



International Entertainment Corporation

國際娛樂有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 8118



**2007/08**  
Interim 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.**

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**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.*



## Corporate Information

### Executive Directors

Dr. CHENG Kar Shun (*Chairman*)  
Mr. LO Lin Shing, Simon  
Mr. TO Hin Tsun, Gerald  
Mr. CHOI Wing Kin  
Mr. SO Kam Wing

### Non-executive Director

Mr. WU Wing Kin

### Independent Non-executive Directors

Mr. CHEUNG Hon Kit  
Mr. KWEE Chong Kok, Michael  
Mr. WONG Chi Keung

### Registered Office

Cricket Square  
Hutchins Drive  
P.O. Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

### Head Office and Principal Place of Business in Hong Kong

Rooms 1207-8  
New World Tower 1  
16-18 Queen's Road Central  
Hong Kong

### Company Website

<http://www.ientcorp.com>

### Company Secretary

Mr. KWOK Chi Kin CPA, FCCA

### Authorised Representatives

Mr. LO Lin Shing, Simon  
Mr. KWOK Chi Kin

### Compliance Officer

Mr. CHOI Wing Kin

### Qualified Accountant

Mr. KWOK Chi Kin CPA, FCCA

### Audit Committee Members

Mr. CHEUNG Hon Kit  
(*Committee Chairman*)  
Mr. WONG Chi Keung  
Mr. WU Wing Kin

### Remuneration Committee Members

Mr. WONG Chi Keung  
(*Committee Chairman*)  
Mr. KWEE Chong Kok, Michael  
Mr. WU Wing Kin

### **Principal Bankers**

Public Bank (Hong Kong) Limited  
Public Bank Centre  
120 Des Voeux Road Central  
Hong Kong

The Hongkong and Shanghai Banking  
Corporation Limited  
1 Queen's Road Central  
Hong Kong

Hang Seng Bank Limited  
83 Des Voeux Road Central  
Hong Kong

Bank of China (Hong Kong) Limited  
Unit G1, Nan Fung Commercial Centre  
Wang Kwun Road  
Kowloon Bay, Hong Kong

### **Principal Share Registrar and Transfer Office**

Butterfield Fund Services (Cayman)  
Limited  
Butterfield House  
68 Fort Street  
P.O. Box 705  
Grand Cayman KY1-1107  
Cayman Islands

### **Hong Kong Branch Share Registrar and Transfer Office**

Computershare Hong Kong Investor  
Services Limited  
Rooms 1712-1716  
17th Floor, Hopewell Centre  
183 Queen's Road East  
Hong Kong

### **Auditors**

Deloitte Touche Tohmatsu  
Certified Public Accountants  
35/F One Pacific Place  
88 Queensway  
Hong Kong

## 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 and six months ended 30 September 2007, together with the comparative unaudited figures for the corresponding periods in 2006 as follows:

### Condensed Consolidated Income Statement

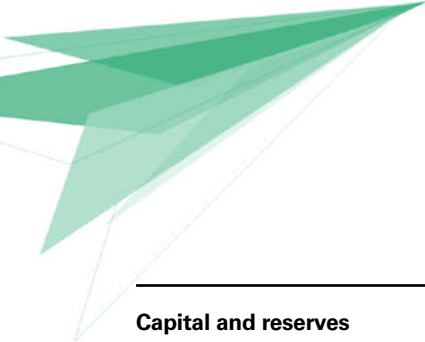
For the three months and six months ended 30 September 2007

	Notes	Three months ended 30 September		Six months ended 30 September	
		2007	2006	2007	2006
		(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Turnover	3	16,863	60,181	32,383	111,569
Cost of sales		(18,095)	(56,243)	(29,139)	(117,235)
Gross (loss) profit		(1,232)	3,938	3,244	(5,666)
Other income	4	8,389	3,218	10,330	6,565
Selling and distribution costs		(5,442)	(2,748)	(8,573)	(6,838)
General and administrative expenses		(12,691)	(9,994)	(21,121)	(20,372)
Finance costs		-	(943)	(231)	(1,815)
Loss before taxation	5	(10,976)	(6,529)	(16,351)	(28,126)
Taxation	6	-	-	-	-
Loss for the period		(10,976)	(6,529)	(16,351)	(28,126)
Attributable to:					
Equity holders of the Company		(10,976)	(6,529)	(16,351)	(28,126)
Minority interests		-	-	-	-
		(10,976)	(6,529)	(16,351)	(28,126)
Loss per share	8				
Basic		HK(1.88) cents	HK(2.77) cents	HK(3.98) cents	HK(11.93) cents
Diluted		HK(1.88) cents	HK(2.77) cents	HK(3.98) cents	HK(11.93) cents

