



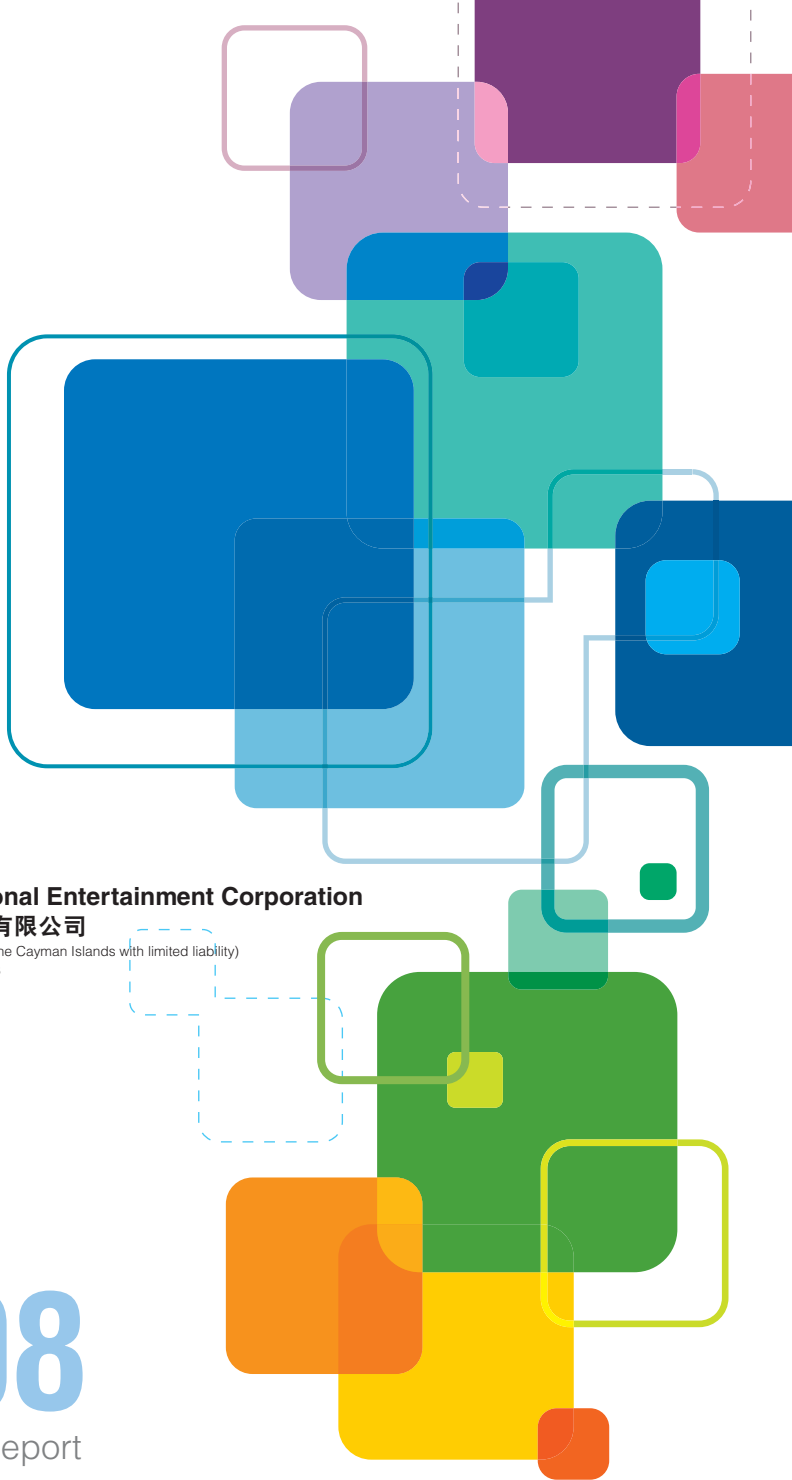
International Entertainment Corporation

國際娛樂有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 8118

07/08

First Quarterly Report



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") hereby announces the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the three months ended 30 June 2007, together with the comparative unaudited figures for the corresponding period in 2006 as follows:

