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INTERNATIONAL ENTERTAINMENT CORPORATION

國際娛樂有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 01009)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2014

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 six months ended 30 September 2014, together with the comparative unaudited figures for the corresponding period in 2013 as follows:

Condensed Consolidated Statement of Profit or Loss

For the six months ended 30 September 2014

| | | Six months ended | |
|---|--------------|-------------------------|-------------|
| | | 30 September | |
| | | 2014 | 2013 |
| | | HK\$'000 | HK\$'000 |
| | <i>Notes</i> | (Unaudited) | (Unaudited) |
| Revenue | 3 | 190,588 | 194,672 |
| Cost of sales | | (104,051) | (109,396) |
| <hr/> | | | |
| Gross profit | | 86,537 | 85,276 |
| Other income | 5 | 13,789 | 11,370 |
| Other gain and loss | | 9,978 | 64,553 |
| Change in fair value of financial assets at fair value through profit or loss and derivative financial instrument | | 13,030 | (14,476) |
| Selling and distribution costs | | (2,580) | (2,359) |
| General and administrative expenses | | (73,423) | (71,870) |
| <hr/> | | | |
| Profit before taxation | 6 | 47,331 | 72,494 |
| Income tax charge | 7 | (7,566) | (6,815) |
| <hr/> | | | |
| Profit for the period | | 39,765 | 65,679 |

| | | Six months ended | |
|--|---------------------------|-------------------------|---------------|
| | | 30 September | |
| | | 2014 | 2013 |
| | | HK\$'000 | HK\$'000 |
| <i>Note</i> | | (Unaudited) | (Unaudited) |
| Profit for the period attributable to: | | | |
| | Owners of the Company | 26,584 | 43,904 |
| | Non-controlling interests | 13,181 | 21,775 |
| | | <hr/> 39,765 | <hr/> 65,679 |
| | | <hr/> HK cent | <hr/> HK cent |
| Earnings per share - Basic | 9 | <hr/> 2.25 | <hr/> 3.72 |

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 September 2014

| | Six months ended | |
|--|-------------------------|-------------|
| | 30 September | |
| | 2014 | 2013 |
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) |
| Profit for the period | 39,765 | 65,679 |
| Other comprehensive income (expense) for the period | | |
| Items that will not be reclassified to profit or loss | | |
| – remeasurement of defined benefit obligations | (38) | – |
| – exchange differences arising on translation to presentation currency | (10,399) | (164,045) |
| | (10,437) | (164,045) |
| Item that may be subsequently reclassified to profit or loss | | |
| – exchange differences arising on translation of foreign operations | 861 | 14,153 |
| Other comprehensive expense for the period, net of income tax | (9,576) | (149,892) |
| Total comprehensive income (expense) for the period | 30,189 | (84,213) |
| Total comprehensive income (expense) for the period attributable to: | | |
| Owners of the Company | 20,503 | (50,371) |
| Non-controlling interests | 9,686 | (33,842) |
| | 30,189 | (84,213) |

Condensed Consolidated Statement of Financial Position

At 30 September 2014

| | | 30 September 2014 HK\$'000 (Unaudited) | 31 March 2014 HK\$'000 (Audited) |
|--|--------------|---|---|
| | <i>Notes</i> | | |
| Non-current assets | | | |
| Property, plant and equipment | 10 | 413,225 | 431,476 |
| Investment properties | 11 | 612,163 | 673,027 |
| Financial assets at fair value through profit or loss | 12 | 20,771 | 79,474 |
| Other assets | | 889 | 916 |
| | | 1,047,048 | 1,184,893 |
| Current assets | | | |
| Inventories | | 2,757 | 2,585 |
| Financial assets at fair value through profit or loss | 12 | 88,583 | 13,600 |
| Loan receivable | 13 | – | 37,000 |
| Trade receivables | 14 | 26,499 | 26,557 |
| Other receivables, deposits and prepayments | | 26,166 | 30,502 |
| Bank balances and cash | | 1,790,271 | 1,645,872 |
| | | 1,934,276 | 1,756,116 |
| Current liabilities | | | |
| Trade payables | 15 | 3,175 | 2,435 |
| Other payables and accrued charges | | 47,594 | 45,359 |
| Tax liabilities | | 426 | 426 |
| | | 51,195 | 48,220 |
| Net current assets | | 1,883,081 | 1,707,896 |
| Total assets less current liabilities | | 2,930,129 | 2,892,789 |

| | | 30 September 2014 HK\$'000 (Unaudited) | 31 March 2014 HK\$'000 (Audited) |
|---|-------------|---|---|
| | <i>Note</i> | | |
| Capital and reserves | | | |
| Share capital | 16 | 1,179,157 | 1,179,157 |
| Share premium and reserves | | 669,207 | 648,704 |
| <hr/> | | | |
| Equity attributable to owners of the Company | | 1,848,364 | 1,827,861 |
| Non-controlling interests | | 919,057 | 909,371 |
| <hr/> | | | |
| Total equity | | 2,767,421 | 2,737,232 |
| <hr/> | | | |
| Non-current liabilities | | | |
| Deferred tax liabilities | | 159,072 | 152,209 |
| Other liabilities | | 3,636 | 3,348 |
| <hr/> | | | |
| | | 162,708 | 155,557 |
| <hr/> | | | |
| | | 2,930,129 | 2,892,789 |
| <hr/> <hr/> | | | |

