



INTERNATIONAL ENTERTAINMENT CORPORATION

國際娛樂有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8118)

THIRD QUARTERLY RESULTS ANNOUNCEMENT FOR THE NINE MONTHS ENDED 31 DECEMBER 2006

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This announcement, 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 announcement 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 announcement misleading; and (3) all opinions expressed in this announcement 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 nine months ended 31 December 2006, together with the comparative unaudited figures for the corresponding periods in 2005 as follows:

		Three months ended 31 December		Nine months ended 31 December	
		2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
	Notes				
Turnover	3	15,076	41,975	126,645	225,694
Cost of sales		(21,649)	(74,410)	(138,884)	(242,768)
Gross loss		(6,573)	(32,435)	(12,239)	(17,074)
Other income	4	8,027	2,544	14,592	6,666
Selling and distribution costs		(3,322)	(642)	(10,160)	(14,311)
General and administrative expenses		(9,769)	(13,178)	(30,141)	(40,173)
Finance costs		(1,121)	(792)	(2,936)	(1,395)
Loss before taxation		(12,758)	(44,503)	(40,884)	(66,287)
Taxation	5	-	-	-	-
Loss for the period		(12,758)	(44,503)	(40,884)	(66,287)
Attributable to:					
Equity holders of the Company		(12,758)	(22,896)	(40,884)	(35,580)
Minority interests		-	(21,607)	-	(30,707)
		(12,758)	(44,503)	(40,884)	(66,287)
Loss per share	7				
Basic		HK(5.41) cents	HK(9.71) cents	HK(17.34) cents	HK(15.09) cents
Diluted		HK(5.41) cents	HK(9.71) cents	HK(17.34) cents	HK(15.09) cents

Notes:

1. Basis of preparation

The unaudited consolidated results have been prepared in accordance with accounting principles generally accepted in Hong Kong, Hong Kong Financial Reporting Standards (“HKFRS(s)”), Hong Kong Accounting Standards (“HKAS(s)”) and Interpretations (“INT(s)”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”).

2. Principal accounting policies

The unaudited consolidated results have been prepared under the historical cost basis except for certain financial instruments, which are measured at fair value.

The accounting policies used in the unaudited consolidated results are consistent with those used in the annual financial statements for the year ended 31 March 2006 except as described below.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as any of the other categories (i.e. financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments). At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. Any impairment previously recognised in equity is removed from equity and recognised in profit or loss. Impairment losses on available-for-sale equity investments will not be reversed in subsequent periods. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment losses.

In the current period, the Group has applied, for the first time, a number of new standards, amendments and interpretations (“new HKFRSs”) issued by HKICPA which are effective for accounting periods beginning on or after 1 December 2005, 1 January 2006 or 1 March 2006. The adoption of new HKFRSs had no material effect on how the results of current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

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

HKAS 1 (Amendment)	Capital Disclosures ¹
HKFRS 7	Financial Instruments: Disclosures ¹
HK(IFRIC)-Int 8	Scope of HKFRS 2 ²
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives ³
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment ⁴
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions ⁵

¹ Effective for annual periods beginning on or after 1 January 2007

² Effective for annual periods beginning on or after 1 May 2006

³ Effective for annual periods beginning on or after 1 June 2006

⁴ Effective for annual periods beginning on or after 1 November 2006

⁵ Effective for annual periods beginning on or after 1 March 2007

3. Turnover

	Three months ended		Nine months ended	
	31 December		31 December	
	2006	2005	2006	2005
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000

The Group's turnover comprises:

Sales of goods	2,549	3,662	5,919	6,976
Services income	3,243	1,967	8,010	7,676
Film licensing income	9,284	36,346	112,716	211,042
	15,076	41,975	126,645	225,694

4. Other income

	Three months ended		Nine months ended	
	31 December		31 December	
	2006	2005	2006	2005
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The Group's other income comprises:				
Interest income on bank deposits	2,373	2,542	7,939	6,646
Other interest income	16	–	59	–
Gain on disposal of available-for-sale financial assets	5,434	–	5,434	–
Dividend income from listed securities	–	–	300	–
Sundry income	204	2	860	20
	8,027	2,544	14,592	6,666

5. Taxation

No provision for Hong Kong Profits Tax or taxation in other jurisdictions has been made as the Group had no assessable profits for the three months and nine months ended 31 December 2006 (for the three months and nine months ended 31 December 2005: nil).

