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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 2016

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 2016, together with the comparative unaudited figures for the corresponding period in 2015 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 September 2016

		Six months ended	
		30 September	
		2016	2015
		HK\$'000	HK\$'000
	<i>Notes</i>	(Unaudited)	(Unaudited)
Revenue	3	145,849	167,177
Cost of sales		(52,714)	(98,839)
Gross profit		93,135	68,338
Other income	5	5,367	6,587
Other gain and loss		41,927	48,861
Change in fair value of financial assets at fair value through profit or loss		(31)	(21,546)
Selling and marketing expenses		(3,073)	(2,789)
General and administrative expenses		(64,246)	(60,871)
Profit before taxation	6	73,079	38,580
Income tax charge	7	(14,875)	(2,567)
Profit for the period		58,204	36,013

		Six months ended	
		30 September	
		2016	2015
		<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>Note</i>	(Unaudited)	(Unaudited)
Profit for the period attributable to:			
Owners of the Company		43,968	30,528
Non-controlling interests		14,236	5,485
		<u>58,204</u>	<u>36,013</u>
		<i>HK cent</i>	<i>HK cent</i>
Earnings per share			
Basic	9	<u>3.73</u>	<u>2.59</u>

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**

For the six months ended 30 September 2016

	Six months ended	
	30 September	
	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Profit for the period	<u>58,204</u>	<u>36,013</u>
Other comprehensive expense for the period		
Items that will not be reclassified to profit or loss:		
— remeasurement of defined benefit obligations	(688)	(799)
— exchange differences arising on translation to presentation currency	<u>(90,122)</u>	<u>(106,865)</u>
	(90,810)	(107,664)
Item that may be subsequently reclassified to profit or loss:		
— exchange differences arising on translation of foreign operations	<u>1,171</u>	<u>5,254</u>
Other comprehensive expense for the period, net of income tax	<u>(89,639)</u>	<u>(102,410)</u>
Total comprehensive expense for the period	<u>(31,435)</u>	<u>(66,397)</u>
Total comprehensive expense for the period attributable to:		
Owners of the Company	(19,746)	(45,377)
Non-controlling interests	<u>(11,689)</u>	<u>(21,020)</u>
	<u>(31,435)</u>	<u>(66,397)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 September 2016

		30 September 2016 <i>HK\$'000</i> (Unaudited)	31 March 2016 <i>HK\$'000</i> (Audited)
	<i>Notes</i>		
Non-current assets			
Property, plant and equipment	10	324,041	356,432
Investment properties		413,818	444,384
Financial assets at fair value through profit or loss	11	20,259	20,290
Other receivables, deposits and prepayments		6,085	5,926
		<u>764,203</u>	<u>827,032</u>
Current assets			
Inventories		2,515	2,546
Trade receivables	12	18,734	20,211
Other receivables, deposits and prepayments		16,219	16,071
Bank balances and cash		1,054,884	1,179,500
		<u>1,092,352</u>	<u>1,218,328</u>
Current liabilities			
Trade payables	13	5,633	6,094
Other payables and accrued charges		26,458	28,015
Tax liabilities		1,730	1,730
		<u>33,821</u>	<u>35,839</u>
Net current assets		<u>1,058,531</u>	<u>1,182,489</u>
Total assets less current liabilities		<u><u>1,822,734</u></u>	<u><u>2,009,521</u></u>

		30 September 2016	31 March 2016
		HK\$'000	HK\$'000
	<i>Note</i>	(Unaudited)	(Audited)
Capital and reserves			
Share capital	<i>14</i>	1,179,157	1,179,157
Share premium and reserves		115,069	134,815
		<hr/>	<hr/>
Equity attributable to owners of the Company		1,294,226	1,313,972
Non-controlling interests		434,206	565,945
		<hr/>	<hr/>
Total equity		1,728,432	1,879,917
		<hr/>	<hr/>
Non-current liabilities			
Deferred tax liabilities		88,295	124,434
Other liabilities		6,007	5,170
		<hr/>	<hr/>
		94,302	129,604
		<hr/>	<hr/>
		1,822,734	2,009,521
		<hr/> <hr/>	<hr/> <hr/>

NOTES:

1. GENERAL

The Company is a public 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 that are measured at fair values at the end of each reporting period. 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 2016 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 March 2016.