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 September 2014

1. General

The Company is a public listed company incorporated in the Cayman Islands with limited liability and its issued shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since 27 September 2010.

The functional currency of the Company is Philippine Peso (“Peso”), the currency of the primary economic environment in which the Company’s major subsidiaries operate. The condensed consolidated financial statements are presented in Hong Kong Dollars (“HK\$”) as the directors of the Company (the “Directors”) consider that it is an appropriate presentation for a company listed in Hong Kong and for convenience of the shareholders of the Company (the “Shareholders”).

The Company is an investment holding company.

2. Basis of Preparation and Significant Accounting Policies

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”).

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 September 2014 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 March 2014.

In the current interim period, the Group has applied, for the first time, a new interpretation and certain amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA that are mandatorily effective for the current interim period.

The application of the new interpretation and amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or on the disclosures set out in these condensed consolidated financial statements.

3. Revenue

| | Six months ended | |
|---|-------------------------|-------------|
| | 30 September | |
| | 2014 | 2013 |
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) |
| The Group's revenue comprises: | | |
| Hotel | | |
| Room revenue | 44,010 | 41,814 |
| Food and beverages | 21,653 | 23,318 |
| Other hotel service income | 2,183 | 2,214 |
| | 67,846 | 67,346 |
| Leasing of investment properties equipped with entertainment equipment | | |
| | 122,742 | 127,326 |
| | 190,588 | 194,672 |

4. Segment Information

The executive Directors are the chief operating decision maker ("CODM"). The Group is principally operating in two types of operating divisions. Information reported to the CODM for the purposes of resource allocation and assessment of segment performance focuses on each principal operating division. The Group's operating segments under HKFRS 8 are therefore as follows:

- (i) Hotel – Operation of hotel business; and
- (ii) Leasing – Leasing of investment properties equipped with entertainment equipment.

Information regarding the above segments is presented below.

Segment revenue and results

The following is an analysis of the Group's revenue and results by operating and reportable segment.

For the six months ended 30 September 2014

| | Hotel | Leasing | Reportable segment total | Elimination | Total |
|---|-------------|-------------|--------------------------------|-------------|-------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| REVENUE | | | | | |
| External sales | 67,846 | 122,742 | 190,588 | - | 190,588 |
| Inter-segment sales | 134 | 338 | 472 | (472) | - |
| | <hr/> | | | | |
| Total | 67,980 | 123,080 | 191,060 | (472) | 190,588 |
| | <hr/> <hr/> | | | | |
| RESULTS | | | | | |
| Segment (loss) profit | (1,073) | 23,408 | 22,335 | | 22,335 |
| | <hr/> <hr/> | | | | |
| Unallocated other income | | | | | 10,390 |
| Other gain and loss | | | | | 9,978 |
| Change in fair value of financial assets at fair value through profit or loss | | | | | 13,030 |
| Unallocated expenses | | | | | (15,968) |
| | <hr/> | | | | |
| Profit for the period | | | | | 39,765 |
| | <hr/> <hr/> | | | | |

For the six months ended 30 September 2013

| | Hotel | Leasing | Reportable segment total | Elimination | Total |
|--|-------------|-------------|--------------------------------|-------------|-------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| REVENUE | | | | | |
| External sales | 67,346 | 127,326 | 194,672 | - | 194,672 |
| Inter-segment sales | 122 | 348 | 470 | (470) | - |
| | <hr/> | | | | |
| Total | 67,468 | 127,674 | 195,142 | (470) | 194,672 |
| | <hr/> <hr/> | | | | |
| RESULTS | | | | | |
| Segment (loss) profit | (5,567) | 20,981 | 15,414 | | 15,414 |
| | <hr/> <hr/> | | | | |
| Unallocated other income | | | | | 8,151 |
| Other gain and loss | | | | | 64,553 |
| Change in fair value of financial assets at fair value through profit or loss and derivative financial instrument | | | | | (14,476) |
| Unallocated expenses | | | | | (7,963) |
| | | | | | <hr/> |
| Profit for the period | | | | | 65,679 |
| | | | | | <hr/> <hr/> |

