Interim Report 2005/06

International Entertainment Corporation

國際娛樂有限公司

(Incorporated in the Cayman Islands with limited liability)

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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 Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors (the "Directors") of International Entertainment Corporation (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

Results

The board of directors (the "Board") of International Entertainment Corporation (the "Company") hereby announces the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the three months and six months ended 30 September 2005, together with the comparative unaudited figures for the corresponding periods in 2004 as follows:

Condensed Consolidated Income Statement

For the three months and six months ended 30 September 2005

		Three months ended 30 September		Six months ended 30 September	
		2005	2004	**2005**	2004
		(Unaudited)	*(Unaudited)*	***(Unaudited)***	*(Unaudited)*
	Notes	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Turnover	*2*	**67,816**	1,870	**183,719**	5,721
Cost of sales		**(73,119)**	(1,043)	**(168,358)**	(3,739)
Gross (loss) profit		**(5,303)**	827	**15,361**	1,982
Other operating income	*3*	**2,228**	23	**4,122**	32
Selling and distribution costs		**(6,809)**	(7)	**(13,669)**	(24)
General and administrative expenses		**(14,228)**	(3,190)	**(26,995)**	(7,618)
Other operating expenses		**–**	(172)	**–**	(344)
Loss from operations	*4*	**(24,112)**	(2,519)	**(21,181)**	(5,972)
Finance costs		**(424)**	(179)	**(603)**	(759)
Loss before taxation		**(24,536)**	(2,698)	**(21,784)**	(6,731)
Taxation	*5*	**–**	–	**–**	–
Loss for the period		**(24,536)**	(2,698)	**(21,784)**	(6,731)
Attributable to:					
Equity holders of the parent		**(12,896)**	(2,698)	**(12,684)**	(6,731)
Minority interests		**(11,640)**	–	**(9,100)**	–
		(24,536)	(2,698)	**(21,784)**	(6,731)
Loss per share	*7*				
Basic		**HK(5.5) cents**	HK(1.3) cents	**HK(5.4) cents**	HK(4.0) cents
Diluted		**HK(5.5) cents**	N/A	**HK(5.4) cents**	N/A

Condensed Consolidated Balance Sheet

As at 30 September 2005

	Notes	30 September 2005 (Unaudited) HK$'000	31 March 2005 (Audited) HK$'000
Non-current assets			
Property, plant and equipment	8	**3,299**	4,061
Intangible assets		**–**	–
Goodwill		**15,764**	15,764
Interests in an associate		**–**	–
Deferred tax assets		**21,861**	22,543
		40,924	42,368
Current assets			
Inventories		**1,316**	1,873
Film costs	9	**335,013**	441,311
Trade receivables	10	**158,172**	83,321
Other receivables, deposits and prepayments		**46,545**	20,312
Amounts due from related companies		**656**	584
Pledged bank deposits		**47,834**	9,014
Bank balances and cash		**232,115**	353,009
		821,651	909,424
Current liabilities			
Trade payables	11	**62,769**	52,650
Other payables and accrued charges		**97,539**	110,520
Amounts due to related companies		**2,187**	1,549
Loans from directors	12	**3,044**	3,044
Loans from related companies	13	**12,582**	12,582
Preference dividend payable		**673**	673
Bank and other borrowings	14	**227,572**	252,884
Promissory notes		**–**	36,084
		406,366	469,986
Net current assets		**415,285**	439,438
Total assets less current liabilities		**456,209**	481,806
Capital and reserves			
Share capital	15	**235,831**	235,831
Share premium and reserves		**153,834**	168,598
Equity attributable to equity holders of the parent		**389,665**	404,429
Minority interests		**66,544**	77,377
Total equity		**456,209**	481,806