## Condensed Consolidated Balance Sheet

As at 30 September 2007

	<i>Notes</i>	<b>30 September 2007 (Unaudited) HK\$'000</b>	31 March 2007 (Audited) HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment	9	1,292	1,473
Goodwill		–	–
		<b>1,292</b>	1,473
<b>Current assets</b>			
Inventories		3,112	1,581
Film costs	10	55,346	59,089
Available-for-sale financial assets		17,800	13,786
Trade receivables	11	5,813	5,759
Other receivables, deposits and prepayments		59,379	34,761
Amounts due from related companies		23	41
Pledged bank deposits		2,560	13,853
Bank balances and cash		1,546,217	180,538
		<b>1,690,250</b>	309,408
<b>Current liabilities</b>			
Trade payables	12	95,805	92,859
Other payables and accrued charges		27,364	24,219
Tax liabilities		1,260	1,260
Amounts due to related companies		1,342	1,330
Preference dividend payable		673	673
Bank borrowings	13	–	12,853
		<b>126,444</b>	133,194
<b>Net current assets</b>		<b>1,563,806</b>	176,214
<b>Total assets less current liabilities</b>		<b>1,565,098</b>	177,687



		<b>30 September 2007 (Unaudited) HK\$'000</b>	31 March 2007 (Audited) HK\$'000
	<i>Notes</i>		
<b>Capital and reserves</b>			
Share capital	14	<b>1,179,157</b>	235,831
Share premium and reserves		<b>385,941</b>	(58,144)
Equity attributable to equity holders of the Company		<b>1,565,098</b>	177,687
Minority interests		–	–
<b>Total equity</b>		<b>1,565,098</b>	177,687

## Condensed Consolidated Cash Flow Statement

For the six months ended 30 September 2007

	Six months ended 30 September	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
<b>Net cash (used in) generated by operating activities</b>	<b>(41,250)</b>	56,087
<b>Net cash generated by (used in) investing activities</b>	<b>20,388</b>	(2,217)
<b>Net cash generated by (used in) financing activities</b>	<b>1,386,371</b>	(47,342)
<b>Net increase in cash and cash equivalents</b>	<b>1,365,509</b>	6,528
<b>Cash and cash equivalents at 1 April</b>	<b>180,538</b>	233,123
<b>Effect of foreign exchange rate changes</b>	<b>170</b>	2,017
<b>Cash and cash equivalents at 30 September</b>	<b>1,546,217</b>	241,668
<b>Analysis of the balances of cash and cash equivalents</b>		
<b>Bank balances and cash</b>	<b>1,546,217</b>	241,668



## Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 September 2007

	Attributable to equity holders of the Company								
	Share capital (Unaudited) HK\$'000	Share premium (Unaudited) HK\$'000	Merger reserve (Unaudited) HK\$'000	Investment			Total (Unaudited) HK\$'000	Minority interests	
				revaluation reserve (Unaudited) HK\$'000	Exchange reserve (Unaudited) HK\$'000	Accumulated losses (Unaudited) HK\$'000		(Unaudited) HK\$'000	Total (Unaudited) HK\$'000
At 1 April 2006	235,831	263,832	53,022	-	(2,162)	(263,031)	287,492	-	287,492
Fair value change in available-for-sale financial assets	-	-	-	4,902	-	-	4,902	-	4,902
Exchange differences on translation to presentation currency	-	-	-	-	(2,627)	-	(2,627)	-	(2,627)
Net income recognised directly in equity	-	-	-	4,902	(2,627)	-	2,275	-	2,275
Loss for the period	-	-	-	-	-	(28,126)	(28,126)	-	(28,126)
Total recognised income and expenses for the period	-	-	-	4,902	(2,627)	(28,126)	(25,851)	-	(25,851)
At 30 September 2006	235,831	263,832	53,022	4,902	(4,789)	(291,157)	261,641	-	261,641
Fair value change in available-for-sale financial assets	-	-	-	(4,714)	-	-	(4,714)	-	(4,714)
Exchange differences on translation to presentation currency	-	-	-	-	3,447	-	3,447	-	3,447
Net income recognised directly in equity	-	-	-	(4,714)	3,447	-	(1,267)	-	(1,267)
Loss for the period	-	-	-	-	-	(82,687)	(82,687)	-	(82,687)
Total recognised income and expenses for the period	-	-	-	(4,714)	3,447	(82,687)	(83,954)	-	(83,954)
At 31 March 2007	235,831	263,832	53,022	188	(1,342)	(373,844)	177,687	-	177,687
Fair value change in available-for-sale financial assets	-	-	-	4,014	-	-	4,014	-	4,014
Exchange differences on translation to presentation currency	-	-	-	-	(154)	-	(154)	-	(154)
Net income recognised directly in equity	-	-	-	4,014	(154)	-	3,860	-	3,860
Loss for the period	-	-	-	-	-	(16,351)	(16,351)	-	(16,351)
Total recognised income and expenses for the period	-	-	-	4,014	(154)	(16,351)	(12,491)	-	(12,491)
Rights issue of shares	943,326	471,663	-	-	-	-	1,414,989	-	1,414,989
Transaction costs attributable to issue of shares	-	(15,087)	-	-	-	-	(15,087)	-	(15,087)
<b>At 30 September 2007</b>	<b>1,179,157</b>	<b>720,408</b>	<b>53,022</b>	<b>4,202</b>	<b>(1,496)</b>	<b>(390,195)</b>	<b>1,565,098</b>	<b>-</b>	<b>1,565,098</b>

