



# International Entertainment Corporation

國際娛樂有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 8118



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

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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 2006, together with the comparative unaudited figures for the corresponding period in 2005 as follows:

		<b>Three months ended</b>	
		<b>30 June</b>	
		<b>2006</b>	2005
		<b>(Unaudited)</b>	(Unaudited)
	<i>Notes</i>	<b>HK\$'000</b>	<i>HK\$'000</i>
Turnover	2	<b>51,388</b>	115,903
Cost of sales		<b>(60,992)</b>	(95,239)
Gross (loss) profit		<b>(9,604)</b>	20,664
Other income	3	<b>3,347</b>	1,894
Selling and distribution costs		<b>(4,090)</b>	(6,860)
General and administrative expenses		<b>(10,378)</b>	(12,767)
Finance costs		<b>(872)</b>	(179)
(Loss) profit before taxation		<b>(21,597)</b>	2,752
Taxation	4	-	-
(Loss) profit for the period		<b>(21,597)</b>	2,752
Attributable to:			
Equity shareholders of the Company		<b>(21,597)</b>	212
Minority interests		-	2,540
		<b>(21,597)</b>	2,752
(Loss) earnings per share	6		
Basic		<b>HK(9.16) cents</b>	HK0.09 cent
Diluted		<b>HK(9.16) cents</b>	HK0.09 cent

Notes:

## 1. Basis of preparation

The unaudited consolidated results have been prepared in accordance with accounting principles generally accepted in Hong Kong, Hong Kong Financial Reporting Standards (“HKFRS(s)”), Hong Kong Accounting Standards (“HKAS(s)”) and Interpretations (“INT(s)”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) 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 (the “GEM Listing Rules”). They have been prepared under the historical cost basis except for certain financial instruments, which are measured at fair value.

The accounting policies used in the preparation of the unaudited consolidated results are consistent with those used in the annual financial statements for the year ended 31 March 2006.

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 1 (Amendment)	Capital disclosures
HKFRS 7	Financial instruments: Disclosures
HK(IFRIC) - INT 8	Scope of HKFRS 2
HK(IFRIC) - INT 9	Reassessment of embedded derivatives

## 2. Turnover

Three months ended 30 June	
2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000

The Group's turnover comprises:

Sales of goods	<b>1,125</b>	824
Service income	<b>2,183</b>	2,907
Film licensing income	<b>48,080</b>	112,172
	<b>51,388</b>	115,903

## 3. Other income

Other income comprises mainly the interest income from bank deposits.

## 4. Taxation

No provision for Hong Kong Profits Tax or taxation arising in other jurisdictions has been made as the Group had no assessable profits for the three months ended 30 June 2006 (For the three months ended 30 June 2005: Nil).

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdiction.

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 2006 (For the three months ended 30 June 2005: Nil).

## 6. (Loss) earnings per share

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

	<b>Three months ended</b>	
	<b>30 June</b>	
	<b>2006</b>	2005
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
<hr/>		
<b>(Loss) earnings</b>		
(Loss) earnings for the purposes of basic and diluted (loss) earnings per share	<b>(21,597)</b>	212
	<hr/>	
Effect of dilutive share options of a subsidiary	-	(1)
	<hr/>	
(Loss) earnings for the purpose of diluted (loss) earnings per share	<b>(21,597)</b>	211
	<hr/>	
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purposes of basic and diluted (loss) earnings per share	<b>235,831,447</b>	235,831,447
	<hr/>	

The computation of diluted loss per share for the three months ended 30 June 2006 did not assume the exercise of the subsidiary's outstanding share options existed during the three months ended 30 June 2006 since their exercise would reduce loss per share.