In the current interim period, the Group has applied, for the first time, 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 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	
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
The Group's revenue comprises:		
Hotel		
Room revenue	32,626	31,171
Food and beverages	17,060	16,883
Other hotel service income	1,347	1,332
	<u>51,033</u>	<u>49,386</u>
Leasing of investment properties equipped with entertainment equipment	94,816	117,791
	<u>145,849</u>	<u>167,177</u>

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 2016

	Hotel <i>HK\$'000</i> (Unaudited)	Leasing <i>HK\$'000</i> (Unaudited)	Reportable segment total <i>HK\$'000</i> (Unaudited)	Elimination <i>HK\$'000</i> (Unaudited)	Total <i>HK\$'000</i> (Unaudited)
REVENUE					
External sales	51,033	94,816	145,849	–	145,849
Inter-segment sales	1,535	318	1,853	(1,853)	–
Total	<u>52,568</u>	<u>95,134</u>	<u>147,702</u>	<u>(1,853)</u>	<u>145,849</u>
RESULTS					
Segment (loss) profit	<u>(12,309)</u>	<u>36,059</u>	<u>23,750</u>		23,750
Unallocated other income					3,297
Other gain and loss					41,927
Change in fair value of financial assets at fair value through profit or loss					(31)
Unallocated expenses					<u>(10,739)</u>
Profit for the period					<u>58,204</u>

For the six months ended 30 September 2015

	Hotel <i>HK\$'000</i> (Unaudited)	Leasing <i>HK\$'000</i> (Unaudited)	Reportable segment total <i>HK\$'000</i> (Unaudited)	Elimination <i>HK\$'000</i> (Unaudited)	Total <i>HK\$'000</i> (Unaudited)
REVENUE					
External sales	49,386	117,791	167,177	–	167,177
Inter-segment sales	<u>109</u>	<u>327</u>	<u>436</u>	<u>(436)</u>	<u>–</u>
Total	<u>49,495</u>	<u>118,118</u>	<u>167,613</u>	<u>(436)</u>	<u>167,177</u>
RESULTS					
Segment (loss) profit	<u>(15,079)</u>	<u>21,917</u>	<u>6,838</u>		6,838
Unallocated other income					4,798
Other gain and loss					48,861
Change in fair value of financial assets at fair value through profit or loss					(21,546)
Unallocated expenses					(6,713)
Unallocated income tax credit					<u>3,775</u>
Profit for the period					<u>36,013</u>

Segment profit (loss) represents the profit after tax earned by or loss after tax from 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, unallocated other income (i.e. investment income), and unallocated income tax credit. 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	
	2016 <i>HK\$'000</i> (Unaudited)	2015 <i>HK\$'000</i> (Unaudited)
Interest income from bank balances	4,312	5,554
Dividend income from financial assets at fair value through profit or loss	776	780
Sundry income	<u>279</u>	<u>253</u>
	<u>5,367</u>	<u>6,587</u>

6. PROFIT BEFORE TAXATION

	Six months ended 30 September	
	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Profit before taxation has been arrived at after charging (crediting):		
(Reversal of allowance) allowance for bad and doubtful debts for trade and other receivables	(7)	346
Cost of inventories recognised as an expense	6,165	6,555
Change in fair value of financial assets at fair value through profit and loss	31	21,546
Legal and professional expenses	6,622	2,513
Depreciation of property, plant and equipment	21,295	22,434
Depreciation of investment properties	9,098	58,525
Net foreign exchange gain (included in other gain and loss)	(41,927)	(48,861)
Rental expenses under operating leases on premises and land	2,917	3,029
Gross revenue from leasing of investment properties equipped with entertainment equipment	(94,816)	(117,791)
Less: Direct operating expenses that generated revenue from leasing of investment properties equipped with entertainment equipment (<i>Note</i>)	44,107	88,561
	<u>(50,709)</u>	<u>(29,230)</u>

Note: Amount mainly represents depreciation of leased properties and entertainment equipment, staff costs and marketing expenses.