Condensed Consolidated Cash Flow Statement

For the six months ended 30 September 2005

	Six months ended 30 September	
	2005	2004
	(Unaudited)	*(Unaudited)*
	HK$'000	HK$'000
Net cash used in operating activities	**(10,793)**	(4,048)
Net cash used in investing activities	**(35,282)**	(40,257)
Net cash (used in) generated from financing activities	**(75,021)**	186,623
(Decrease) increase in cash and cash equivalents	**(121,096)**	142,318
Cash and cash equivalents at 1 April	**350,858**	(437)
Effect of foreign exchange rate changes	**2,353**	–
Cash and cash equivalents at 30 September	**232,115**	141,881
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	**232,115**	142,833
Bank overdrafts	**–**	(952)
	232,115	141,881

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 September 2005

	Attributable to equity holders of the parent							
	Share capital	Share premium	Merger reserve	Exchange reserve	Accumulated losses	Total	Minority interests	Total
	(Unaudited)	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 April 2004	831	–	53,022	–	(126,168)	(72,315)	–	(72,315)
Issue of shares at premium by the Company as a result of the settlement of loan notes, including unpaid accrued interest	4,000	40,569	–	–	–	44,569	–	44,569
Issue of shares through subscription	120,000	–	–	–	–	120,000	–	120,000
Issue of shares through placing	80,000	–	–	–	–	80,000	–	80,000
Loss for the period	–	–	–	–	(6,731)	(6,731)	–	(6,731)
At 30 September 2004	204,831	40,569	53,022	–	(132,899)	165,523	–	165,523
At 1 April 2005	235,831	263,832	53,022	(2,793)	(145,463)	404,429	77,377	481,806
Exchange differences on translation of overseas operation not recognised in income statement	–	–	–	(2,080)	–	(2,080)	(1,733)	(3,813)
Loss for the period	–	–	–	–	(12,684)	(12,684)	(9,100)	(21,784)
At 30 September 2005	235,831	263,832	53,022	(4,873)	(158,147)	389,665	66,544	456,209

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 and Hong Kong Accounting Standard 34 ("HKAS 34") "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. They have also been prepared under the historical cost convention.

The accounting policies used in the preparation of the unaudited condensed financial statements are consistent with those used in the annual financial statements for the year ended 31 March 2005 except as described below.

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are effective for accounting periods beginning on or after 1 January 2005. The application of new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. In particular, the presentation of minority interests has been changed. The changes in presentation have been applied retrospectively.

Business Combinations

In the current period, the Group has applied HKFRS 3 "Business Combinations" which is effective for business combinations for which the agreement date is on or after 1 January 2005. The principal effects of the application of HKFRS 3 to the Group are summarised below:

Goodwill

With respect to goodwill previously capitalised on the balance sheet, the Group has discontinued amortising such goodwill from 1 April 2005 onwards and goodwill will be tested for impairment at least annually. Goodwill arising on acquisitions after 1 January 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current period. Comparative figures for 2004 have not been restated.

In the current period, the Group has also applied HKAS 21 "The Effects of Changes in Foreign Exchange Rates" which requires goodwill to be treated as assets and liabilities of the foreign operation and translated at closing rate at each balance sheet date. Previously, goodwill arising on acquisition of foreign operations was reported at historical rate at each balance sheet date. In accordance with the relevant transitional provisions in HKAS 21, goodwill arising on acquisitions prior to 1 January 2005 is treated as a non-monetary foreign currency item of the Group. Therefore, no prior period adjustment has been made.

The adoption of HKFRS 3 has had no material effect on how the results for the current or prior accounting periods are prepared and presented.

Financial Instruments

In the current period, the Group has applied HKAS 39 "Financial Instruments: Recognition and Measurement", HKAS 39, which is effective for annual periods beginning on or after 1 April 2005, generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 39 are summarised below:

Financial assets and financial liabilities other than debt and equity securities

From 1 April 2005 onwards, the Group classifies and measures its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of Statement of Standard Accounting Practice 24) in accordance with the requirements of HKAS 39. Financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "financial liabilities other than financial liabilities at fair value through profit or loss (other financial liabilities)". "Other financial liabilities" are carried at amortised cost using the effective interest method. The adoption of HKAS 39 has had no material effect on how the results for the current or prior accounting periods are prepared and presented.