Segment (loss) profit represents the loss after tax from or profit after tax earned by each segment without allocation of unallocated expenses (including corporate expenses), other gain and loss, change in fair value of financial assets at fair value through profit or loss and derivative financial instrument, and unallocated other income (i.e. investment income). This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

5. Other Income

| | Six months ended | |
|---------------------------------------|-------------------------|-------------|
| | 30 September | |
| | 2014 | 2013 |
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) |
| Interest income from bank balances | 5,415 | 4,715 |
| Interest income from financial assets | | |
| at fair value through profit or loss | 4,582 | 4,582 |
| Interest income from loan receivable | 2,606 | – |
| Dividend income from financial assets | | |
| at fair value through profit or loss | 780 | 1,680 |
| Sundry income | 406 | 393 |
| | | |
| | 13,789 | 11,370 |

6. Profit Before Taxation

| | Six months ended | |
|--|-------------------------|-------------|
| | 30 September | |
| | 2014 | 2013 |
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) |
| Profit before taxation has been arrived at after charging (crediting): | | |
| Allowance (reversal of allowance) for bad and doubtful debts for trade and other receivables | 1,099 | (171) |
| (Reversal of allowance) allowance for loan receivable (included in other gain and loss) | (6,000) | 2,000 |
| Cost of inventories recognised as an expense | 7,383 | 7,464 |
| Change in fair value of financial assets at fair value through profit or loss | (13,030) | (4,827) |
| Legal and professional expenses (included in general and administrative expenses) | 11,932 | 2,891 |
| Loss on derivative financial instrument | - | 19,303 |
| Depreciation of property, plant and equipment | 24,194 | 28,297 |
| Depreciation of investment properties | 60,418 | 62,016 |
| Net foreign exchange gain (included in other gain and loss) | (3,978) | (66,553) |
| Rental expenses under operating leases on premises and land | 3,102 | 3,171 |
| Gross revenue from leasing of investment properties equipped with entertainment equipment | (122,742) | (127,326) |
| Less: Direct operating expenses that generated revenue from leasing of investment properties equipped with entertainment equipment (<i>Note</i>) | 91,850 | 98,320 |
| | (30,892) | (29,006) |

Note: Amount mainly represents depreciation of leased properties and entertainment equipment.

7. Income Tax Charge

| | Six months ended | |
|------------------------------------|-------------------------|-------------|
| | 30 September | |
| | 2014 | 2013 |
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) |
| Deferred taxation - current period | 7,566 | 6,815 |

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both periods.

The corporate income tax rate in the Republic of the Philippines (the "Philippines") is 30% for both periods.

Under the relevant tax law in the Philippines, withholding tax is imposed on dividends distributed in respect of profits earned by the subsidiaries of the Company operating in the Philippines to its overseas immediate holding company. Deferred tax liability on the undistributed profits earned have been accrued at the tax rate of 15% on the expected dividend stream of ranging between approximately 65% to 80% of the profit for the period which is determined by the Directors. No deferred tax liability has been recognised in respect of the remaining undistributed earnings retained by the subsidiaries of the Company in the Philippines because the Group is in a position to control the timing of the reversal of the temporary differences and it is possible that such differences will not be reversed in the foreseeable future. For the six months ended 30 September 2014, deferred tax on undistributed earnings arising from the subsidiaries of the Company in the Philippines amounting to approximately HK\$8,492,000 (for the six months ended 30 September 2013: approximately HK\$10,030,000) was charged to the condensed consolidated statement of profit or loss.

A subsidiary of the Company operating in the Philippines as lessor had entered into a lease agreement (the "Lease Agreement") with Philippine Amusement and Gaming Corporation ("PAGCOR"), a company solely owned by the Philippine government, as lessee, for the lease of certain premises in the Philippines. On 29 February 2012, Bureau of Internal Revenue in the Philippines ("BIR") issued a formal letter of demand to such subsidiary for alleged deficiency taxes covering the taxable year of 2008 amounting to approximately Peso807,000,000 (equivalent to approximately HK\$139,001,000) arising mainly from the imposition of income tax inclusive of penalties and interest on the rental income of such subsidiary from the lease of certain premises to PAGCOR pursuant to the Lease Agreement. On 29 March 2012, such subsidiary filed a protest with BIR on the ground that it is exempt from Philippine corporate income tax pursuant to Section 13(2) of the Presidential Decree No. 1869, as amended ("PAGCOR Charter").

In April 2013, BIR issued Revenue Memorandum Circular (“RMC”) No. 33 - 2013 dated 17 April 2013 which, *inter alia*, provided that PAGCOR and its contractees and licensees would be considered by BIR as being subject to corporate income tax under National Internal Revenue Code of the Philippines, as amended.