7. INCOME TAX CHARGE

	Six months ended 30 September	
	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Current tax:		
Hong Kong	–	(2,248)
The Philippines	(45,923)	–
	(45,923)	(2,248)
Deferred taxation — current period	31,048	(319)
	<u>(14,875)</u>	<u>(2,567)</u>

Hong Kong Profits Tax is calculated at the rate of 16.5% on 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. The withholding tax rate in respect of a dividend distributed by a subsidiary of the Company operating in the Philippines to its overseas immediate holding company is 15% for both periods.

No provision for taxation in other jurisdictions was made in the condensed consolidated financial statements for both periods as the Group's operations outside Hong Kong and the Philippines either had no assessable profits or were exempted from profits tax in the respective jurisdictions.

For the six months ended 30 September 2016, the Group has provided deferred tax in an amount of approximately HK\$17,777,000 (for the six months ended 30 September 2015: HK\$9,549,000) in relation to the withholding tax of undistributed earnings arising from the subsidiaries of the Company in the Philippines.

During the six months ended 30 September 2016, the Group utilised deferred tax liability in an amount of approximately HK\$45,923,000 (for the six months ended 30 September 2015: nil) as a result of dividend distributed by a subsidiary of the Company in the Philippines to its overseas immediate holding company.

8. DIVIDENDS

	Six months ended	
	30 September	
	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Dividends recognised as distribution to owners of the Company during the period:		
Final dividend for 2015/16 — nil (2015: Final dividend for 2014/15 — HK\$0.01 per share)	—	11,792
Special dividend for 2015/16 — nil (2015: Special dividend for 2014/15 — HK\$0.45 per share)	—	530,620
	<u>—</u>	<u>542,412</u>
	<u>—</u>	<u>542,412</u>

The Board does not recommend the payment of any interim dividend for the six months ended 30 September 2016 (for the six months ended 30 September 2015: 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	
	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Earnings		
Earnings for the purpose of basic earnings per share (profit for the period attributable to owners of the Company)	<u>43,968</u>	<u>30,528</u>
	<i>In thousand</i>	<i>In thousand</i>
Number of shares		
Number of ordinary shares for the purpose of basic earnings per share	<u>1,179,157</u>	<u>1,179,157</u>

For the six months ended 30 September 2016 and 2015, no diluted earnings per share has 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 2016, total additions to property, plant and equipment were approximately HK\$6,314,000 (for the six months ended 30 September 2015: HK\$2,621,000). The additions comprised entertainment equipment of approximately HK\$3,810,000 (for the six months ended 30 September 2015: HK\$1,983,000).

11. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 September 2016 HK\$'000 (Unaudited)	31 March 2016 HK\$'000 (Audited)
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Financial assets at fair value through profit or loss comprise:

Non-current:

8% perpetual subordinated capital securities listed overseas (<i>Note</i>)	<u>20,259</u>	<u>20,290</u>
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The perpetual subordinated capital securities are financial assets designated as at fair value through profit or loss at initial recognition.

Note: The issuer of the perpetual subordinated capital securities may redeem the perpetual subordinated 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 perpetual subordinated capital securities in whole (but not in part) for perpetual non-cumulative dollar preference shares.

12. TRADE RECEIVABLES

The average credit terms for trade receivables granted by the Group range from 0 to 90 days. 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 2016 HK\$'000 (Unaudited)	31 March 2016 HK\$'000 (Audited)
Aged:		
0–30 days	18,391	18,850
31–60 days	333	1,123
61–90 days	10	238
	<u>18,734</u>	<u>20,211</u>

13. 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 2016 HK\$'000 (Unaudited)	31 March 2016 HK\$'000 (Audited)
Aged:		
0–30 days	3,046	3,248
31–60 days	249	1,098
61–90 days	150	278
Over 90 days	2,188	1,470
	<u>5,633</u>	<u>6,094</u>

14. SHARE CAPITAL

	Par value of shares HK\$	Number of shares	Value HK\$'000
Authorised:			
Ordinary shares At 1 April 2015 (audited), 31 March 2016 (audited) and 30 September 2016 (unaudited)	1 each	<u>2,000,000,000</u>	<u>2,000,000</u>
Issued and fully paid:			
Ordinary shares At 1 April 2015 (audited), 31 March 2016 (audited) and 30 September 2016 (unaudited)	1 each	<u>1,179,157,235</u>	<u>1,179,157</u>