Notes:

## 1. Basis of Preparation

The unaudited condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Chapter 18 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rule") and Hong Kong Accounting Standard 34 ("HKAS 34") "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

## 2. Principal Accounting Policies

The unaudited condensed financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values.

The accounting policies used in the unaudited condensed financial statements are consistent with those followed in the preparation of Group's annual financial statements for the year ended 31 March 2007.

In the current period, the Group has applied, for the first time, a new standard, amendment and interpretations ("new HKFRSs") issued by HKICPA which are effective for accounting periods beginning on or after 1 January 2007. The adoption of new HKFRSs had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

The Group has not early applied the following new and revised standards or interpretations that have been issued but are not yet effective.

HKAS 23 (Revised)	Borrowing Costs <sup>1</sup>
HKFRS 8	Operating Segments <sup>1</sup>
HK(IFRIC)-Int 12	Service Concession Arrangements <sup>2</sup>
HK(IFRIC)-Int 13	Customer Loyalty Programmes <sup>3</sup>
HK(IFRIC)-Int 14	HKAS19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2009

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2008

<sup>3</sup> Effective for annual periods beginning on or after 1 July 2008

The directors of the Company anticipate that the application of these new and revised standards or interpretations will have no material impact on the results and the financial position of the Group.

### 3. Segment Information

#### Business segments

For management purposes, the Group was organised into three operating divisions, namely network solutions, project services and entertainment business. These divisions were the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below.

#### Income statement for the six months ended 30 September 2007

	Network solutions (Unaudited) HK\$'000	Project services (Unaudited) HK\$'000	Entertainment business (Unaudited) HK\$'000	Others (Unaudited) HK\$'000	Consolidated (Unaudited) HK\$'000
TURNOVER					
External sales	3,864	8,421	19,296	802	32,383
RESULTS					
Segment results	876	1,988	(22,563)	350	(19,349)
Other income					10,330
Unallocated expenses					(7,101)
Finance costs					(231)
Loss before taxation					(16,351)
Taxation					-
Loss for the period					(16,351)

Income statement for the six months ended 30 September 2006

	Network solutions (Unaudited) HK\$'000	Project services (Unaudited) HK\$'000	Entertainment business (Unaudited) HK\$'000	Others (Unaudited) HK\$'000	Consolidated (Unaudited) HK\$'000
<hr/>					
TURNOVER					
External sales	3,371	3,972	103,430	796	111,569
<hr/>					
RESULTS					
Segment results	565	1,009	(26,213)	490	(24,149)
<hr/>					
Other income					6,565
Unallocated expenses					(8,727)
Finance costs					(1,815)
<hr/>					
Loss before taxation					(28,126)
Taxation					-
<hr/>					
Loss for the period					(28,126)
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### Geographical segments

The Group's operations were located in Hong Kong, elsewhere in the People's Republic of China (the "PRC") and the United States of America (the "USA").