The independent legal adviser to such subsidiary advised that notwithstanding the issuance of the RMC, there were still valid legal arguments against the deficiency tax assessments. Based on the advice from the independent legal adviser, the Directors believe that such subsidiary has valid legal arguments to defend the tax dispute. Accordingly, no provision has been made for the tax dispute and/or the potential deferred tax liabilities arising from the investment properties in the condensed consolidated financial statements for the six months ended 30 September 2014. However, since there is at present a possible obligation (existence of which can only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of such subsidiary) which may or may not require an initial outflow of resources, the Directors consider it prudent to estimate as at 30 September 2014, the contingent liabilities in respect of the alleged deficiency taxes covering the taxable year of 2008 as stated in the formal letter of demand and the contingent liabilities in respect of the potential income taxes (but not taking into account any possible penalty or interest liability) that may be assessed by BIR for the taxable years that are not yet barred by prescription under the relevant laws, rules and regulations in the Philippines as being approximately total of Peso1,883,142,000 (equivalent to approximately HK\$324,361,000) (31 March 2014: approximately Peso1,737,371,000 (equivalent to approximately HK\$300,318,000)) as a possible outflow of resources but subject to such subsidiary’s claim for full indemnity thereof.

The independent legal adviser to such subsidiary also advised that based on the terms of the Lease Agreement, there is strong legal basis for such subsidiary to claim full indemnity from PAGCOR in respect of any such tax payment, together with any interest, penalties and expenses payable or incurred in connection therewith.

8. Dividends

No dividend was paid, declared or proposed during the six months ended 30 September 2014 (for the six months ended 30 September 2013: nil). The Board does not recommend the payment of any interim dividend for the six months ended 30 September 2014 (for the six months ended 30 September 2013: nil).

9. Earnings Per Share

The calculation of basic earnings per share attributable to the owners of the Company is based on the following data:

| | Six months ended | |
|--|-------------------------|-------------|
| | 30 September | |
| | 2014 | 2013 |
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) |
| Earnings | | |
| Earnings for the purpose of basic earnings per share (profit for the period attributable to owners of the Company) | 26,584 | 43,904 |
| | In thousand | In thousand |
| Number of shares | | |
| Number of ordinary shares for the purpose of basic earnings per share | 1,179,157 | 1,179,157 |

For the six months ended 30 September 2014 and 2013, no diluted earnings per share have been presented as there were no potential ordinary shares in issue during both periods.

10. Property, Plant and Equipment

During the six months ended 30 September 2014, total additions to property, plant and equipment were approximately HK\$7,114,000 (for the six months ended 30 September 2013: approximately HK\$16,423,000). The additions comprised entertainment equipment of approximately HK\$6,875,000 (for the six months ended 30 September 2013: approximately HK\$13,741,000).

11. Investment Properties

During the six months ended 30 September 2014, total additions to investment properties were approximately HK\$652,000 (for the six months ended 30 September 2013: nil).

12. Financial Assets at Fair Value through Profit or Loss

| | 30 September 2014 HK\$'000 (Unaudited) | 31 March 2014 HK\$'000 (Audited) |
|--|---|---|
| Financial assets at fair value through profit or loss comprise: | | |
| Non-current: | | |
| Debt securities notes listed overseas with fixed interest of 11.75% per annum and maturity date on 18 May 2015 (<i>Note i</i>) | – | 58,500 |
| 8% perpetual subordinated capital securities listed overseas (<i>Note ii</i>) | 20,771 | 20,974 |
| | 20,771 | 79,474 |
| Current: | | |
| Debt securities notes listed overseas with fixed interest of 11.75% per annum and maturity date on 18 May 2015 (<i>Note i</i>) | 66,983 | – |
| Equity securities listed in Hong Kong | 21,600 | 13,600 |
| | 88,583 | 13,600 |
| Total | 109,354 | 93,074 |

The equity securities listed in Hong Kong are financial assets held for trading and the others are financial assets designated as at fair value through profit or loss at initial recognition.

Notes:

- (i) Issuer of the notes has an option to redeem the notes at a specified range of premium over the principal amount plus accrued interest at different time periods before maturity date, subject to certain conditions.
- (ii) Issuer of the investment may redeem the capital securities at any time on or after 15 December 2015 or at any time upon the occurrence of certain events at a redemption price equal to the principal plus accrued interest. Subject to certain conditions, on any coupon payment date, the issuer may exchange the capital securities in whole (but not in part) for perpetual non-cumulative dollar preference shares.

13. Loan Receivable

| | 30 September 2014 HK\$'000 (Unaudited) | 31 March 2014 HK\$'000 (Audited) |
|----------------------------|---|---|
| Fixed-rate loan receivable | – | 37,000 |

At 31 March 2014, the amount represented the Group's participation in a credit facility in the principal amount of HK\$43,000,000 made available to an independent third party. The loan receivable was interest bearing at 14% per annum, secured by a number of pledged assets and repayable within 12 months from the end of the reporting period. The Directors assessed the recoverable amount of the loan receivable based on the discounted cash flows. An allowance of HK\$2,000,000 had been provided for the year ended 31 March 2014.