15. OPERATING LEASE COMMITMENTS

The Group as lessor

As announced by the Company on 18 December 2015, Marina Square Properties, Inc. (“MSPI”), a subsidiary of the Company operating in the Philippines as lessor, entered into a lease agreement with Philippine Amusement and Gaming Corporation (“PAGCOR”) as lessee for the renewal of the lease of certain premises of the Group for a term commencing from 1 April 2016 and expiring on the earlier of 31 March 2031 or upon the total rent accruing against and/or payable by PAGCOR to MSPI under the lease agreement reaching an aggregate of Peso24.5 billion (equivalent to approximately HK\$3,923,685,000). The monthly rental is 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\$16,000 (as at 30 September 2015: HK\$17,000)), whichever is higher. Rental income arising from such agreement during the six months ended 30 September 2016 was approximately HK\$94,816,000 (for the six months ended 30 September 2015: HK\$117,791,000), representing contingent rental income.

The Group as lessee

At 30 September 2016, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fell due as follows:

	30 September 2016 HK\$'000 (Unaudited)	31 March 2016 HK\$'000 (Audited)
Within one year	5,697	5,910
In the second to fifth year inclusive	18,665	20,256
Over five years	35,205	39,260
	<u>59,567</u>	<u>65,426</u>

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

16. RELATED PARTY TRANSACTIONS

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

	Six months ended 30 September 2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Accommodation and beverages income (Note i)	48	77
Rental expenses (Note ii)	784	825
Expenses incurred under the hotel management agreement and the sales and marketing agreement (Note iii)	<u>2,191</u>	<u>2,275</u>

Notes:

- (i) Accommodation and beverages income were received from a subsidiary indirectly controlled by Chow Tai Fook (Holding) Limited ("CTFHL"), an intermediate parent of the Company.
- (ii) A company, which is an associate of CTFHL, leased office premises to the Group.
- (iii) The amount represented the expenses incurred under the hotel management agreement and the sales and marketing agreement entered into with the entities related to the Company. These entities were associates of CTFHL and became subsidiaries indirectly controlled by CTFHL during the year ended 31 March 2016.

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

	Six months ended 30 September	
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Salaries and other benefits	2,001	1,963
Contributions to retirement benefit scheme	18	18
	<u>2,019</u>	<u>1,981</u>

17. CONTINGENT LIABILITIES

At 30 September 2016, the Group had (a) contingent liabilities of approximately HK\$437,647,000 (31 March 2016: HK\$460,182,000) relating to the tax disputes between a subsidiary of the Company principally engaging in the business of leasing of properties in the Philippines and Bureau of Internal Revenue in the Philippines (“BIR”) for the calendar years of 2008 and 2012, as well as the potential income tax (but not taking into account any possible additional penalties or interest liability, of which existence 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) that may be assessed by BIR for the taxable years which are not yet barred by prescription under the relevant laws, rules and regulations of the Philippines; and (b) contingent liabilities of approximately HK\$2,848,000 (31 March 2016: HK\$8,773,000) relating to the tax disputes between another subsidiary of the Company principally engaging in the hotel operations in the Philippines and BIR for the calendar year of 2011 (but not taking into account any possible additional penalties or interest liability, of which existence 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).

Details of the contingent liabilities are set out below:

(a) **Tax disputes between MSPI and BIR for the calendar years of 2008 and 2012, and potential income tax**

At 30 September 2016, the Group had contingent liabilities of approximately HK\$437,647,000 (31 March 2016: HK\$460,182,000) relating to the tax disputes between MSPI, a subsidiary of the Company principally engaging in the business of leasing of properties in the Philippines, and BIR for the calendar years of 2008 and 2012 as well as the potential income tax (but not taking into account any possible additional penalties or interest liability, of which existence 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) that may be assessed by BIR for the taxable years which are not yet barred by prescription under the relevant laws, rules and regulations of the Philippines.

MSPI as lessor had entered into a lease agreement with PAGCOR, a company controlled and owned by the Philippine government, as lessee, for the lease of certain premises in the Philippines in March 2003.