The following table provides an analysis of the Group's turnover by geographical market, irrespective of the origin of the goods/services:

	<b>Turnover by geographical market Six months ended 30 September</b>	
	<b>2007 (Unaudited) HK\$'000</b>	2006 (Unaudited) HK\$'000
Hong Kong	<b>18,072</b>	7,023
Elsewhere in the PRC	–	1,120
USA	<b>3,487</b>	43,249
Europe	<b>9,957</b>	57,583
Asia other than Hong Kong and the PRC	<b>867</b>	2,594
	<b>32,383</b>	111,569

### 4. Other Income

	<b>Three months ended 30 September</b>		<b>Six months ended 30 September</b>	
	<b>2007 (Unaudited) HK\$'000</b>	2006 (Unaudited) HK\$'000	<b>2007 (Unaudited) HK\$'000</b>	2006 (Unaudited) HK\$'000
Interest income on bank deposits	<b>8,159</b>	2,673	<b>9,872</b>	5,566
Other interest income	–	43	<b>1</b>	43
Dividend income from listed securities	–	300	–	300
Sundry income	<b>230</b>	202	<b>457</b>	656
	<b>8,389</b>	3,218	<b>10,330</b>	6,565

## 5. Loss before Taxation

Loss before taxation has been arrived at after charging:

	Three months ended		Six months ended	
	30 September		30 September	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Allowance for bad and doubtful debts and bad debts written off	194	437	590	1,046
Amortisation of film costs	9,395	32,184	12,730	72,672
Impairment loss recognised in respect of film costs (included in cost of sales)	–	–	–	18,235
Depreciation of property, plant and equipment	224	311	458	758
Rental expenses under operating leases on:				
– premises	948	1,052	1,908	2,072
– equipment	48	89	107	170
Staff costs, including directors' emoluments				
– salaries and allowances	4,193	6,319	8,244	12,077
– retirement benefits schemes contribution	122	117	196	255

## 6. Taxation

No provision for Hong Kong profits tax has been made as the Group had no assessable profits for the three months and six months ended 30 September 2007 (for the three months and six months ended 30 September 2006: 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.

7. **Dividend**

The Board does not recommend the payment of any dividend for the six months ended 30 September 2007 (for the six months ended 30 September 2006: nil).

8. **Loss Per Share**

The calculation of the basic loss per share for the three months and six months ended 30 September 2007 is based on the respective unaudited consolidated loss attributable to equity holders of the Company of approximately HK\$10,976,000 and HK\$16,351,000 (three months and six months ended 30 September 2006: HK\$6,529,000 and HK\$28,126,000) and the respective weighted average number of shares of 584,451,847 and 411,094,162 (three months and six months ended 30 September 2006: 235,831,447) in issue during the periods.

The computation of diluted loss per share for the three months and six months ended 30 September 2007 and for the three months and six months ended 30 September 2006 did not assume the exercise of the subsidiary's outstanding share options existed during the six months ended 30 September 2007 and six months ended 30 September 2006 since their exercise would reduce loss per share.

## 9. Property, Plant and Equipment

	Leasehold improvements (Unaudited) HK\$'000	Furniture, fixtures and equipment (Unaudited) HK\$'000	Computer hardware (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
COST				
At 1 April 2006	2,458	926	6,794	10,178
Exchange adjustments	(1)	(116)	–	(117)
Additions	773	–	294	1,067
Disposals	(1,985)	(262)	(717)	(2,964)
At 31 March 2007	1,245	548	6,371	8,164
Exchange adjustments	(1)	(49)	–	(50)
Additions	80	–	205	285
Disposals	–	–	(22)	(22)
Write-off	(9)	(7)	(217)	(233)
<b>At 30 September 2007</b>	<b>1,315</b>	<b>492</b>	<b>6,337</b>	<b>8,144</b>
DEPRECIATION AND IMPAIRMENT				
At 1 April 2006	1,995	513	5,718	8,226
Exchange adjustments	(3)	(150)	–	(153)
Provided for the year	271	267	879	1,417
Eliminated on disposals	(1,890)	(216)	(693)	(2,799)
At 31 March 2007	373	414	5,904	6,691
Exchange adjustments	2	(44)	–	(42)
Provided for the period	144	89	225	458
Eliminated on disposals	–	–	(22)	(22)
Eliminated on write-off	(9)	(7)	(217)	(233)
<b>At 30 September 2007</b>	<b>510</b>	<b>452</b>	<b>5,890</b>	<b>6,852</b>
CARRYING VALUES				
<b>At 30 September 2007</b>	<b>805</b>	<b>40</b>	<b>447</b>	<b>1,292</b>
At 31 March 2007	872	134	467	1,473



## 10. Film Costs

	<b>(Unaudited)</b> <b>HK\$'000</b>
<hr/>	
COST	
At 1 April 2006	572,775
Exchange adjustments	8,634
Additions	48,287
	<hr/>
At 31 March 2007	629,696
Exchange adjustments	86,611
Additions	9,317
	<hr/>
<b>At 30 September 2007</b>	<b>725,624</b>
	<hr/>
AMORTISATION AND IMPAIRMENT	
At 1 April 2006	374,568
Exchange adjustments	4,362
Provided for the year	88,862
Impairment loss recognised	102,815
	<hr/>
At 31 March 2007	570,607
Exchange adjustments	86,941
Provided for the period	12,730
	<hr/>
<b>At 30 September 2007</b>	<b>670,278</b>
	<hr/>
CARRYING VALUES	
<b>At 30 September 2007</b>	<b>55,346</b>
	<hr/>
At 31 March 2007	59,089
	<hr/>