The Group has not early applied the following new standards or interpretations ("Int") that have been issued but are not yet effective. The Group considers that the application of these standards or interpretations will have no material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital Disclosures
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 and HKFRS 4 (Amendment)	Financial Instruments: Recognition and Measurement and Insurance Contracts – Financial Guarantee Contracts
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease
HK(IFRIC)-Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

2. Segment information

Business segments

For management purposes, the Group is currently organised into four operating divisions, namely application solutions, network solutions, project services and entertainment business. These divisions are 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 2005

	Application solutions *(Unaudited)* HK$'000	Network solutions *(Unaudited)* HK$'000	Project services *(Unaudited)* HK$'000	Entertainment business *(Unaudited)* HK$'000	Others *(Unaudited)* HK$'000	Eliminations *(Unaudited)* HK$'000	Consolidated *(Unaudited)* HK$'000
TURNOVER							
External sales	–	3,314	4,695	174,696	1,014	–	183,719
Inter-segment sales	–	105	–	–	–	(105)	–
Total	–	3,419	4,695	174,696	1,014	(105)	183,719

Inter-segment sales are charged at prevailing market prices.

	Application solutions	Network solutions	Project services	Entertainment business	Others	Eliminations	Consolidated
RESULTS							
Segment results	–	1,025	1,180	(18,893)	492	–	(16,196)
Other operating income							4,122
Unallocated expenses							(9,107)
Loss from operations							(21,181)
Finance costs							(603)
Loss before taxation							(21,784)
Taxation							–
Loss for the period							(21,784)

Income statement for the six months ended 30 September 2004

	Application solutions *(Unaudited)* HK$'000	Network solutions *(Unaudited)* HK$'000	Project services *(Unaudited)* HK$'000	Others *(Unaudited)* HK$'000	Eliminations *(Unaudited)* HK$'000	Consolidated *(Unaudited)* HK$'000
TURNOVER						
External sales	–	3,472	1,635	614	–	5,721
Inter-segment sales	–	–	–	–	–	–
Total	–	3,472	1,635	614	–	5,721

Inter-segment sales are charged at prevailing market prices.

	Application solutions	Network solutions	Project services	Others	Eliminations	Consolidated
RESULTS						
Segment results	–	1,063	623	296	–	1,982
Other operating income						32
Unallocated expenses						(7,986)
Loss from operations						(5,972)
Finance costs						(759)
Loss before taxation						(6,731)
Taxation						–
Loss for the period						(6,731)

Geographical segments

The Group's operations are 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:

	Turnover by geographical market Six months ended 30 September	
	2005	2004
	(Unaudited)	*(Unaudited)*
	HK$'000	HK$'000
Hong Kong	**7,387**	5,025
Elsewhere in the PRC	**1,636**	696
USA	**174,696**	–
	183,719	5,721

3. Other operating income

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

4. Loss from operations

Loss from operations has been arrived at after charging (crediting):

	Three months ended 30 September		Six months ended 30 September	
	2005	2004	**2005**	2004
	(Unaudited)	*(Unaudited)*	***(Unaudited)***	*(Unaudited)*
	HK$'000	HK$'000	**HK$'000**	HK$'000
Allowance for bad and doubtful debts and bad debts written off	**3,042**	–	**3,100**	–
Amortisation of film costs	**69,577**	–	**163,180**	–
Amortisation of goodwill	**–**	172	**–**	344
Amortisation of intangible assets	**–**	75	**–**	151
Depreciation of property, plant and equipment	**675**	428	**1,331**	665
Gain on disposal of property, plant and equipment	**–**	–	**–**	(1)
Rental expenses under operating leases on:				
– premises	**930**	223	**1,848**	311
– equipment	**116**	38	**211**	78
Staff costs, including directors' emoluments				
– salaries and allowances	**5,647**	1,235	**11,470**	2,317
– retirement benefits schemes contribution	**129**	80	**205**	163

5. 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 2005 (for the three months and six months ended 30 September 2004: 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.

6. Dividend

The Board does not recommend the payment of any dividend for the six months ended 30 September 2005 (for the six months ended 30 September 2004: nil).