During the six months ended 30 September 2014, the loan receivable was fully repaid and the allowance for the loan receivable of HK\$6,000,000 was reversed and credited to the condensed consolidated statement of profit or loss in the current period.

14. Trade Receivables

The average credit terms for trade receivables granted by the Group range from 0 to 90 days. A longer period is granted to customers with whom the Group has a good business relationship. The following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on the invoice date which approximate the respective revenue recognition date at the end of the reporting period.

| | 30 September 2014 HK\$'000 (Unaudited) | 31 March 2014 HK\$'000 (Audited) |
|--------------|---|---|
| Aged: | | |
| 0 - 30 days | 23,306 | 23,549 |
| 31 - 60 days | 1,686 | 1,411 |
| 61 - 90 days | 268 | 181 |
| Over 90 days | 1,239 | 1,416 |
| | 26,499 | 26,557 |

15. Trade Payables

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period:

| | 30 September 2014 HK\$'000 (Unaudited) | 31 March 2014 HK\$'000 (Audited) |
|--------------|---|---|
| Aged: | | |
| 0 - 30 days | 1,110 | 666 |
| 31 - 60 days | 443 | 44 |
| 61 - 90 days | - | 11 |
| Over 90 days | 1,622 | 1,714 |
| | 3,175 | 2,435 |

16. Share Capital

| | Par value of shares HK\$ | Number of shares | Value HK\$'000 |
|-------------------------------|---|-----------------------------|---------------------------|
| Authorised: | | | |
| Ordinary shares | | | |
| At 1 April 2013 (audited), | | | |
| 31 March 2014 (audited) and | | | |
| 30 September 2014 (unaudited) | 1 each | 2,000,000,000 | 2,000,000 |
| Issued and fully paid: | | | |
| Ordinary shares | | | |
| At 1 April 2013 (audited), | | | |
| 31 March 2014 (audited) and | | | |
| 30 September 2014 (unaudited) | 1 each | 1,179,157,235 | 1,179,157 |

17. Operating Lease Commitments

The Group as lessor

An indirect subsidiary of the Company signed a contract with PAGCOR to lease equipped gaming premises and office premises for a period of twelve years commencing from 31 March 2004. The monthly rental would be based on a certain percentage of net gaming revenue of the casino operated by PAGCOR or a fixed amount of Peso100,000 (equivalent to approximately HK\$18,000 (as at 30 September 2013: equivalent to approximately HK\$18,000)), whichever is higher.

PAGCOR is chartered under PAGCOR Charter to operate casino in the Philippines. The PAGCOR Charter expired on 10 July 2008 and renewal was granted in June 2007 for 25 years from 11 July 2008. Casino rental income earned by the Group during the six months ended 30 September 2014 was approximately HK\$122,742,000 (for the six months ended 30 September 2013: approximately HK\$127,326,000), including contingent rental charges amounting to approximately HK\$122,634,000 (for the six months ended 30 September 2013: approximately HK\$127,218,000).

The Group as lessee

At 30 September 2014, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

| | 30 September 2014 HK\$'000 (Unaudited) | 31 March 2014 HK\$'000 (Audited) |
|---------------------------------------|---|---|
| Within one year | 6,104 | 6,120 |
| In the second to fifth year inclusive | 18,539 | 19,362 |
| Over five years | 43,441 | 45,898 |
| | 68,084 | 71,380 |

Operating lease payments represent rentals payable by the Group in respect of leasehold land, condominium units, office premises and staff quarters. Leases are negotiated on terms ranging from two to twenty years and rentals are fixed for the lease period.

18. Related Party Transactions

(a) The Group entered into the following transactions with related parties during the period:

| | Six months ended 30 September | |
|--|----------------------------------|-------------|
| | 2014 | 2013 |
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) |
| Accommodation and beverages income (Note i) | 152 | 44 |
| Rental expenses (Note ii) | 822 | 819 |

Notes:

- (i) Accommodation and beverages income were received from a subsidiary indirectly controlled by Chow Tai Fook Enterprises Limited ("CTF"), an intermediate parent of the Company.
- (ii) A company, which was an associate of CTF, leased office premises to the Group.

(b) Compensation of key management personnel during the period is as follows:

| | Six months ended 30 September | |
|---|----------------------------------|-------------|
| | 2014 | 2013 |
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) |
| Salaries and other benefits | 1,920 | 3,504 |
| Contributions to retirement benefit scheme | 15 | 15 |

19. Contingent Liabilities

At 30 September 2014, the Group had contingent liabilities of approximately HK\$324,361,000 (As at 31 March 2014: approximately HK\$300,318,000) relating to the tax dispute between a subsidiary of the Company operating in the Philippines and BIR for taxable year of 2008 as well as the potential income taxes (but not taking into account any possible penalty or interest liability) that may be assessed by BIR for the taxable years that are not yet barred by prescription under the relevant laws, rules and regulations in the Philippines. The details are set out in note 7.