## 11. Trade Receivables

The credit terms of the Group range from 0 to 90 days. A longer period is granted to few film distributors with whom the Group has a good business relationship and which are in sound financial condition. The aged analysis of trade receivables is as follows:

	<b>30 September 2007 (Unaudited) HK\$'000</b>	31 March 2007 (Audited) HK\$'000
Aged:		
0 – 30 days	<b>2,769</b>	3,306
31 – 60 days	<b>900</b>	750
61 – 90 days	<b>1,121</b>	779
Over 90 days	<b>1,023</b>	924
	<b>5,813</b>	5,759

## 12. Trade Payables

The aged analysis of trade payables is as follows:

	<b>30 September 2007 (Unaudited) HK\$'000</b>	31 March 2007 (Audited) HK\$'000
Aged:		
0 – 30 days	<b>4,737</b>	3,821
31 – 60 days	<b>233</b>	390
61 – 90 days	<b>128</b>	270
Over 90 days	<b>90,707</b>	88,378
	<b>95,805</b>	92,859

## 13. Bank Borrowings

The amounts are secured, interest bearing and repayable within one year.

## 14. Share Capital

	Par value of shares	Number of shares	Value (Unaudited)
	HK\$		HK\$'000
<b>Authorised:</b>			
Ordinary shares			
At 1 April 2006 and at 31 March 2007	1.00 each	500,000,000	500,000
Increase during the period ( <i>note a</i> )	1.00 each	1,500,000,000	1,500,000
		<hr/>	
<b>At 30 September 2007</b>	<b>1.00 each</b>	<b>2,000,000,000</b>	<b>2,000,000</b>
<b>Issued and fully paid:</b>			
Ordinary shares			
At 1 April 2006 and at 31 March 2007	1.00 each	235,831,447	235,831
Issue of shares – rights issue ( <i>note b</i> )	1.00 each	943,325,788	943,326
		<hr/>	
<b>At 30 September 2007</b>	<b>1.00 each</b>	<b>1,179,157,235</b>	<b>1,179,157</b>

### Notes:

- (a) Pursuant to the resolutions passed at the extraordinary general meeting held on 1 August 2007, the authorised share capital of the Company was increased to HK\$2,000,000,000 divided into 2,000,000,000 shares of HK\$1.00 each in the capital of the Company (the “Shares”) by creation of 1,500,000,000 Shares.
- (b) On 28 August 2007, the Company completed a rights issue of 943,325,788 Shares at a subscription price of HK\$1.50 per share.

## 15. Operating Lease Commitments

At 30 September 2007, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	<b>30 September 2007 (Unaudited) HK\$'000</b>	31 March 2007 (Audited) HK\$'000
Within one year	<b>1,782</b>	2,843
In the second to fifth year inclusive	<b>886</b>	1,441
	<b>2,668</b>	4,284

## 16. Contingent Liabilities

As at 30 September 2007 and 31 March 2007, the Group has the following contingent liabilities:

- (a) On 24 February 2006, Crystal Sky LLC (as claimant) initiated an arbitration proceedings against Media 8 Entertainment (as respondent) in respect of certain claims by Crystal Sky LLC for payments of sales commission purportedly owed by Media 8 Entertainment/ MDP Worldwide under an agreement between the parties dated 14 August 2000, damages and costs amounting to approximately USD553,000 (equivalent to approximately HK\$4.3 million). As at the date of this report, the parties have settled the litigation.
- (b) DEJ Productions, Inc. ("DEJ"), Blockbuster, Inc. and First Look Studios, Inc. (as plaintiffs) against Media 8 Entertainment and MDP Distribution Inc. (as defendants) on 20 September 2006 before the court in Texas, USA (this originally having been a complaint lodged by Media 8 Entertainment and MDP Distribution Inc. (as plaintiffs) against DEJ, Blockbuster, Inc. and First Look Studios, Inc. (as defendants) on 26 January 2006 before the court in Los Angeles which was subsequently transferred to Texas). The litigation was brought in respect of a breach of contract claim by Media 8 Entertainment and MDP Distribution Inc. regarding the exploitation and distribution by DEJ of the film "Monster" pursuant to a licensing agreement granted by them, as well as claims of breach of fiduciary duty, intentional interference with contracts, intentional interference with prospective business relations, and fraud. In July 2007, the courts granted a motion that DEJ, Blockbuster, Inc. and First Look Studios, Inc. were realigned as defendants, while Media 8 Entertainment and MDP Distribution Inc. were realigned as plaintiffs in the case. As at the date of this report, the parties have settled the litigation.