7. Loss per share

The calculation of the basic loss per share for the three months and six months ended 30 September 2005 is based on the respective unaudited consolidated loss attributable to equity holders of approximately HK$12,896,000 and HK$12,684,000 (three months and six months ended 30 September 2004: HK$2,698,000 and HK$6,731,000) and the weighted average number of shares of 235,831,447 (three months and six months ended 30 September 2004: 204,831,447 and 170,317,785) in issue during the periods. Loss per share for six months ended 30 September 2004 has been adjusted for the share consolidation of every 100 ordinary shares of HK$0.01 each into one share of HK$1.00 each, which became effective on 22 April 2004.

The computation of diluted loss per share for the three months and six months ended 30 September 2005 did not assume the exercise of the subsidiary's outstanding share options existed during the six months ended 30 September 2005 since their exercise would reduce loss per share. For the three months and six months ended 30 September 2004, no diluted loss per share has been presented as there were no options in issue.

8. 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
At 1 April 2005	1,376	694	1,991	4,061
Exchange adjustments	12	(9)	–	3
Additions	365	27	185	577
Disposals	–	–	(11)	(11)
Depreciation provided for the period	(647)	(158)	(526)	(1,331)
At 30 September 2005	**1,106**	**554**	**1,639**	**3,299**

9. Film costs

	(Unaudited) HK$'000
At 1 April 2005	441,311
Exchange adjustments	2,882
Additions	54,000
Amortisation provided for the period	(163,180)
At 30 September 2005	335,013

10. Trade receivables

The credit terms of the Group range from 0 to 90 days. The aged analysis of trade receivables is as follows:

	30 September 2005 ***(Unaudited)*** **HK$'000**	31 March 2005 *(Audited)* HK$'000
Aged:		
0 – 30 days	**46,080**	34,335
31 – 60 days	**332**	1,292
61 – 90 days	**83,550**	18,560
Over 90 days	**28,210**	29,134
	158,172	83,321

11. Trade payables

The aged analysis of trade payables is as follows:

	30 September 2005 ***(Unaudited)*** **HK$'000**	31 March 2005 *(Audited)* HK$'000
Aged:		
0 – 30 days	**12,960**	9,071
31 – 60 days	**16,038**	6,950
61 – 90 days	**11,522**	11,585
Over 90 days	**22,249**	25,044
	62,769	52,650

12. Loans from directors

The amounts are unsecured and repayable on demand. Included in this amount is approximately HK$1,776,000 (as at 31 March 2005: HK$1,776,000) which bears interest at the prevailing market rates. The remaining balance is non-interest bearing.

13. Loans from related companies

The amounts are unsecured. Included in this amount is approximately HK$11,056,000 (as at 31 March 2005: HK$11,056,000) which bears interest at HIBOR plus 2% per annum, and of which HK$9,800,000 is repayable on 30 June 2006 and HK$1,256,000 is repayable on demand. In addition, included in this amount is approximately HK$1,200,000 (as at 31 March 2005: HK$1,200,000) which bears interest at the best lending rate quoted by The Hongkong and Shanghai Banking Corporation Limited and is repayable on 30 June 2006. The remaining balance is non-interest bearing and is repayable on demand.

14. Bank and other borrowings

	30 September 2005	31 March 2005
	(Unaudited)	*(Audited)*
	HK$'000	HK$'000
Bank overdrafts	**–**	2,151
Bank loans	**224,198**	247,359
Other borrowings *(Note)*	**3,374**	3,374
	227,572	252,884
Unsecured	**3,374**	5,525
Secured	**224,198**	247,359
	227,572	252,884
The maturity profile of the above loans and overdrafts are on demand or within one year	**227,572**	252,884
Less: Amounts due within one year shown under current liabilities	**(227,572)**	(252,884)
	–	–

Note: The amounts are unsecured and repayable on demand. Included in this amount is HK$1,968,000 (as at 31 March 2005: HK$1,968,000) which bears interest at the prevailing market rates. The remaining balance is non-interest bearing.