On 29 February 2012, BIR issued a formal letter of demand to MSPI for alleged deficiency taxes for the calendar year of 2008 arising mainly from the imposition of income tax inclusive of penalties and interest on the rental income of MSPI from the lease of certain premises to PAGCOR in accordance with such lease agreement. On 29 March 2012, MSPI filed a protest with BIR on the ground that MSPI is exempt from Philippine corporate income tax pursuant to Section 13(2) of the Presidential Decree No. 1869, as amended.

On 2 November 2015, MSPI received the final decision on disputed assessment from BIR (the “MSPI-Final Decision on Disputed Assessment for 2008”) for the alleged deficiency taxes for the calendar year of 2008 amounting to approximately Peso1,156,803,000 (equivalent to approximately HK\$185,262,000) (inclusive of surcharge and interest).

On 1 December 2015, MSPI filed with BIR its request for reconsideration of the MSPI-Final Decision on Disputed Assessment for 2008 by the Commissioner of Internal Revenue in the Philippines. On 16 September 2016, MSPI filed with BIR a supplement to the request for reconsideration of the MSPI-Final Decision on Disputed Assessment for 2008. It is anticipated that final outcome of the tax dispute for the calendar year of 2008 will not be known for quite some time.

On 23 February 2016, MSPI received another formal letter of demand from BIR (the “MSPI-Formal Letter of Demand for 2012”) for the alleged deficiency taxes for the calendar year of 2012 amounting to approximately Peso671,266,000 (equivalent to approximately HK\$107,504,000) (inclusive of penalties, surcharge and interest) arising mainly from the imposition of income tax on the rental income of MSPI from the lease of certain premises to PAGCOR.

On 21 March 2016, MSPI filed with BIR a request for reconsideration of the MSPI-Formal Letter of Demand for 2012 on the ground that MSPI is exempt from Philippine corporate income tax pursuant to Section 13(2) of the Presidential Decree No. 1869, as amended. On 16 September 2016, MSPI filed with BIR a supplement to the request for reconsideration of the MSPI-Formal Letter of Demand for 2012. It is anticipated that the final outcome of the tax dispute for the calendar year of 2012 will not be known for quite some time.

Based on the advice of the independent legal adviser of MSPI, the Directors believe that MSPI has valid legal arguments to defend the tax disputes. Accordingly, no provision has been made for the tax disputes in the condensed consolidated financial statements of the Group for the six months ended 30 September 2016 and 2015. However, as 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 that as at 30 September 2016, the contingent liabilities in respect of the alleged deficiency taxes covering the calendar year of 2008 as stated in the MSPI-Final Decision on Disputed Assessment for 2008, the contingent liabilities in respect of the alleged deficiency taxes covering the calendar year of 2012 as stated in the MSPI-Formal Letter of Demand for 2012, and the contingent liabilities in respect of the potential income tax arising from the rental income of MSPI from the lease of certain premises to PAGCOR (but not taking into account any possible additional penalties or interest liability, of which existence 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) that may be assessed by BIR for the taxable years which are not yet barred by prescription under the relevant laws, rules and regulations of the Philippines as being a total of approximately Peso2,732,725,000 (equivalent to approximately HK\$437,647,000) as a possible outflow of resources.

At 31 March 2016, the contingent liabilities in respect of the alleged deficiency taxes covering the calendar years of 2008 and 2012 and the contingent liabilities in respect of the potential income taxes arising from the rental income of MSPI from the lease of certain premises to PAGCOR that may be assessed by BIR for the taxable years which were not yet barred by prescription under the relevant laws, rules and regulations of the Philippines was approximately Peso2,732,725,000 (equivalent to approximately HK\$460,182,000) in total.

(b) Tax dispute between New Coast Hotel Inc. (“NCHI”) and BIR for the calendar year of 2011

At 30 September 2016, the Group had contingent liabilities of approximately HK\$2,848,000 (31 March 2016: HK\$8,773,000) relating to the tax dispute between NCHI and BIR for the calendar year of 2011 (but not taking into account any possible additional penalties or interest liability, of which existence 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).