## 17. Related Party Transactions

During the period, the Group entered into the following material transactions with related parties:

	Six months ended 30 September	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Rentals and office administrative expenses <i>(note a)</i>	26	325
Rental expenses <i>(note b)</i>	388	681
Finance costs to related companies <i>(note c)</i>	–	249
Finance costs to directors <i>(note d)</i>	–	56
Project service income <i>(note e)</i>	2,245	–

Notes:

- (a) A company, in which Mr. Lo Lin Shing, Simon ("Mr. Lo"), a director of the Company, has beneficial interests, provided office space for the Group and share of office administrative expenses.
- (b) A company, in which Dr. Cheng Kar Shun ("Dr. Cheng"), a director of the Company has managerial duties and significant influence in the financial and operating policy, leased office premises to the Group.
- (c) Companies, in which Mr. Lo, a director of the Company has beneficial interests, provided loans to the Group. The amount was repaid during the year ended 31 March 2007.
- (d) The amounts included finance costs paid in respect of loans from Mr. Choi Wing Kin and Mr. So Kam Wing, directors of the Company. The amounts were repaid during the year ended 31 March 2007.
- (e) Project service income represented service provided to a company, in which Dr. Cheng has significant influence in financial and operating policy.

# Management Discussion and Analysis

## Financial Review

The Group's turnover for the six months ended 30 September 2007 was approximately HK\$32.4 million, representing a decrease of approximately 71.0%, as compared with approximately HK\$111.6 million for the previous 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\$3.2 million for the period under review, as compared with gross loss of approximately HK\$5.7 million in the last corresponding period. The gross profit for the period was mainly due to the decrease in write-downs on the films costs during the period.

Selling and distribution costs, and general and administrative expenses increased by approximately 9.1% to approximately HK\$29.7 million for the six months ended 30 September 2007 from approximately HK\$27.2 million in the last corresponding period. The increase was mainly due to the increase in marketing expenses for film promotion and distribution expenses for film distribution.

The Group recorded a loss before taxation for the six months ended 30 September 2007, amounted to approximately HK\$16.4 million, representing a decrease of approximately 41.9%, as compared with approximately HK\$28.1 million in the last corresponding period. The decrease in loss before taxation was mainly due to the decrease in write-downs on the films costs during the period.

## Business Review

The principal activities of the Group for the period under review were provision of network solutions, project services, and the acquisition, financing, production and worldwide licensing of theatrical feature films in a variety of genres and investment in production of television series and music concerts.



## 1. **Entertainment business**

The revenue derived from the entertainment business for the six months ended 30 September 2007 was approximately HK\$19.3 million, representing a decrease of approximately 81.3% as compared with approximately HK\$103.4 million for the previous 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 the decrease in sales attributable to the Group's film and the decrease in number of films produced during the period.

## 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 six months ended 30 September 2007, the revenue derived from the network solutions was approximately HK\$3.9 million, compared to approximately HK\$3.4 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 six months ended 30 September 2007, the revenue derived from the provision of project services was approximately HK\$8.4 million, compared to approximately HK\$4.0 million in the corresponding period. The increase in revenue was due to the continuously improvement of general economic environment.



## Future Outlook

During these two quarters, 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.

The Group engages in the production and acquisition of films. The acquired films will be distributed worldwide to most territories around the world by the Group. Same as previous years, the Group attends major film festivals, including the Cannes Film Festival and Berlin Film Festival. 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. On 11 October 2007, the acquisition was completed. 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, 1 August 2007 and 11 October 2007, and the circular of the Company dated 29 June 2007. The Group will continue to explore the leisure and entertainment markets 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.





## Liquidity, Financial Resources and Capital Structure

As at 30 September 2007, the Group's net current assets amounted to approximately HK\$1,563.8 million (as at 31 March 2007: approximately HK\$176.2 million). Current assets amounted to approximately HK\$1,690.2 million (as at 31 March 2007: approximately HK\$309.4 million), of which approximately HK\$1,548.8 million (as at 31 March 2007: approximately HK\$194.4 million) was cash, bank deposits and pledged deposits, approximately HK\$5.8 million (as at 31 March 2007: approximately HK\$5.8 million) was trade receivables, approximately HK\$17.8 million (as at 31 March 2007: approximately HK\$13.8 million) was available-for-sale financial assets, approximately HK\$59.4 million (as at 31 March 2007: approximately HK\$34.8 million) was other receivables, deposits and prepayments and approximately HK\$55.3 million (as at 31 March 2007: approximately HK\$59.1 million) was film costs.