15. Share capital

	Par value of shares	Number of shares	Value *(Unaudited)*
	HK$		HK$'000
Authorised:			
Ordinary shares At 1 April 2005 and at 30 September 2005	1.00 each	500,000,000	500,000
Issued and fully paid:			
Ordinary shares At 1 April 2005 and at 30 September 2005	1.00 each	235,831,447	235,831

16. Operating lease commitments

At 30 September 2005, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	30 September 2005 ***(Unaudited)*** **HK$'000**	31 March 2005 *(Audited)* HK$'000
Within one year	**4,149**	5,043
In the second to fifth year inclusive	**7,843**	9,016
	11,992	14,059

17. Contingent liabilities

	The Company	
	30 September 2005 ***(Unaudited)*** **HK$'000**	31 March 2005 *(Audited)* HK$'000
Guarantees given to a related company in respect of loans utilised by subsidiaries	**11,000**	11,000

	The Group	
	30 September 2005 ***(Unaudited)*** **HK$'000**	31 March 2005 *(Audited)* HK$'000
Guarantee given to a promissory note holder	**–**	14,289

18. Related party transactions

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

	Six months ended 30 September	
	2005	2004
	(Unaudited)	*(Unaudited)*
	HK$'000	HK$'000
Rentals and office administrative expenses *(note a)*	**269**	309
Rental expenses *(note b)*	**533**	132
Finance costs to related companies *(note c)*	**251**	325
Finance costs to directors *(note d)*	**56**	233
Cabling sales *(note e)*	**–**	(63)
Project service income *(note f)*	**(2,639)**	–

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 and the above sum was charged, being an appropriate allocation of costs incurred.

(b) A company, in which Dr. Cheng Kar Shun ("Dr. Cheng"), a director of the Company has beneficial interests, lease office premises to the Group. The rentals were determined in accordance to the tenancy agreements entered between the Group and the related company.

(c) Companies, in which Mr. Lo, a director of the Company has beneficial interests, provided loans to the Group. In respect of loans from related companies, interest was charged at HIBOR+2% per annum and the best lending rate quoted by The Hongkong and Shanghai Banking Corporation Limited. In respect of loan notes issued to related companies, interest was charged at the prime rate per annum.

(d) The amounts included finance costs paid in respect of loans from Mr. Choi Wing Kin ("Mr. Choi") and Mr. So Kam Wing ("Mr. So"), directors of the Company and interest was charged at the HIBOR+2% per annum. For the loan from Mr. Lo, a director of the Company, interest was charged at 6% per annum. In respect of loan notes issued to Mr. Choi and Mr. So, interest was charged at the prime rate per annum.

(e) Cabling sales represented sales to a company, in which Dr. Cheng and Mr. Lo, are directors of the Company and Dr. Cheng has beneficial interests. The transactions were carried at cost plus a certain percentage of mark-up.

(f) Project service income represented service provided to a company, in which Dr. Cheng and Mr. Lo are directors of the Company and Dr. Cheng has beneficial interests. The transaction were carried out in terms agreed by both parties.

Management Discussion and Analysis

Financial Review

The Group's turnover for the six months ended 30 September 2005 was approximately HK$183.7 million, representing an increase of approximately 32.1 times, as compared with approximately HK$5.7 million for the previous corresponding period in 2004 whilst the gross profit increased approximately 7.7 times from approximately HK$2.0 million in the last corresponding period to HK$15.4 million for the period under review. The increases in turnover and gross profit were mainly contributed by the revenue from entertainment business.

Selling and distribution costs, general and administrative expenses, and other operating expenses increased by approximately 5.1 times to approximately HK$40.7 million for the six months ended 30 September 2005 from approximately HK$8.0 million in the last corresponding period. The increase was mainly attributable to the inclusion of the expenses incurred by M8 Entertainment Inc. and its subsidiaries after the completion of the acquisition in December 2004.

The Group recorded an operating loss for the six months ended 30 September 2005, amounted to approximately HK$21.2 million, representing an increase of approximately 3.5 times, as compared with approximately HK$6.0 million in the previous corresponding period in 2004.