On 16 December 2015, NCHI received a formal letter of demand from BIR (the “NCHI-Formal Letter of Demand for 2011”) for alleged deficiency taxes covering the calendar year of 2011 amounting to approximately Peso52,096,000 (equivalent to approximately HK\$8,773,000) inclusive of penalties and interest.

On 15 January 2016, NCHI filed a protest with BIR against the NCHI-Formal Letter of Demand for 2011 in accordance with the relevant laws, rules and regulations of the Philippines.

On 20 September 2016, NCHI received the final decision on disputed assessment from BIR (the “NCHI-Final Decision on Disputed Assessment for 2011”) for the alleged deficiency taxes for the calendar year of 2011. BIR reduced the alleged deficiency taxes to approximately Peso17,781,000 (equivalent to approximately HK\$2,848,000) inclusive of penalties and interest.

On 20 October 2016, NCHI filed with BIR its request for reconsideration of the NCHI-Final Decision on Disputed Assessment for 2011 by the Commissioner of Internal Revenue in the Philippines. It is anticipated that the final outcome of the tax dispute will not be known for quite some time.

Based on the advice of the independent legal adviser of NCHI, the Directors believe that NCHI has valid arguments to defend the tax dispute. Accordingly, no provision has been made for the tax dispute in the condensed consolidated financial statements of the Group for the six months ended 30 September 2016 and 2015. However, as 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 that as at 30 September 2016, the contingent liabilities in respect of the alleged deficiency taxes of NCHI covering the calendar year of 2011 as stated in the NCHI-Final Decision on Disputed Assessment for 2011 (but not taking into account of any possible additional penalties or interest liability, of which existence 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) as being a total of approximately Peso17,781,000 (equivalent to approximately HK\$2,848,000) as a possible outflow of resources.

18. EVENT AFTER THE REPORTING PERIOD

On 3 October 2016, Fortune Growth Overseas Limited, a wholly-owned subsidiary of the Company, completed the acquisition of the remaining 49% equity interest in Maxprofit International Limited at a consideration of HK\$1,138 million, of which HK\$788 million was settled by cash and HK\$350 million was settled by way of the issuance of a promissory note in the principal amount of HK\$350 million by Fortune Growth Overseas Limited to Cross-Growth Co., Ltd. pursuant to the acquisition agreement. Details of the acquisition are set out in the announcement of the Company dated 25 July 2016 and the circular of the Company dated 25 August 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Group's revenue for the six months ended 30 September 2016 was approximately HK\$145.8 million, representing a decrease of approximately 12.8%, as compared with approximately HK\$167.2 million for the corresponding period in 2015. 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\$93.1 million for the period under review, representing an increase of approximately 36.3%, as compared with approximately HK\$68.3 million in the last corresponding period. Gross profit margin for the six months ended 30 September 2016 was approximately 63.9%, representing an increase of approximately 23.1% as compared to gross profit margin of approximately 40.8% for the six months ended 30 September 2015. The increase in gross profit for the period was mainly due to the decrease in depreciation included in cost of sales after partial set off in a decrease in revenue.

Other income of the Group for the six months ended 30 September 2016 was approximately HK\$5.4 million, representing a decrease of approximately 18.2%, as compared with approximately HK\$6.6 million in the last corresponding period. The decrease was mainly due to the decrease in interest income during the period.

The Group recorded a loss of approximately HK\$31,000 on change in fair value of financial assets at fair value through profit or loss for the six months ended 30 September 2016, representing a decrease of approximately 99.9%, as compared with a loss of approximately HK\$21.5 million for the last corresponding period.

Other gain and loss of the Group represented the net foreign exchange gain or loss recognised during the period under review. The Group recorded a net foreign exchange gain of approximately HK\$41.9 million for the six months ended 30 September 2016, representing a decrease of approximately 14.3%, as compared with approximately HK\$48.9 million in the last corresponding period.

Selling and marketing expenses, and general and administrative expenses of the Group increased by approximately 5.7% to approximately HK\$67.3 million for the six months ended 30 September 2016 from approximately HK\$63.7 million in the last corresponding period. Included in the expenses for the six months ended 30 September 2016, approximately 41.2% and 13.1% were the staff costs and the utilities expenses respectively. The staff costs for the six months ended 30 September 2016 was approximately HK\$27.7 million, representing an increase of approximately 2.2%, as compared with approximately HK\$27.1 million in the last corresponding period and the utilities expenses for the six months ended 30 September 2016 was approximately HK\$8.8 million, representing a decrease of approximately 13.7%, as compared with approximately HK\$10.2 million in the last corresponding period.