Management Discussion and Analysis

Financial Review

The Group's revenue for the six months ended 30 September 2014 was approximately HK\$190.6 million, representing a decrease of approximately 2.1%, as compared with approximately HK\$194.7 million for the corresponding period in 2013. The revenue from the leasing of properties for the period decreased as compared with the last corresponding period. The Group reported a gross profit of approximately HK\$86.5 million for the period under review, representing an increase of approximately 1.4%, as compared with approximately HK\$85.3 million in the last corresponding period. The increase in gross profit for the period was mainly due to the decrease in cost of sales relating to the hotel operations.

Other income of the Group for the six months ended 30 September 2014 was approximately HK\$13.8 million, representing an increase of approximately 21.1%, as compared with approximately HK\$11.4 million in the last corresponding period. The increase was mainly due to the increase in interest income during the period.

The Group recorded a gain of approximately HK\$13.0 million on change in fair value of financial assets at fair value through profit or loss for the six months ended 30 September 2014, while it was a loss on change in fair value of financial assets at fair value through profit or loss and derivative financial instrument of approximately HK\$14.5 million for the last corresponding period.

Other gain and loss of the Group represented the net foreign exchange gain or loss and the allowance or reversal of allowance for loan receivable recognised during the period under review. The net foreign exchange gain or loss mainly arises from the retranslation of monetary items denominated in currencies other than the functional currency of the Company at the end of the reporting period. The Group recorded a net foreign exchange gain of approximately HK\$4.0 million for the six months ended 30 September 2014, representing a decrease of approximately 94.0%, as compared with approximately HK\$66.6 million in the last corresponding period. An allowance for loan receivable of HK\$6.0 million was reversed for the six months ended 30 September 2014, while an allowance for loan receivable of HK\$2.0 million was recognised for the last corresponding period.

Selling and distribution costs, and general and administrative expenses of the Group increased by approximately 2.4% to approximately HK\$76.0 million for the six months ended 30 September 2014 from approximately HK\$74.2 million in the last corresponding period. Included in the expenses for the six months ended 30 September 2014, approximately 35.0% and 15.7% were the staff costs and the legal and professional expenses respectively. The staff costs for the six months ended 30 September 2014 was approximately HK\$26.6 million, representing a decrease of approximately 6.0%, as compared with approximately HK\$28.3 million in the last corresponding period and the legal and professional expenses for the six months ended 30 September 2014 was approximately HK\$11.9 million, representing an increase of approximately 310.3%, as compared with approximately HK\$2.9 million the last corresponding period. The increase in the legal and professional expenses was mainly due to the legal and professional expenses incurred for a possible acquisition as mentioned in the announcements of the Company dated 9 January 2014 and 27 June 2014.

The Group recorded a profit of approximately HK\$39.8 million for the six months ended 30 September 2014, representing a decrease of approximately 39.4%, as compared with approximately HK\$65.7 million in the last corresponding period. The decrease in profit for the period was mainly due to the net effect of the decrease in net exchange gain recognised for the period; and the recognition of a gain on change in fair value of financial assets at fair value through profit or loss for the six months ended 30 September 2014.

Business Review

The principal activities of the Group are hotel operations, and leasing of properties for casino and ancillary leisure and entertainment operations.

1. Leasing of properties

The revenue derived from the leasing of properties represents the rental income from the premises of the Group leased to PAGCOR, a corporation incorporated in the Philippines and controlled and wholly-owned by the government of the Philippines. The monthly rental income is based on a certain percentage of net gaming revenue from the local gaming area of the casino operated by PAGCOR as lessee of the Group's premises or a fixed rental amount, whichever is higher.

The revenue derived from the leasing of properties for the six months ended 30 September 2014 was approximately HK\$122.7 million, representing a decrease of approximately 3.7%, as compared with approximately HK\$127.4 million in the last corresponding period. The decrease was mainly due to the decrease in the net gaming revenue from the local gaming area of the casino operated by PAGCOR as lessee of the Group's premises during the period. It contributed approximately 64.4% of the Group's total revenue during the period under review. In the last corresponding period, it contributed approximately 65.4% of the Group's total revenue.

2. Hotel operations

The revenue derived from the hotel operations mainly includes room revenue, revenue from food and beverages and other hotel service income. The hotel of the Group (the "Hotel") is located in Manila City which is a tourist spot with churches and historical sites as well as various night spots catered for tourists and is one of the major tourist destinations in the Philippines.