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

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdiction.

No provision for deferred taxation has been recognised as the amount involved is insignificant.

6. Dividend

The Board does not recommend the payment of any dividend for the nine months ended 31 December 2006 (for the nine months ended 31 December 2005: nil).

7. Loss per share

The calculation of the basic loss per share for the three months and nine months ended 31 December 2006 is based on the respective unaudited consolidated loss attributable to equity holders of the Company of approximately HK\$12,758,000 and HK\$40,884,000 (three months and nine months ended 31 December 2005: HK\$22,896,000 and HK\$35,580,000) and the weighted average number of shares of 235,831,447 (three months and nine months ended 31 December 2005: 235,831,447) in issue during the periods.

The computation of diluted loss per share for the three months and nine months ended 31 December 2006 and for the three months and nine months ended 31 December 2005 did not assume the exercise of the subsidiary's outstanding share options existed during the nine months ended 31 December 2006 and nine months ended 31 December 2005 since their exercise would reduce loss per share.

8. Reserves

Attributable to equity holders of the Company

	Share premium (Unaudited) HK\$'000	Merger reserve (Unaudited) HK\$'000	Investment revaluation reserve (Unaudited) HK\$'000	Exchange reserve (Unaudited) HK\$'000	Accumulated losses (Unaudited) HK\$'000	Total (Unaudited) HK\$'000	Minority interests (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
The Group								
At 1 April 2005	263,832	53,022	-	(2,793)	(145,463)	168,598	77,377	245,975
Effect of changes in accounting policies	-	-	-	-	(505)	(505)	-	(505)
At 1 April 2005, as restated	263,832	53,022	-	(2,793)	(145,968)	168,093	77,377	245,470
Exchange differences on translation of overseas operation recognised directly in equity	-	-	-	(3,989)	-	(3,989)	(3,756)	(7,745)
Loss for the period	-	-	-	-	(35,580)	(35,580)	(30,707)	(66,287)
Total recognised income and expenses for the period	-	-	-	(3,989)	(35,580)	(39,569)	(34,463)	(74,032)
At 31 December 2005	263,832	53,022	-	(6,782)	(181,548)	128,524	42,914	171,438
At 1 April 2006	263,832	53,022	-	(2,162)	(263,031)	51,661	-	51,661
Fair value change in available-for-sale financial assets	-	-	5,434	-	-	5,434	-	5,434
Exchange differences on translation of overseas operation recognised directly in equity	-	-	-	(218)	-	(218)	-	(218)
Net income recognised directly in equity	-	-	5,434	(218)	-	5,216	-	5,216
Loss for the period	-	-	-	-	(40,884)	(40,884)	-	(40,884)
Transferred to profit on sale of available-for-sale financial assets	-	-	(5,434)	-	-	(5,434)	-	(5,434)
Total recognised income and expense for the period	-	-	-	(218)	(40,884)	(41,102)	-	(41,102)
At 31 December 2006	263,832	53,022	-	(2,380)	(303,915)	10,559	-	10,559

Management Discussion and Analysis

Financial Review

The Group's turnover for the nine months ended 31 December 2006 was approximately HK\$126.6 million, representing a decrease of approximately 43.9%, as compared with approximately HK\$225.7 million for the previous corresponding period in 2005. The decrease in turnover was mainly due to the decrease in number of films produced during the period. The Group reported a gross loss of approximately HK\$12.2 million for the period under review, representing a decrease of approximately 28.3%, compared with the gross loss of approximately HK\$17.1 million in the last corresponding period. The gross loss for the period was primarily due to write-downs on some of the films costs during the period.

Selling and distribution costs, and general and administrative expenses decreased by approximately 26.0% to approximately HK\$40.3 million for the nine months ended 31 December 2006 from approximately HK\$54.5 million in the last corresponding period. The decrease was mainly attributable to the decrease in marketing expenses for film production, decrease in distribution expenses for film distribution and decrease in staff costs.