Business Review

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

1. *Wireless application and network solutions*

   Wireless application solutions are applications that are incorporated with wireless system including mobile networks or wireless local area networks ("WLAN") whereas network solutions include solutions for computer networks, data communication networks, WLAN networks and synchronization networks.

   There was no significant change on the revenue derived from the network solutions. During the six months ended 30 September 2005, the revenue was approximately HK$3.4 million, compared to approximately HK$3.5 million in the last corresponding period.

2. *Project services*

   For the six months ended 30 September 2005, the Group completed certain projects, revenue derived from the provision of project services was approximately HK$4.7 million, compared to approximately HK$1.6 million in the corresponding period. The increase in revenue was mainly attributable to the increasing demand of services from mobile operators in Hong Kong.

3. *Entertainment business*

The revenue derived from the entertainment business for the six months ended 30 September 2005 was approximately HK$174.7 million. Since the acquisition of M8 Entertainment Inc. was completed on 22 December 2004, no revenue was derived from the entertainment business in the last corresponding period. The revenue comprised primarily from sales of the theatrical feature films, *Man About Town, Running Scared, Santa's Slay and Monster. Man About Town* is a dramatic comedy written and directed by Mike Binder, and starring Ben Affleck and Rebecca Romijn. Running Scared is written and directed by Wayne Kramer and starring Paul Walker. *Santa's Slay* is a horror-comedy produced in association with Brett Ratner and Monster is a critically acclaimed drama, for which Charlize Theron won the 2004 Academy Award for Best Actress.

Future Outlook

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

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

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

Liquidity, financial resources and capital structure

As at 30 September 2005, the Group's net current assets amounted to approximately HK$415.3 million. Current assets amounted to approximately HK$821.7 million, of which approximately HK$279.9 million was cash, bank deposits and pledged deposits, approximately HK$158.2 million was trade receivables, and approximately HK$335.0 million was film costs.

The Group had current liabilities amounted to approximately HK$406.4 million, of which approximately HK$62.8 million was trade payables, approximately HK$97.5 million was other payables and accrued charges, and approximately HK$227.6 million was bank and other borrowings.

As at 30 September 2005, the Group did not have any bank overdraft. The bank loans of the Group amounted to approximately HK$224.2 million, which will be due within one year.

The Group had loans from the Directors of approximately HK$3.0 million, of which approximately HK$1.8 million was unsecured, bore interest at the prevailing market rates and was repayable on demand; and the remaining balance was unsecured, interest-free and repayable on demand.

The Group also had loans from related companies of approximately HK$12.6 million, of which approximately HK$9.8 million was unsecured, bore interest at HIBOR plus 2% per annum and was repayable on 30 June 2006; approximately HK$1.2 million was unsecured, bore interest at the best lending rate quoted by The Hongkong and Shanghai Banking Corporation Limited and was repayable on 30 June 2006; approximately HK$1.2 million was unsecured, bore interest at HIBOR plus 2% per annum and repayable on demand and the remaining balance was unsecured, interest-free and repayable on demand. Guarantees were given to a related company in respect of loans utilised by subsidiaries of the Group amounting to HK$11.0 million.

In addition, the Group had other loans of approximately HK$3.4 million, of which approximately HK$2.0 million was unsecured, bore interest at the prevailing market rates and was repayable on demand; and the remaining balance was unsecured, interest-free and repayable on demand.

On 21 June 2005, the Group repaid two non-interest bearing promissory notes of approximately HK$36.1 million.

The gearing ratio, measured in terms of total borrowings divided by total assets, was approximately 28.2% as at 30 September 2005.

The Group financed its operations generally with internally generated cash flows and the present available credit facilities.

