Beneficial owner	-	-	200,000,000 (Note 3)	200,000,000	84.81%
Chow Tai Fook Enterprises Limited ("CTF")	Beneficial owner	-	707,494,341 (Note 4)	-	1,027,494,420	435.69%
	Interest of a controlled corporation	120,000,079 (Note 1)	-	200,000,000 (Note 3)		
Young China Investments Ltd.	Beneficial owner	19,000,000	-	-	19,000,000	8.06%
Chow Shiu Leung	Interest of a controlled corporation	19,000,000 (Note 2)	-	-	19,000,000	8.06%

*Notes:*

- (1) Mediastar is wholly owned by CTF. Accordingly, CTF is deemed to be interested in 120,000,079 Shares 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 held by Young China Investments Ltd. under the SFO.
- (3) These underlying Shares represent the new Shares to be issued upon full conversion at the initial conversion price of HK\$2 per Share of the convertible note to be issued by the Company to Cross-Growth Co., Ltd. (or as it may direct) pursuant to the conditional acquisition agreement dated 23 November 2004 entered into among Cross-Growth Co., Ltd., the Company and CTF in relation to the acquisition of hotel and entertainment operations in the Philippines and Macau. Details of the convertible note and the acquisition agreement are set out in the announcement of the Company dated 23 November 2004.

Cross-Growth Co., Ltd. is wholly owned by CTF. Accordingly, CTF is deemed to be interested in 200,000,000 underlying Shares held by Cross-Growth Co., Ltd. under the SFO.

- (4) These unissued Shares represent the rights shares underwritten by CTF in respect of a possible rights issue of the Company, details of which are set out in the announcement of the Company dated 23 November 2004.

Save as disclosed above, as at 30 June 2005, 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 as having an interest in 5% or more of the issued share capital of the Company.

## 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 30 June 2005.

### (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 broad 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 three months ended 30 June 2005 and there were no share options outstanding under the Post-IPO Scheme as at 30 June 2005. 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 three months ended 30 June 2005 and there were no share options outstanding under the New Scheme as at 30 June 2005.

### (d) Share option scheme of M8 Entertainment Inc.

During 1994, the board of directors of M8 Entertainment Inc. (“M8”) formally established the Amended and Restated 1994 Stock Option Plan (“the Plan”), which provides for the granting of stock options to acquire Class B M8 Shares to employees, officers, directors and independent service providers to M8 or any of its subsidiaries.

Details of the share options outstanding as at 30 June 2005 which have been granted under the Plan to employees are as follows:

<b>At 31 March 2005 and 30 June 2005</b>	<b>Date of grant</b>	<b>Exercise period</b>	<b>Exercise price CAD</b>
100,000	25 May 2000	26 May 2000 to 25 May 2010	0.12
137,500	29 August 2000	30 August 2002 to 29 August 2010	0.1
306,250	29 August 2000	30 August 2003 to 29 August 2010	0.1
306,250	29 August 2000	30 August 2004 to 29 August 2010	0.1
200,000	24 May 2001	25 May 2001 to 24 May 2011	0.035
1,230,000	15 February 2002	16 February 2003 to 15 February 2012	0.075
100,000	13 May 2002	14 May 2002 to 13 May 2012	0.17
850,000	13 May 2002	14 May 2003 to 13 May 2012	0.17
1,150,000	13 May 2002	14 May 2004 to 13 May 2012	0.17
1,150,000	13 May 2002	14 May 2005 to 13 May 2012	0.17
1,150,000	13 May 2002	14 May 2006 to 13 May 2012	0.17
1,200,000	28 August 2002	29 August 2004 to 28 August 2012	0.16
6,970,000	1 May 2003	2 May 2003 to 1 May 2013	0.075
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14,850,000			

No option was exercised, cancelled or granted during the three months ended 30 June 2005.

## Competing Business

During the three months ended 30 June 2005, 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 first quarterly report for the three months ended 30 June 2005.

## Purchase, Sale and Redemption of the Company's Listed Securities

During the three months ended 30 June 2005, 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, 12 August 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