The Group recorded a loss before taxation for the nine months ended 31 December 2006, amounted to approximately HK\$40.9 million, representing a decrease of approximately 38.3%, as compared with approximately HK\$66.3 million in the last corresponding period. The decrease in loss before taxation was mainly due to the decrease in write-downs on the films costs, decrease in marketing expenses for the film production, decrease in distribution expenses for film distribution and decrease in staff costs during the period.

Business Review

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

1. Entertainment business

The revenue derived from the entertainment business for the nine months ended 31 December 2006 was approximately HK\$112.7 million, representing a decrease of 46.6%, as compared with approximately HK\$211.0 million in the last corresponding period. The revenue comprised primarily from sales of the theatrical feature films, *Man About Town*, *Running Scared* and *Lovewrecked*. *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 and *Lovewrecked* stars Amanda Bynes and Chris Carmack. The decrease in revenue resulted from a decrease in sales attributable to the Group's film and decrease in number of films produced during the period.

2. Wireless application and network solutions

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

During the nine months ended 31 December 2006, the revenue from wireless application and network solution was approximately HK\$5.9 million, compared to approximately HK\$7.0 million in the last corresponding period. The decrease in revenue was due to the keen competition in the market as well as some projects were postponed and delayed by customers.

3. Project services

For the nine months ended 31 December 2006, revenue derived from the provision of project services was approximately HK\$6.8 million, compared to approximately HK\$6.1 million in the last corresponding period. The increase in revenue was due to the increase in the demand of site optimization by network operators for the period.

Future Outlook

In the past nine months, the improvement of the economic climate has stimulated the enterprise customers to start investing in the network. With the change of technology, the existing old technology such as frequency synchronization system, may need to be replaced or upgraded by customers. In addition, the change of technology also means existing customers may save operating expenses by replacing their existing system with new technology equipments. Therefore, the Group is going to seek the sales opportunity by working closely with our existing vendor to offer the total solution that can help our customers to improve their network by saving their operating cost with adoption of new technology. The Group will also continue to increase the sales force to strengthen the sales penetration into different industry segments.

Although the revenue derived from the provision of project services increased compared to last corresponding period, project services are still in keen competition. The project service team will offer potential customers total service solution packages, including design, supply, project implementation, management service and after sales maintenance support service.

In addition to the production of films, the Group engages in the acquisition of films. The acquired films will be distributed by the Group. Same as previous years, the Group attends major film festivals, including the Cannes Film Festival and Berlin Film Festival, and distributes the films worldwide, to most territories around the world.

The Group has taken a further step into the entertainment industry by entering into a conditional sale and purchase agreement for the acquisition of the hotel and entertainment operations in the Philippines and Macau on 23 November 2004. Details of the acquisition are set out in the announcements of the Company dated 23 November 2004, 17 March 2005, 29 September 2005, 6 January 2006, 22 June 2006, 3 August 2006, 11 August 2006 and 22 December 2006. As at the date of this announcement, the acquisition has not been completed because the relevant regulatory approval procedure is still ongoing. 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.

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

Save as disclosed below, as at 31 December 2006, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”), Chapter 571 of the Laws of Hong Kong) which were required to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO, including interests or short positions which they were taken or deemed to have under such provisions of the SFO, or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors, to be notified to the Company and the Stock Exchange.

Long positions in the ordinary shares of the Company

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

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

Interests and Short Positions of Shareholders in the Shares and Underlying Shares of the Company

Save as disclosed below, as at 31 December 2006, so far as is known to the Directors or chief executives of the Company, the Company has not been notified by any persons (other than the Directors or chief 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.