		Three months ended	
		30 June	
		2007	2006
		(Unaudited)	(Unaudited)
	<i>Notes</i>	HK\$'000	<i>HK\$'000</i>
Turnover	2	15,520	51,388
Cost of sales		(11,044)	(60,992)
Gross profit (loss)		4,476	(9,604)
Other income	3	1,941	3,347
Selling and distribution costs		(3,131)	(4,090)
General and administrative expenses		(8,430)	(10,378)
Finance costs		(231)	(872)
Loss before taxation		(5,375)	(21,597)
Taxation	4	-	-
Loss for the period		(5,375)	(21,597)
Attributable to:			
Equity holders of the Company		(5,375)	(21,597)
Minority interests		-	-
		(5,375)	(21,597)
Loss per share	6		
Basic		HK(2.28) cents	HK(9.16) cents
Diluted		HK(2.28) cents	HK(9.16) cents

Notes:

1. Basis of preparation

The unaudited consolidated results have been prepared in accordance with Hong Kong Financial Reporting 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 (the "GEM Listing Rules"). They have been prepared on 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 2007.

The Group has not early applied the following new standard, revised standard or interpretation that have been issued but are not yet effective. The directors of the Company anticipate that the application of these new standard, revised standard or interpretation will have no material impact on the results and the financial position of the Group.

HKAS 23 (Revised)	Borrowing costs ¹
HKFRS 8	Operating segments ¹
HK(IFRIC) – INT 12	Service concession arrangements ²

¹ Effective for annual periods beginning on or after 1 January 2009.

² Effective for annual periods beginning on or after 1 January 2008.

2. Turnover

Three months ended	
30 June	
2007	2006
(Unaudited)	(Unaudited)
HK\$'000	HK\$'000

The Group's turnover comprises:

Sales of goods	1,913	1,125
Service income	4,607	2,183
Film licensing income	9,000	48,080
	15,520	51,388

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 2007 (For the three months ended 30 June 2006: Nil).

The income tax rate of the Group's subsidiaries operating in Hong Kong is 17.5%.

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 2007 (For the three months ended 30 June 2006: Nil).

6. Loss per share

The calculation of the basic and diluted loss per share for the three months ended 30 June 2007 is based on the unaudited consolidated loss attributable to equity holders of the Company of approximately HK\$5,375,000 (three months ended 30 June 2006: HK\$21,597,000) and the weighted average number of shares of 235,831,447 (three months ended 30 June 2006: 235,831,447) in issue during the period.

The computation of diluted loss per share for the three months ended 30 June 2007 does not assume the exercise of the subsidiary's outstanding share options existed during the three months ended 30 June 2007 since their exercise would reduce loss per share.

7. Reserves

	Attributable to equity holders of the Company							
	Share premium (Unaudited) HK\$'000	Merger reserve (Unaudited) HK\$'000	Investment		Accumulated losses (Unaudited) HK\$'000	Total (Unaudited) HK\$'000	Minority interests (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
			revaluation	Exchange				
			reserve (Unaudited) HK\$'000	reserve (Unaudited) HK\$'000				
The Group								
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)
At 30 June 2006	263,832	53,022	-	(3,439)	(284,628)	28,787	-	28,787
At 1 April 2007	263,832	53,022	188	(1,342)	(373,844)	(58,144)	-	(58,144)
Fair value change in available-for-sale financial assets	-	-	5,478	-	-	5,478	-	5,478
Exchange differences on translation of overseas operation recognised directly in equity	-	-	-	(1,016)	-	(1,016)	-	(1,016)
Net income recognised directly in equity	-	-	5,478	(1,016)	-	4,462	-	4,462
Loss for the period	-	-	-	-	(5,375)	(5,375)	-	(5,375)
Total recognised income and expense for the period	-	-	5,478	(1,016)	(5,375)	(913)	-	(913)
At 30 June 2007	263,832	53,022	5,666	(2,358)	(379,219)	(59,057)	-	(59,057)

Management Discussion and Analysis

Financial Review

The Group's turnover for the three months ended 30 June 2007 was approximately HK\$15.5 million, a decrease of approximately 69.8% as compared with approximately HK\$51.4 million for the corresponding period in 2006. The decrease in turnover was mainly due to the decrease in number of films produced during the period. The Group reported a gross profit of approximately HK\$4.5 million for the period under review, as compared with gross loss of approximately HK\$9.6 million in the last corresponding period. The gross profit for the period was primarily due to decrease in write-downs on some of the films.

Selling and distribution costs, and general and administrative expenses decreased by approximately 20.1% to approximately HK\$11.6 million for the three months ended 30 June 2007 from approximately HK\$14.5 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 2007, amounted to approximately HK\$5.4 million, representing a decrease of approximately by 75.1%, as compared with approximately HK\$21.6 million in the last corresponding period. The decrease in loss before taxation was mainly due to decreases 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 and investments in production of television series and music concerts.