Charges on group assets

As at 30 September 2005, the Group's bank deposit of approximately HK$47.8 million, trade receivables, other receivables, deposits and prepayment of approximately HK$168.9 million, and film assets of approximately HK$47.9 million have been pledged to banks to secure banking facilities granted to the Group. In addition, a recoupment guarantee by issuing letter of credit amounting to approximately HK$4.0 million has been provided to secure bank and other borrowings of 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 entired issued share capital of Fortune Gate Overseas Limited, a company incorporated in the British Virgin Islands and all the amounts due as at the date of completion of the acquisition agreement from members of Fortune Gate Overseas Limited and its subsidiaries to CTF and its subsidiaries and, in addition to making cash payment of HK$450 million (subject to adjustments), to issue a HK$400,000,000 convertible note due in 3 years, convertible into the shares of the Company upon conversion of conversion rights at HK$2 per share (subject to adjustments) (the "Convertible Note") as consideration to satisfy part of the purchase consideration of HK$850 million (the "Purchase Price"). 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 (the "Purchase Option") on 17 March 2005 and the Purchase Price will be increased by HK$363.2 million (subject to adjustments). The increased portion of the Purchase Price attributable to the Purchase Option will be paid in cash. Details of the proposed acquisition are set out in the announcements of the Company dated 23 November 2004 and 17 March 2005. As at the date of this report, the acquisition has not been completed.

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

The Group's assets and liabilities were denominated in Hong Kong dollars, Renminbi and United States dollars. The Group has no significant exposure to foreign exchange fluctuations.

Contingent liabilities

As at 30 September 2005, the Company has provided corporate guarantees of approximately HK$11.0 million (as at 31 March 2005: HK$11.0 million) to secure loans and other borrowings granted to its subsidiaries.

As at 31 March 2005, the Group also provided guarantee to a promissory note holder amounted to approximately US$1,831,924 (equivalent to approximately HK$14.3 million).

Employees and remuneration policies

The total number of employees of the Group was 51 as at 30 September 2005 (as at 30 September 2004: 29). The staff costs for the six months ended 30 September 2005 was approximately HK$11.7 million (for the six months ended 30 September 2004: approximately HK$2.5 million). The Group remunerated its employees on the basis of performance, experience and the prevailing industry practice. In addition to salaries, employee benefits included medical scheme, insurance, retirement benefits schemes and share option scheme.

Interests and Short Positions of Directors and Chief Executive in Shares, Underlying Shares and Debentures

As at 30 September 2005, the interests and short positions of the Directors and the chief executive in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (the "SFO")) which were notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required, pursuant to the Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors, to be notified to the Company or the Stock Exchange, were as follows:

Long positions in the ordinary shares of the Company

	Number of ordinary shares of HK$1.00 each in the share capital of the Company					
Name of Directors	**Personal interest**	**Family interest**	**Corporate interest**	**Other interest**	**Total**	**Approximate percentage of the issued share capital of the Company**
Choi Wing Kin	1,329,600	–	–	–	1,329,600	0.56%
So Kam Wing	49,200	–	–	–	49,200	0.02%
Lo Lin Shing, Simon	–	–	364,800 *(Note)*	–	364,800	0.15%

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

Save as disclosed above, none of the Directors or the chief executive has any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required, pursuant to the Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors, to be notified to the Company or the Stock Exchange as at 30 September 2005.

Interests and Short Positions of Shareholders in Shares and Underlying Shares

So far as is known to the Directors or chief executive of the Company, as at 30 September 2005, shareholders (other than the Directors or chief executive of the Company) who had interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO as having an interest in 5% or more of the issued share capital of the Company were as follows:

Long positions in the ordinary shares of the Company

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

Notes:

(1) Mediastar is wholly owned by CTF. Accordingly, CTF is deemed to be interested in 120,000,079 shares of the Company held by Mediastar under the SFO.

(2) Young China Investments Ltd. is wholly owned by Mr. Chow Shiu Leung. Accordingly, Mr. Chow Shiu Leung is deemed to be interested in 19,000,000 shares of the Company held by Young China Investments Ltd. under the SFO.

(3) These underlying shares of the Company represent the new shares to be issued upon full conversion at the initial conversion price of HK$2 per share of the convertible note to be issued by the Company to Cross-Growth Co., Ltd. (or as it may direct) pursuant to the conditional acquisition agreement dated 23 November 2004 entered into among Cross-Growth Co., Ltd., the Company and CTF in relation to the acquisition of hotel and entertainment operations in the Philippines and Macau. Details of the convertible note and the acquisition agreement are set out in the announcement of the Company dated 23 November 2004.