The revenue derived from the hotel operations for the six months ended 30 September 2014 was approximately HK\$67.8 million, representing an increase of approximately 0.7%, as compared with approximately HK\$67.3 million in the last corresponding period. The increase was mainly due to the increase in the room revenue for the period.

Included in the revenue derived from the hotel operations, approximately 64.9% of the revenue was contributed by room revenue for the period under review. The room revenue for the six months ended 30 September 2014 was approximately HK\$44.0 million, representing an increase of approximately 5.3%, as compared with approximately HK\$41.8 million in the last corresponding period. The increase was mainly due to the increase in the average occupancy rate during the period under review.

As mentioned in the announcement of the Company dated 14 March 2014, Hotel Project Systems, Pte. Limited and Hyatt International-SEA (Pte) Limited will cease to provide New Coast Hotel, Inc. ("NCHI"), a subsidiary of the Company, the relevant licence, technical systems and services as well as the sales and marketing services to the Hotel at midnight on 31 December 2014. As mentioned in the announcement of the Company dated 24 June 2014, NCHI entered into the hotel management agreement with NWH Management Philippines, Incorporated ("NWHM (Philippines)") and the sales and marketing agreement with New World Hotel Management Limited ("NWHML") for the provision of management services, sales and marketing services and other related services in respect of the Hotel by NWHM (Philippines) and NWHML commencing from 1 January 2015.

Future Outlook

The Group will continue to focus on its existing business operations and investments in the Philippines and will strive to make good use of cash on hand for investment into other business opportunities for better return to the Shareholders.

As mentioned in the announcements of the Company dated 9 January 2014 and 27 June 2014, the Group is considering business opportunities in the gaming industry in Macau by entering into a term sheet in relation to a possible acquisition (the “Possible Acquisition”) of a 70% economic interest of the businesses of gaming promotion (including activities undertaken to promote casino games by way of offering transportation, accommodation, food and beverage and entertainment in exchange for a commission or other compensation paid by such casino operators) at the designated areas in the relevant casinos premises, and related businesses. As at the date of this announcement, the Company is still in the process of negotiation with the relevant parties on (among other matters) the detailed terms of the Possible Acquisition and no definitive agreement in relation to the Possible Acquisition has been entered into by the Company or any of its subsidiaries with any party.

The Directors will continue to review the Group’s financial structure and the composition of its assets and liabilities periodically. The Directors consider that the existing business operations in the Philippines will continue to contribute significantly towards the Group’s revenue and results.

Liquidity, Financial Resources and Capital Structure

As at 30 September 2014, the Group’s net current assets amounted to approximately HK\$1,883.1 million (as at 31 March 2014: approximately HK\$1,707.9 million). Current assets amounted to approximately HK\$1,934.3 million (as at 31 March 2014: approximately HK\$1,756.1 million), of which approximately HK\$1,790.3 million (as at 31 March 2014: approximately HK\$1,645.9 million) was cash and bank deposits, approximately HK\$26.5 million (as at 31 March 2014: approximately HK\$26.6 million) was trade receivables, approximately HK\$26.2 million (as at 31 March 2014: approximately HK\$30.5 million) was other receivables, deposits and prepayments, approximately HK\$88.6 million (as at 31 March 2014: approximately HK\$13.6 million) was financial assets at fair value through profit or loss, loan receivable became nil (as at 31 March 2014: approximately HK\$37.0 million), and approximately HK\$2.8 million (as at 31 March 2014: approximately HK\$2.6 million) was inventories.

The Group had current liabilities amounted to approximately HK\$51.2 million (as at 31 March 2014: approximately HK\$48.2 million), of which approximately HK\$3.2 million (as at 31 March 2014: approximately HK\$2.4 million) was trade payables, approximately HK\$47.6 million (as at 31 March 2014: approximately HK\$45.4 million) was other payables and accrued charges, and approximately HK\$0.4 million (as at 31 March 2014: approximately HK\$0.4 million) was tax liabilities.

The bank balance and cash of the Group as at 30 September 2014 was mainly denominated in Peso, HK\$ and United States Dollars ("USD").

The gearing ratio, measured in terms of total borrowings divided by total assets, was zero as at 30 September 2014 and 31 March 2014 respectively.

The Group financed its operations generally with internally generated cash flows.

Charges on Group Assets

As at 30 September 2014 and 31 March 2014 respectively, there were no charges over any of the Group's assets.

Material Acquisitions and Disposals and Significant Investments

There was no acquisition or disposal of subsidiary and associated company or significant investments of the Group, which would have been required to be disclosed under the Listing Rules, for the six months ended 30 September 2014.

Future Plans for Material Investments or Capital Assets

As mentioned in the announcements of the Company dated 9 January 2014 and 27 June 2014, the Group is considering business opportunities in gaming industry in Macau by entering into a term sheet in relation to the Possible Acquisition. As at the date of this announcement, no definitive agreement in relation to the Possible Acquisition has been entered into by the Company or any of its subsidiaries with any party. In addition, the Group will continue to explore the market and identify any business opportunities which may provide its growth and development potential, enhance the profitability, and strive for better return to the Shareholders.