The Group had current liabilities amounted to approximately HK\$126.4 million (as at 31 March 2007: approximately HK\$133.2 million), of which approximately HK\$95.8 million (as at 31 March 2007: approximately HK\$92.9 million) was trade payables, approximately HK\$27.4 million (as at 31 March 2007: approximately HK\$24.2 million) was other payables and accrued charges, and there were no bank and other borrowings as at 30 September 2007 (as at 31 March 2007: approximately HK\$12.9 million).

As at 31 March 2007, the Group had bank borrowings amounted to approximately HK\$12.9 million, which would be due within one year. The bank borrowings were secured and bore interest at the announced base rate of interest of Bank of America plus 0.75% to 1.5% per annum. All the bank borrowings were denominated in United States dollars. The bank borrowings were repaid during the six months period ended 30 September 2007.

The gearing ratio, measured in terms of total borrowings divided by total assets, was approximately 4.1% as at 31 March 2007. Since the Group did not have any borrowings as at 30 September 2007, the gearing ratio was zero as at 30 September 2007.

The Group financed its operations generally with internally generated cash flows, the present available credit facilities and the proceeds from the rights issue of shares.

On 28 August 2007, the Company completed a rights issue of 943,325,788 shares of HK\$1.00 each in the capital of the Company at a subscription price of HK\$1.50 per share.



### **Charges on Group Assets**

As at 30 September 2007, the Group's bank deposits of approximately HK\$2.6 million (as at 31 March 2007: approximately HK\$13.9 million) have been pledged to banks to secure banking facilities granted to the Group.

### **Material Acquisitions and Disposals and Significant Investments**

On 23 November 2004, the Company, Cross-Growth Co. Ltd. ("Cross-Growth") and Chow Tai Fook Enterprises Limited ("CTF") entered into a conditional acquisition agreement pursuant to which the Company agreed conditionally to acquire the entire issued share capital of Fortune Gate Overseas Limited, a company incorporated in the British Virgin Islands. As announced on 17 March 2005, the Company exercised the option in favour of the Company to purchase 40% equity interest in the Arc of Triumph Development Company Limited, a company incorporated in Macau on 17 March 2005. On 11 October 2007, the acquisition of the hotel and entertainment operations in the Philippines and Macau was completed. 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, 1 August 2007 and 11 October 2007, and the circular of the Company dated 29 June 2007.

Save as disclosed above, there were no other material acquisitions or disposals of subsidiaries and affiliated companies, which would have been required to be disclosed under the GEM Listing Rules, for the six months ended 30 September 2007.

### **Future Plans for Material Investments or Capital Assets**

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.

### **Exposure to Fluctuations in Exchange Rates and any Related Hedges**

As at 30 September 2007, the Group's assets and liabilities were mainly denominated in Hong Kong dollars and United States dollars. The Group had no significant exposure to foreign exchange fluctuations.

## Contingent Liabilities

As at 30 September 2007 and 31 March 2007, the Group has the following contingent liabilities:

- (a) On 24 February 2006, Crystal Sky LLC (as claimant) initiated an arbitration proceedings against Media 8 Entertainment (as respondent) in respect of certain claims by Crystal Sky LLC for payments of sales commission purportedly owed by Media 8 Entertainment/ MDP Worldwide under an agreement between the parties dated 14 August 2000, damages and costs amounting to approximately USD553,000 (equivalent to approximately HK\$4.3 million). As at the date of this report, the parties have settled the litigation.
  
- (b) DEJ Productions, Inc. ("DEJ"), Blockbuster, Inc. and First Look Studios, Inc. (as plaintiffs) against Media 8 Entertainment and MDP Distribution Inc. (as defendants) on 20 September 2006 before the court in Texas, USA (this originally having been a complaint lodged by Media 8 Entertainment and MDP Distribution Inc. (as plaintiffs) against DEJ, Blockbuster, Inc. and First Look Studios, Inc. (as defendants) on 26 January 2006 before the court in Los Angeles which was subsequently transferred to Texas). The litigation was brought in respect of a breach of contract claim by Media 8 Entertainment and MDP Distribution Inc. regarding the exploitation and distribution by DEJ of the film "Monster" pursuant to a licensing agreement granted by them, as well as claims of breach of fiduciary duty, intentional interference with contracts, intentional interference with prospective business relations, and fraud. In July 2007, the courts granted a motion that DEJ, Blockbuster, Inc. and First Look Studios, Inc. were realigned as defendants, while Media 8 Entertainment and MDP Distribution Inc. were realigned as plaintiffs in the case. As at the date of this report, the parties have settled the litigation.