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

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

Save as disclosed above, as at 30 September 2005, the Company has not been notified by any persons (other than the Directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO as having an interest in 5% or more of the issued share capital of the Company.

Share Option Schemes

(a) Pre-IPO share option scheme

A pre-IPO share option scheme ("Pre-IPO Scheme") was adopted pursuant to a resolution passed by the board of directors of the Company on 17 July 2000. Under the Pre-IPO Scheme, the board of directors may, at its discretion, grant options to employees, directors and consultant of the Group to subscribe for shares in the Company.

No options can be granted under the Pre-IPO Scheme upon the listing of the Company on GEM. There were no share options outstanding under the Pre-IPO Scheme as at 30 September 2005.

(b) Post-IPO share option scheme

In addition, a post-IPO share option scheme (the "Post-IPO Scheme") was adopted pursuant to a resolution passed by the board of directors of the Company on 17 July 2000. Under the Post-IPO Scheme, the board of directors may, at its discretion, grant options to full-time employees, including executive directors of the Company and its subsidiaries to subscribe for shares in the Company.

No options have been granted, exercised or cancelled during the six months ended 30 September 2005 and there were no share options outstanding under the Post-IPO Scheme as at 30 September 2005. The Post-IPO Scheme was terminated and replaced by a new share option scheme (the "New Scheme") pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 20 August 2004.

(c) New share option scheme

Pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 20 August 2004, the New Scheme was adopted. The summary of the principal terms of the New Scheme is set out in Appendix II of the circular of the Company dated 27 July 2004.

No options have been granted, exercised or cancelled during the six months ended 30 September 2005 and there were no share options outstanding under the New Scheme as at 30 September 2005.

(d) Share option scheme of M8 Entertainment Inc.

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

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

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

No option was exercised, cancelled or granted during the six months ended 30 September 2005.

Competing Business

During the six months ended 30 September 2005, none of the directors or the management shareholders of the Company and their respective associates (as defined under the GEM Listing Rules) has any interests in a business which competes or may compete with the business of the Group or has any other conflict of interest with the Group.

Audit Committee

The Company has established an audit committee in July 2000 with written terms of reference in compliance with the GEM Listing Rules. The audit committee has three members, comprising two independent non-executive directors and a non-executive director, Mr. Cheung Hon Kit, Mr. Wong Chi Keung and Mr. Wu Wing Kin. The primary duties of the audit committee are to review and supervise the financial reporting process and internal controls of the Group. The audit committee has reviewed the unaudited interim report for the six months ended 30 September 2005.

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 2005, except for the following deviations:

Code Provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election. Code Provision A.4.2 stipulates that all directors appointed to fill a causal vacancy should be subject to election by shareholders at the first general meeting after their appointment, and every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

At present, the non-executive directors do not have a specific term of appointment, but are subject to rotation in accordance with the Articles of Association of the Company (that at each annual general meeting, one-third of the directors for the time being or, if their number is not a multiple of three, the number nearest to but not greater than one-third, shall retire from office) provided that notwithstanding anything herein, the chairman of the Board and/or the managing director of the Company shall not, whilst holding such office, be subject to retirement by rotation or be taken into account in determining the number of directors to retire in each year. At such, with the exception of the Chairman, all directors are subject to retirement by rotation. The management considered that there is no imminent need to amend the Articles of Association of the Company.

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 2005.

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

During the six months ended 30 September 2005, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

By order of the Board
Cheng Kar Shun
Chairman

Hong Kong, 14 November 2005

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

Executive Directors:
Cheng Kar Shun *(Chairman)*
Lo Lin Shing, Simon
Choi Wing Kin
So Kam Wing

Non-executive Director:
Wu Wing Kin

Independent non-executive Directors:
Cheung Hon Kit
Kwee Chong Kok, Michael
Wong Chi Keung