Exposure to Fluctuations in Exchange Rates and any Related Hedges

The functional currency of the Company is Peso, the currency of the primary economic environment in which the Company's major subsidiaries operate. The condensed consolidated financial statements are presented in HK\$ as the Directors consider that it is an appropriate presentation for a company listed in Hong Kong and for the convenience of the Shareholders.

The Group's assets and liabilities were mainly denominated in HK\$, USD and Peso. The Group primarily earns its revenue and income in HK\$, USD and Peso while the Group primarily incurs costs and expenses mainly in HK\$ and Peso. Therefore, the Group may be exposed to currency risk. The net foreign exchange gain of the Group recognised for the six months ended 30 September 2014 arose mainly from the retranslation of monetary items denominated in currencies other than the functional currency of the Company at the end of the reporting period.

The Group has not implemented any foreign currency hedging policy. However, the management of the Group will monitor foreign currency exposure for each business segment and review the needs of individual geographical area, and consider appropriate hedging policy in future when necessary.

Contingent Liabilities

At 30 September 2014, the Group had contingent liabilities of approximately HK\$324,361,000 (as at 31 March 2014: approximately HK\$300,318,000) relating to the tax dispute between a subsidiary of the Company operating in the Philippines and BIR for taxable year of 2008 as well as the potential income taxes (but not taking into account any possible penalty or interest liability) that may be assessed by BIR for the taxable years that are not yet barred by prescription under the relevant laws, rules and regulations in the Philippines. Details of contingent liabilities are set out in note 7 to the condensed consolidated financial statements.

Employees and Remuneration Policies

The total number of employees of the Group was 301 as at 30 September 2014 (as at 30 September 2013: 314). The staff costs for the six months ended 30 September 2014 was approximately HK\$26.6 million (for the six months ended 30 September 2013: approximately HK\$28.3 million). The remuneration of the Directors and employees of the Group was based on the performance and experience of the individuals and was determined with reference to the Group's performance, the remuneration benchmark in the industry and the prevailing market conditions. In addition to the salaries, the employees of the Group are entitled to benefits including medical, insurance and retirement benefits. Besides, the Group regularly provides internal and external training courses for its employees to meet their needs.

Audit Committee

The audit committee of the Company (the "Audit Committee") comprises three independent non-executive Directors, namely Mr. Cheung Hon Kit (Chairman of the Audit Committee), Mr. Lau Wai Piu and Mr. Tsui Hing Chuen, William *JP* with terms of reference prepared in accordance with the requirements of the Listing Rules. One of the members of the Audit Committee possesses appropriate professional accounting qualification as defined under the Listing Rules. The primary duties of the Audit Committee are, *inter alia*, to oversee the relationship with the external auditor, to review the financial information of the Group, to review and supervise the financial reporting process, internal controls and risk management functions of the Group.

The Audit Committee has reviewed the unaudited interim results of the Group for the six months ended 30 September 2014. The Company's auditor, Deloitte Touche Tohmatsu, has reviewed the condensed consolidated financial statements for the six months ended 30 September 2014 in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

Compliance with Corporate Governance Code

The Company is committed to maintaining a high standard of corporate governance practices and procedures and to complying with the statutory and regulatory requirements with an aim to maximising the shareholders' values and interests as well as to enhancing the stakeholders' transparency and accountability. During the six months ended 30 September 2014, the Company has complied with the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors (the “Code on Securities Transactions”), the standard of which is no less than the required standard provided in the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the “Model Code”).

The Company, having made specific enquiries with all of the Directors, was not aware of any non-compliance with the required standard provided in the Model Code and the Code on Securities Transactions throughout the six months ended 30 September 2014.

Interim Dividend

The Board has resolved not to recommend the payment of any interim dividend for the six months ended 30 September 2014 (2013: nil).

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

During the six months ended 30 September 2014, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities.

By order of the Board
International Entertainment Corporation
Dr. Cheng Kar Shun
Chairman

Hong Kong, 21 November 2014

As at the date of this announcement, the Board comprises seven executive Directors, namely Dr. Cheng Kar Shun, Mr. Lo Lin Shing, Simon, Mr. To Hin Tsun, Gerald, Mr. Cheng Kam Chiu, Stewart, Mr. Cheng Kam Biu, Wilson, Dr. Cheng Chi Kong and Mr. Cheng Chi Him, and four independent non-executive Directors, namely Mr. Cheung Hon Kit, Mr. Kwee Chong Kok, Michael, Mr. Lau Wai Piu and Mr. Tsui Hing Chuen, William JP.