## 7. Reserves

	Attributable to equity shareholders of the Company						
	Share	Merger	Exchange	Accumulated		Minority	
	premium	reserve	reserve	losses	Total	interests	Total
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The Group							
At 31 March 2005	263,832	53,022	(2,793)	(145,463)	168,598	77,377	245,975
Effect of changes in accounting policies	-	-	-	(505)	(505)	-	(505)
At 1 April 2005, as restated	263,832	53,022	(2,793)	(145,968)	168,093	77,377	245,470
Exchange differences on translation of overseas operation recognised directly in equity	-	-	(84)	-	(84)	(65)	(149)
Profit for the period	-	-	-	212	212	2,540	2,752
At 30 June 2005	263,832	53,022	(2,877)	(145,756)	168,221	79,852	248,073
At 1 April 2006	263,832	53,022	(2,162)	(263,031)	51,661	-	51,661
Exchange differences on translation of overseas operation recognised directly in equity	-	-	(1,277)	-	(1,277)	-	(1,277)
Loss for the period	-	-	-	(21,597)	(21,597)	-	(21,597)
<b>At 30 June 2006</b>	<b>263,832</b>	<b>53,022</b>	<b>(3,439)</b>	<b>(284,628)</b>	<b>28,787</b>	<b>-</b>	<b>28,787</b>

# Management Discussion and Analysis

## Financial Review

The Group's turnover for the three months ended 30 June 2006 was approximately HK\$51.4 million, a decrease of approximately 55.7% as compared with approximately HK\$115.9 million for the corresponding period in 2005. The decrease in turnover was mainly due to the decrease in number of films produced during the period. The Group reported a gross loss of approximately HK\$9.6 million for the period under review, as compared to the gross profit of approximately HK\$20.7 million in the last corresponding period. The gross loss for the period was primarily due to decrease in revenue from film production and write-downs on some of the films.

Selling and distribution costs, and general and administrative expenses decreased by approximately 26% to approximately HK\$14.5 million for the three months ended 30 June 2006 from approximately HK\$19.6 million in the last corresponding period. The decrease was mainly due to the decrease in marketing expenses for promoting films.

The Group recorded a loss before taxation for the three months ended 30 June 2006, amounted to approximately HK\$21.6 million, as compared to the profit before taxation of approximately HK\$2.8 million in the last corresponding period. The Group recorded as loss before taxation for the period was mainly due to decrease in revenue from film production and write-downs on some of the films.

## 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. *Entertainment business*

The revenue derived from the entertainment business for the three months ended 30 June 2006 was approximately HK\$48.1 million, compared to approximately HK\$112.2 million in the last corresponding period. The revenue comprised primarily from sales of the theatrical feature films, *Running Scared*, *Man About Town* and *Lovewrecked*. *Running Scared* is written and directed by Wayne Kramer and stars Paul Walker. *Man About Town* is a dramatic comedy written and directed by Mike Binder, and starring Ben Affleck and Rebecca Romijn and *Lovewrecked* stars Amanda Bynes and Chris Carmack. The decrease in revenue resulted from a decrease in sales attributable to the Group's films.

### 2. *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 2006, the revenue derived from the network solutions was approximately HK\$1.1 million, compared to approximately HK\$0.8 million in the last corresponding period. The increase in revenue was due to more projects completed during the period under review.

### 3. *Project services*

For the three months ended 30 June 2006, the Group completed certain projects, revenue derived from the provision of project services was approximately HK\$2.2 million, compared to approximately HK\$2.9 million in the corresponding period. The decrease in revenue was due to the keen competition in the market.

## Future Outlook

The Group will continue to expand the sales force to increase the solution sales especially on the WLAN solution and Network Access Management solution. Under existing product range with existing vendor, the Group is able to provide Network Access Management solution for both wireless and wire line connection. The Group will continue to look for potential vendors and partners to achieve a total solution which is marketable and meets the demands of customers.

Competition is still severe for project services. The project service team will offer potential customers service packages, including project implementation and management service as well as the design and supply of the indoor wireless network.

The Group will commence pre-production of several film projects later in this financial year. In addition to the production of films, the Group would engage in the acquisition of films. The acquired films would be distributed by the Group. Same as previous years, the Group will attend major film markets, including the Cannes Film Festival and Berlin Film Festival, and distribute the films worldwide, to most territories around the world.

The Group has taken a further step into the 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, 17 March 2005, 29 September 2005, 6 January 2006, 22 June 2006, 3 August 2006 and 11 August 2006. As at the date of this report, the acquisition has not been completed because the relevant regulatory approval procedure is still ongoing. 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 Executives in the Shares, Underlying Shares and Debentures of the Company and Its Associated Corporations

Save as disclosed below, as at 30 June 2006, none of the directors or chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associates corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”), Chapter 571 of the Laws of Hong Kong) which were required to be 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 required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by directors, to be notified to the Company and the Stock Exchange.