Income tax charge of the Group increased by approximately 473.1% to approximately HK\$14.9 million for the six months ended 30 September 2016 from approximately HK\$2.6 million in the last corresponding period. The increase in income tax charge for the period was mainly due to the increase in deferred tax charge in relation to the withholding tax on undistributed earnings arising from the subsidiaries of the Company in the Philippines.

The profit of the Group increased by approximately 61.7% to approximately HK\$58.2 million for the six months ended 30 September 2016 from approximately HK\$36.0 million for the six months ended 30 September 2015.

Earnings per share for the six months ended 30 September 2016 amounted to approximately 3.73 HK cents, as compared with earnings per share of approximately 2.59 HK cents for the six months ended 30 September 2015.

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. The monthly rental income is based on an agreed percentage of net gaming revenue generated 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 2016 was approximately HK\$94.8 million, representing a decrease of approximately 19.5%, as compared with approximately HK\$117.8 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 65.0% of the Group's total revenue during the period under review. In the last corresponding period, it contributed approximately 70.5% 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 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 2016 was approximately HK\$51.0 million, representing an increase of approximately 3.2%, as compared with approximately HK\$49.4 million in the last corresponding period. The increase was mainly due to the increase in both the room revenue and the food and beverage sales for the period.

Included in the revenue derived from the hotel operations, approximately 63.9% of the revenue was contributed by room revenue for the period under review. In the last corresponding period, it was approximately 63.2% of the revenue derived from the hotel operations. The room revenue for the six months ended 30 September 2016 was approximately HK\$32.6 million, representing an increase of approximately 4.5%, as compared with approximately HK\$31.2 million in the last corresponding period. The increase was mainly due to the increase in the average occupancy rate during the period under review.

FUTURE OUTLOOK

The Group will continue to focus on its existing business operations and investments in the Philippines, and will prudently explore new opportunities. The management of the Group will consider a renovation plan to improve the properties of the Group as well as the facilities therein so as to attract more guests and enhance their experience during their stays. The Group will strive to make good use of available cash on hand for investment for better return to the Shareholders.

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 2016, the Group's net current assets amounted to approximately HK\$1,058.5 million (as at 31 March 2016: HK\$1,182.5 million). Current assets amounted to approximately HK\$1,092.3 million (as at 31 March 2016: HK\$1,218.3 million), of which approximately HK\$1,054.9 million (as at 31 March 2016: HK\$1,179.5 million) was bank balances and cash, approximately HK\$18.7 million (as at 31 March 2016: HK\$20.2 million) was trade receivables, approximately HK\$16.2 million (as at 31 March 2016: HK\$16.1 million) was other receivables, deposits and prepayments, and approximately HK\$2.5 million (as at 31 March 2016: HK\$2.5 million) was inventories.

As at 30 September 2016, the Group had current liabilities amounted to approximately HK\$33.8 million (as at 31 March 2016: HK\$35.8 million), of which approximately HK\$5.6 million (as at 31 March 2016: HK\$6.1 million) was trade payables, approximately HK\$26.5 million (as at 31 March 2016: HK\$28.0 million) was other payables and accrued charges, and approximately HK\$1.7 million (as at 31 March 2016: HK\$1.7 million) was tax liabilities.

The bank balances and cash of the Group as at 30 September 2016 was mainly denominated in Peso, HK\$ and United States Dollars ("USD").

During the six months ended 30 September 2016, the Group has paid a dividend to non-controlling interests amounted to approximately HK\$120.1 million. Besides, the Group has paid the withholding tax amounted to approximately HK\$45.9 million in respect of the dividend distributed by a subsidiary of the Company in the Philippines to its overseas immediate holding company.

Net cash generated by the operations of the Group for the period under review was approximately HK\$9.4 million, representing a decrease of approximately 83.7%, as compared with approximately HK\$57.7 million in the last corresponding period. Net assets attributable to the owners of the Company as at 30 September 2016 amounted to approximately HK\$1,294.2 million, representing a decrease of approximately 1.5%, as compared with approximately HK\$1,314.0 million as at 31 March 2016.