Long positions in the ordinary shares of the Company

Name of shareholder	Capacity	Number of ordinary shares of HK\$1.00 each in the share capital of the Company	Number of unissued shares	Number of underlying shares	Aggregate interest	Approximate percentage of the issued share capital of the Company
Mediastar International Limited ("Mediastar")	Beneficial owner	120,000,079	–	–	120,000,079	50.88%
Cross-Growth Co., Ltd.	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)		
Centennial Success Limited	Interest of a controlled corporation	120,000,079 (Notes 1, 5)	707,494,341 (Notes 4, 5)	200,000,000 (Notes 3, 5)	1,027,494,420	435.69%
Cheng Yu Tung Family (Holdings) Limited	Interest of a controlled corporation	120,000,079 (Notes 1, 6)	707,494,341 (Notes 4, 6)	200,000,000 (Notes 3, 6)	1,027,494,420	435.69%
Young China Investments Limited	Beneficial owner	19,000,000	–	–	19,000,000	8.06%
Mr. Chow Shiu Leung	Interest of a controlled corporation	19,000,000 (Note 2)	–	–	19,000,000	8.06%

Notes:

- (1) Mediastar is wholly owned by CTF. Accordingly, CTF is deemed to be interested in 120,000,079 shares of the Company held by Mediastar under the SFO.
- (2) Young China Investments Limited 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 Limited 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.
- (5) CTF is wholly owned by Centennial Success Limited. Accordingly, Centennial Success Limited is deemed to be interested in 120,000,079 shares of the Company held by Mediastar, 200,000,000 underlying shares of the Company to be held by Cross-Growth Co., Ltd., and 707,494,341 rights shares of the Company underwritten by CTF under the SFO.
- (6) Cheng Yu Tung Family (Holdings) Limited is interested in 51% of the issued share capital of Centennial Success Limited. Accordingly, Cheng Yu Tung Family (Holdings) Limited is deemed to be interested in 120,000,079 shares of the Company held by Mediastar, 200,000,000 underlying shares of the Company to be held by Cross-Growth Co., Ltd., and 707,494,341 rights shares of the Company underwritten by CTF under the SFO.

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 31 December 2006.

(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 of the Company 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 nine months ended 31 December 2006 and there were no share options outstanding under the Post-IPO Scheme as at 31 December 2006. 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 nine months ended 31 December 2006 and there were no share options outstanding under the New Scheme as at 31 December 2006.

(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 31 December 2006 which have been granted under the Plan to employees are as follows:

Name or category of participant	Date of grant	Exercisable period	Exercise price per share CAD	At 1 April 2006	Options cancelled during the period (Note)	At 31 December 2006
Employee	25 May 2000	26 May 2000 – 25 May 2010	0.120	100,000	–	100,000
Employee	29 August 2000	30 August 2002 – 29 August 2010	0.100	137,500	(137,500)	–
Employee	29 August 2000	30 August 2003 – 29 August 2010	0.100	306,250	(212,500)	93,750
Employee	29 August 2000	30 August 2004 – 29 August 2010	0.100	306,250	–	306,250
Employee	24 May 2001	25 May 2001 – 24 May 2011	0.035	100,000	–	100,000
Employee	15 February 2002	16 February 2003 – 15 February 2012	0.075	830,000	(320,000)	510,000
Employee	13 May 2002	14 May 2003 – 13 May 2012	0.170	750,000	(700,000)	50,000
Employee	13 May 2002	14 May 2004 – 13 May 2012	0.170	1,150,000	–	1,150,000
Employee	13 May 2002	14 May 2005 – 13 May 2012	0.170	1,150,000	–	1,150,000
Employee	13 May 2002	14 May 2006 – 13 May 2012	0.170	1,150,000	–	1,150,000
Employee	28 August 2002	29 August 2004 – 28 August 2012	0.160	1,200,000	–	1,200,000
Employee	1 May 2003	2 May 2003 – 1 May 2013	0.075	5,970,000	(50,000)	5,920,000
Total				13,150,000	(1,420,000)	11,730,000

Note: The options were cancelled due to cessation of employment of participants with the subsidiary.

No option was exercised or granted during the nine months ended 31 December 2006.

Competing Business

During the nine months ended 31 December 2006, 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 third quarterly results for the nine months ended 31 December 2006.

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

During the nine months ended 31 December 2006, 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 February 2007

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

Executive Directors:

Cheng Kar Shun (*Chairman*)

Lo Lin Shing, Simon

To Hin Tsun, Gerald

Choi Wing Kin

So Kam Wing

Non-executive Director:

Wu Wing Kin

Independent non-executive Directors:

Cheung Hon Kit

Kwee Chong Kok, Michael

Wong Chi Keung

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