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

Name of director	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
	Personal interest	Corporate interest	Total	
Mr. Choi Wing Kin	1,329,600	–	1,329,600	0.56%
Mr. So Kam Wing	49,200	–	49,200	0.02%
Mr. Lo Lin Shing, Simon	–	364,800 (Note)	364,800	0.15%

Note:

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

## Interests and Short Positions of Shareholders in Shares and Underlying Shares of the Company

Save as disclosed below, as at 30 June 2006, so far as is known to the directors or chief executives of the Company, the Company has not been notified by any persons (other than the directors or chief executives 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.

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

Name of shareholder	Capacity	Number of ordinary shares of HK\$1.00 each in the share capital of the Company	Number of unissued shares	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)		
Centennial Success Limited	Interest of a controlled corporation	120,000,079 (Notes 1, 5)	707,494,341 (Notes 4, 5)	200,000,000 (Notes 3, 5)	1,027,494,420	435.69%
Cheng Yu Tung Family (Holdings) Limited	Interest of a controlled corporation	120,000,079 (Notes 1, 6)	707,494,341 (Notes 4, 6)	200,000,000 (Notes 3, 6)	1,027,494,420	435.69%
Young China Investments Ltd.	Beneficial owner	19,000,000	-	-	19,000,000	8.06%
Mr. 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 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 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.
- (5) CTF is wholly owned by Centennial Success Limited. Accordingly, Centennial Success Limited is deemed to be interested in 120,000,079 shares of the Company held by Mediastar, 200,000,000 underlying shares to be held by Cross-Growth Co., Ltd., and 707,494,341 rights shares underwritten by CTF under the SFO.
- (6) Cheng Yu Tung Family (Holdings) Limited is interested in 51% of the issued share capital of Centennial Success Limited. Accordingly, Cheng Yu Tung Family (Holdings) Limited is deemed to be interested in 120,000,079 shares of the Company held by Mediastar, 200,000,000 underlying shares to be held by Cross-Growth Co., Ltd., and 707,494,341 rights shares underwritten by CTF under 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 30 June 2006.

**(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 three months ended 30 June 2006 and there were no share options outstanding under the Post-IPO Scheme as at 30 June 2006. 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 2006 and there were no share options outstanding under the New Scheme as at 30 June 2006.

**(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 2006 which have been granted under the Plan to employees are as follows:

<b>Name or category of participant</b>	<b>Date of grant</b>	<b>Exercisable period</b>	<b>Exercise price per share</b>	<b>At 1 April 2006 and 30 June 2006</b>
			<i>CAD</i>	
Employee	25 May 2000	26 May 2000 – 25 May 2010	0.120	100,000
Employee	29 August 2000	30 August 2002 – 29 August 2010	0.100	137,500
Employee	29 August 2000	30 August 2003 – 29 August 2010	0.100	306,250
Employee	29 August 2000	30 August 2004 – 29 August 2010	0.100	306,250
Employee	24 May 2001	25 May 2001 – 24 May 2011	0.035	100,000
Employee	15 February 2002	16 February 2003 – 15 February 2012	0.075	830,000
Employee	13 May 2002	14 May 2003 – 13 May 2012	0.170	750,000
Employee	13 May 2002	14 May 2004 – 13 May 2012	0.170	1,150,000
Employee	13 May 2002	14 May 2005 – 13 May 2012	0.170	1,150,000
Employee	13 May 2002	14 May 2006 – 13 May 2012	0.170	1,150,000
Employee	28 August 2002	29 August 2004 – 28 August 2012	0.160	1,200,000
Employee	01 May 2003	02 May 2003 – 01 May 2013	0.075	5,970,000
Total				13,150,000

No option was exercised, cancelled or granted during the three months ended 30 June 2006.

## Competing Business

During the three months ended 30 June 2006, 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, namely Mr. Cheung Hon Kit and Mr. Wong Chi Keung and a non-executive director, 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 2006.

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

During the three months ended 30 June 2006, 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, 14 August 2006

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

*Executive Directors:*

Cheng Kar Shun (*Chairman*)

Lo Lin Shing, Simon

To Hin Tsun, Gerald

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