The gearing ratio, measured in terms of total borrowings divided by total assets, was zero as at 30 September 2016 and 31 March 2016 respectively.

For the period under review, the Group financed its operations generally with internally generated cash flows.

CHARGES ON GROUP ASSETS

As at 30 September 2016 and 31 March 2016 respectively, there were no charges over any of the Group's assets.

MATERIAL ACQUISITIONS AND DISPOSALS AND SIGNIFICANT INVESTMENTS

On 25 July 2016, Fortune Growth Overseas Limited, a wholly-owned subsidiary of the Company, entered into the conditional sale and purchase agreement with Cross-Growth Co., Ltd. to acquire the remaining 49% equity interest in Maxprofit International Limited at a consideration of HK\$1,138 million. Completion of the acquisition took place on 3 October 2016 and Maxprofit International Limited became an indirectly wholly-owned subsidiary of the Company. Details of the acquisition are set out in the announcement of the Company dated 25 July 2016 and the circular of the Company dated 25 August 2016.

Save as disclosed above, 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 2016.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

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. The Group will also consider a renovation plan to improve the properties of the Group as well as the facilities therein so as to attract more guests and enhance their experience during their stays.

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 of the Group 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 are 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 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

As at 30 September 2016, the Group had (a) contingent liabilities of approximately HK\$437.6 million (as at 31 March 2016: HK\$460.2 million) relating to the tax disputes between a subsidiary of the Company principally engaged in the business of leasing of properties in the Philippines and BIR for the calendar years of 2008 and 2012, as well as the potential income tax (but not taking into account any possible additional penalties or interest liability, of which existence 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) that may be assessed by BIR for the taxable years which are not yet barred by prescription under the relevant laws, rules and regulations of the Philippines; and (b) contingent liabilities of approximately HK\$2.8 million (as at 31 March 2016: HK\$8.8 million) relating to the tax disputes between another subsidiary of the Company principally engaging in the hotel operations in the Philippines and BIR for the calendar year of 2011 (but without taking into account any possible additional penalties or interest liability, of which existence 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).

Details of the aforesaid contingent liabilities are set out in note 17 to this announcement.

EMPLOYEES AND REMUNERATION POLICY

The total number of employees of the Group was 303 as at 30 September 2016 (as at 30 September 2015: 305). The staff costs for the six months ended 30 September 2016 was approximately HK\$27.7 million (for the six months ended 30 September 2015: HK\$27.1 million). The remuneration policy of the Company is recommended by the remuneration committee of the Company. The remuneration of the Directors and the employees of the Group is based on the performance and experience of the individuals and is 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 the employees of the Group 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 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 condensed consolidated financial statements of the Group and the interim report of the Company for the six months ended 30 September 2016. The Company's auditor, Deloitte Touche Tohmatsu, has reviewed the condensed consolidated financial statements of the Group for the six months ended 30 September 2016 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 2016, the Company has complied with the code provisions of the Corporate Governance Code (the "Corporate Governance Code") as set out in Appendix 14 to the Listing Rules, except for the following deviation:

Code Provision A.6.7 of the Corporate Governance Code stipulates that independent non-executive directors and other non-executive directors, as equal board members, should give the board and any committees on which they serve the benefit of their skills, expertise and varied backgrounds and qualifications through regular attendance and active participation. They should also attend general meetings and develop a balanced understanding of the views of shareholders.

Mr. Kwee Chong Kok, Michael, an independent non-executive Director, was unable to attend the annual general meeting of the Company held on 17 August 2016 and the extraordinary general meeting of the Company held on 28 September 2016 (the “EGM”) as he had another business engagements at the time of those meetings.

Mr. Cheung Hon Kit, an independent non-executive Director, was unable to attend the EGM as he had another business engagement at the time of such meeting.

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 of all 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 2016.

INTERIM DIVIDEND

The Board has resolved not to recommend the payment of any interim dividend for the six months ended 30 September 2016 (2015: nil).

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

During the six months ended 30 September 2016, 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, 25 November 2016

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 Bui, 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.