1. Entertainment business

The revenue derived from the entertainment business for the three months ended 30 June 2007 was approximately HK\$9.0 million, compared with approximately HK\$48.1 million in the last corresponding period. The revenue comprised primarily from sales of the theatrical feature films, *HAVOC*, *Man About Town* and *Lovewrecked*. *HAVOC* is directed by Barbara Kopple who was the winner of Academy Award, and stars Anne Hathaway. *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. Network solutions

Network solutions are the solutions provided by the Group to customers related to their data communication and telecommunication system. These solutions include Microwave Radio System, Wireless Local Area Network, Data Communication, Network Access Management, Frequency and Time Synchronization network solutions.

During the three months ended 30 June 2007, the revenue derived from the network solutions was approximately HK\$1.9 million, compared with approximately HK\$1.1 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 2007, the revenue derived from the provision of project services was approximately HK\$4.6 million, compared with approximately HK\$2.2 million in the last corresponding period. The increase in revenue was due to the continuously improvement of general economic environment.

Future Outlook

After the end of the first quarter, the outlook is promising. With the emerge of the new technology and the support by the Government of the Hong Kong Special Administrative Region to go for wireless, more and more enterprises are considered to adopt Wi-Fi System. To keep in pace with the market needs and in addition to the sales of existing technology products and solutions, we have partnered with different vendors with sales more concentrated on this Wi-Fi and other radio technology.

In addition to 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 will also seek for investment opportunities in the production of music concerts both in Hong Kong and the PRC.

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, 11 August 2006, 22 December 2006, 27 June 2007, 9 July 2007, 13 July 2007 and 1 August 2007, and the circular of the Company dated 29 June 2007. On 1 August 2007, the acquisition of hotel and entertainment operations in the Philippines and Macau was approved by independent shareholders of the Company in the extraordinary general meeting of the Company. As at the date of this report, the acquisition has not been completed. The completion of the acquisition is subject to the conditions precedent set out in the acquisition agreement. The Group will continue to explore the leisure and entertainment market for opportunities in those sectors that have potential growth in the long run. The objective is to strive for better return to the shareholders of the Company. The broadened revenue base will reinforce the growth strategy of the Company and diversify the geographical coverage of the Company's business interests.

In addition, the Directors will conduct a detailed review of its financial structure and the composition of its assets and liabilities and may consider further re-engineering such structure and composition in an optimal way. The Directors may in the future scale down or adjust areas of operations where appropriate.

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 2007, 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 associated 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 2007, 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. ("Cross-Growth")	Beneficial owner	-	-	200,000,000 (Note 3)	200,000,000	84.81%
Chow Tai Fook Enterprises Limited ("CTF")	Beneficial owner	-	463,325,472 (Note 4)	-	783,325,551	332.15%
	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)	463,325,472 (Notes 4, 5)	200,000,000 (Notes 3, 5)	783,325,551	332.15%
Cheng Yu Tung Family (Holdings) Limited	Interest of a controlled corporation	120,000,079 (Notes 1, 6)	463,325,472 (Notes 4, 6)	200,000,000 (Notes 3, 6)	783,325,551	332.15%
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 of the Company 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 (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 circular of the Company dated 29 June 2007.

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

- (4) These unissued shares of the Company 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 prospectus of the Company dated 2 August 2007.
- (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, and 463,325,472 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, and 463,325,472 rights shares underwritten by CTF under the SFO.

Share Option Schemes

Share option scheme adopted on 20 August 2004

Pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 20 August 2004, a share option scheme was adopted. The summary of the principal terms of the share option 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 2007 and there were no share options outstanding under the share option scheme as at 30 June 2007.

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 2007 which have been granted under the Plan to employees are as follows:

Name or category of participant	Date of grant	Exercisable period	Exercise price per share CAD	At 1 April 2007 and 30 June 2007
Employee	25 May 2000	26 May 2000 – 25 May 2010	0.120	100,000
Employee	29 August 2000	30 August 2003 – 29 August 2010	0.100	93,750
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	510,000
Employee	13 May 2002	14 May 2003 – 13 May 2012	0.170	50,000
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	1 May 2003	2 May 2003 – 1 May 2013	0.075	5,920,000
Total				<u>11,730,000</u>

No option was exercised or granted during the three months ended 30 June 2007.

Competing Business

During the three months ended 30 June 2007, 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 2007.

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

During the three months ended 30 June 2007, 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 2007

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