## Employees and Remuneration Policies

The total number of employees of the Group was 50 as at 30 September 2007 (as at 30 September 2006: 46). The staff costs for the six months ended 30 September 2007 was approximately HK\$8.4 million (for the six months ended 30 September 2006: approximately HK\$12.3 million). The remuneration of employees of the Group was based on the performance and experience of individuals and was determined with reference to the Company's performance, the remuneration benchmark in the industry and the prevailing market conditions. In addition to the salaries, employee benefits included medical scheme, insurance, retirement benefits schemes and share option scheme.

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

Save as disclosed below, as at 30 September 2007, none of the Directors or chief executives of the Company had 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 Securities and Futures Ordinance (“SFO”), Chapter 571 of the Laws of Hong Kong) 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 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 the 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	0.11%
Mr. So Kam Wing	49,200	–	49,200	0.00%
Mr. Lo Lin Shing, Simon	–	364,800	364,800	0.03%

(Note)

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 September 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 underlying shares	Aggregate interest	Approximate percentage of the issued share capital of the Company
Mediastar International Limited ("Mediastar")	Beneficial owner	881,773,550	–	881,773,550	74.78%
Cross-Growth Co., Ltd.	Beneficial owner	–	200,000,000 (Note 2)	200,000,000	16.96%
Chow Tai Fook Enterprises Limited ("CTF")	Interest of a controlled corporation	881,773,550 (Note 1)	200,000,000 (Note 2)	1,081,773,550	91.74%
Centennial Success Limited	Interest of a controlled corporation	881,773,550 (Notes 1, 3)	200,000,000 (Notes 2, 3)	1,081,773,550	91.74%
Cheng Yu Tung Family (Holdings) Limited	Interest of a controlled corporation	881,773,550 (Notes 1, 4)	200,000,000 (Notes 2, 4)	1,081,773,550	91.74%

*Notes:*

- (1) Mediastar is wholly owned by CTF. Accordingly, CTF is deemed to be interested in 881,773,550 shares of the Company held by Mediastar under the SFO.
- (2) 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 issued by the Company on 11 October 2007 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.

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.

- (3) CTF is wholly owned by Centennial Success Limited. Accordingly, Centennial Success Limited is deemed to be interested in 881,773,550 shares of the Company held by Mediastar, and 200,000,000 underlying shares of the Company to be held by Cross-Growth Co., Ltd. under the SFO.
- (4) 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 881,773,550 shares of the Company held by Mediastar, and 200,000,000 underlying shares of the Company to be held by Cross-Growth Co., Ltd. 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 six months ended 30 September 2007 and there were no share options outstanding under the share option scheme as at 30 September 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 September 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 September 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				11,730,000

No option was exercised, cancelled or granted during the six months ended 30 September 2007.

### Competing Business

During the six months ended 30 September 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 interim report for the six months ended 30 September 2007.

## Compliance with Code on Corporate Governance Practices

The Company has complied with the Code on Corporate Governance Practices as set out in the Appendix 15 of the GEM Listing Rules throughout the six months ended 30 September 2007, except for the following deviations:

Code Provision E.1.2 stipulates that the chairman of the board should attend the annual general meeting and arrange for the chairman of the audit, remuneration and nomination committees (as appropriate) or in the absence of the chairman of such committees, another member of the committee or failing this his duly appointed delegate, to be available to answer questions at the annual general meeting. The chairman of the independent board committee (if any) should also be available to answer questions at any general meeting to approve a connected transaction or any other transaction that is subject to independent shareholders' approval.

The chairman of the Board had not attended the annual general meeting of the Company held on 17 September 2007 as he was having his business commitment at the time of such meeting. One of the executive directors were elected as the chairman of the annual general meeting and responded to the questions of the shareholders. The management considers that the Board endeavor to maintain an on-going dialogue with shareholders.

## Code of Conduct Regarding Securities Transactions by Directors

The Company has adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the required standard of dealings as set out in the rules 5.48 to 5.67 of the GEM Listing Rules.

The Company, having made specific enquiry of all the Directors, was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by the Directors throughout the six months ended 30 September 2007.





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

During the six months ended 30 September 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

**Dr. Cheng Kar Shun**

*Chairman*

Hong Kong, 14 November 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