INTERNATIONAL ENTERTAINMENT CORPRATION

國際娛樂有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8118)

FINAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 MARCH 2006

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

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.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial review

The Group's turnover for the year ended 31 March 2006 was approximately HK$274.3 million, representing an increase of approximately 8.0 times, as compared with approximately HK$34.4 million for the last year. The increase in turnover was mainly contributed by the revenue from entertainment business. The Group reported a gross loss of approximately HK$83.0 million for the year under review, as compared to the gross loss of approximately HK$0.9 million in the last year. The increase in gross loss for the year was primarily due to write-downs on some of the films.

Selling and distribution costs, general and administrative expenses, and other operating expenses increased by approximately 2.6 times to approximately HK$81.7 million for the year ended 31 March 2006 from approximately HK$31.9 million in the last year. 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.

In current year, in view of the deteriorating results of certain subsidiaries, an impairment loss of approximately HK$14.8 million has been recognised for the goodwill arising on the acquisition of these subsidiaries.

The Group recorded an operating loss for the year ended 31 March 2006, amounted to approximately HK$170.3 million, representing an increase of approximately 5.9 times, as compared with approximately HK$28.8 million in last year. The increase in operating loss for the year was mainly due to the write-downs on some of the films and impairment loss recognised for the goodwill arising on acquisition of subsidiaries during the year.

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. *Entertainment business*

   The revenue derived from the entertainment business for the year ended 31 March 2006 was approximately HK$257.5 million. The revenue comprised primarily from sales of the theatrical feature films, *Running Scared, Santa's Slay, Man About Town* and *Monster. 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. *Man About Town* is a dramatic comedy written and directed by Mike Binder, and starring Ben Affleck and Rebecca Romijn and *Monster* is a critically acclaimed drama, for which Charlize Theron won the 2004 Academy Award for Best Actress. Since the acquisition of M8 Entertainment Inc. was completed on 22 December 2004, only the results of M8 during the period from 1 January 2005 to 31 March 2005 were taken up in the consolidated results of the last year. The revenue derived from the entertainment business during that period was approximately HK$18.5 million.

2. *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.

   During the year ended 31 March 2006, the revenue was approximately HK$8.1 million, compared to approximately HK$5.5 million in the last year. The increase in revenue was due to additional projects being completed during the year under review.

3. *Project services*

For the year ended 31 March 2006, the Group completed certain projects, revenue derived from the provision of project services was approximately HK$6.8 million, compared to approximately HK$8.6 million in the last year. The decrease in revenue was due to the keen competition in the market.

Future outlook

With the improvement of the economic climate, more and more companies are willing to invest and improve their IT 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 will commence pre-production of several film projects in coming year. In addition to the production of films, the Group would engage in the acquisition of films. The acquired films would be distributed by the Group. Same as previous years, the Group will attend major film markets, including the Cannes Film Festival and the Berlin Film Festival, and distribute 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 and 22 June 2006. As at the date of this announcement, the acquisition has not been completed because the relevant regulatory approval procedure is still on going. 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 31 March 2006, the Group's net current assets amounted to approximately HK$285.5 million (2005: approximately HK$439.4 million). Current assets amounted to approximately HK$540.6 million (2005: approximately HK$909.4 million), of which approximately HK$293.0 million (2005: approximately HK$362.0 million) was cash, bank deposits and pledged deposits, approximately HK$25.0 million (2005: approximately HK$83.3 million) was trade receivables, and approximately HK$198.2 million (2005: approximately HK$441.3 million) was film costs.

The Group had current liabilities amounted to approximately HK$255.1 million (2005: approximately HK$470.0 million), of which approximately HK$59.4 million (2005: approximately HK$52.7 million) was trade payables, approximately HK$46.4 million (2005: approximately HK$110.5 million) was other payables and accrued charges, approximately HK$130.5 million (2005: approximately HK$252.9 million) was bank and other borrowings, and approximately HK$15.6 million (2005: approximately HK$15.6 million) was loans from Directors and related companies.

As at 31 March 2006, the Group did not have any bank overdraft (2005: approximately HK$2.1 million). The bank loans of the Group amounted to approximately HK$127.1 million (2005: approximately HK$247.4 million), which will be due within one year.

As at 31 March 2006 the Group had loans from the Directors of approximately HK$3.0 million (2005: approximately HK$3.0 million), of which approximately HK$1.8 million (2005: approximately HK$1.8 million) was unsecured, bore interest at the Hong Kong Interbank Offered Rate ("HIBOR") plus 2% per annum 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 (2005: approximately HK$12.6 million), of which approximately HK$9.8 million (2005: 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 (2005: 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 (2005: HK$11.0 million).

In addition, the Group had other loans of approximately HK$3.4 million (2005: approximately HK$3.4 million), of which approximately HK$2.0 million (2005: approximately HK$2.0 million) was unsecured, bore interest at the HIBOR plus 2% per annum and was repayable on demand; and the remaining balance was unsecured, interest-free and repayable on demand.

During the year ended 31 March 2005, the Group issued two non-interest bearing promissory notes of approximately HK$36.1 million, which was repaid on 21 June 2005.

The gearing ratio, measured in terms of total borrowings divided by total assets, was approximately 26.9% as at 31 March 2006, compared to 32.0% as at 31 March 2005.

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

Charges on group assets

As at 31 March 2006, the Group's bank deposit of approximately HK$59.9 million (2005: approximately HK$9.0 million), trade receivables, deposits and prepayments of HK$32.2 million (2005: approximately HK$78.6 million), and film assets of HK$76.3 million (2005: approximately HK$160.8 million) have been pledged to banks to secure banking facility granted to the Group.

As at 31 March 2005, 79,414,501 Class B shares of M8 Entertainment Inc., a subsidiary of the Company, and 130,891,920 Class C shares of M8 Entertainment Inc. are pledged to the holders of the non-interest bearing promissory note in the amount of approximately US$2,794,279 (equivalent to approximately HK$21.8 million) in favour of Music Box Entertainment Limited and the non-interest bearing promissory note in the amount of approximately US$1,831,924 (equivalent to approximately HK$14.3 million) in favour of Mr. Mark Damon as trustee of The Mark and Margaret Damon Trust. The pledges were released on 21 June 2005.

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 (the "Acquisition") 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.

Pursuant to the GEM Listing Rules, the Acquisition constitutes a connected transaction and a very substantial acquisition for the Company and the Acquisition has been treated as a deemed new listing application (the "Application") which is subject to the approval of the listing committee of the Stock Exchange (the "Listing Committee"). However, on 13 June 2006, the Listing Division of the Stock Exchange (the "Listing Division") issued a letter to the Company stating that the Company, as enlarged by the Acquisition, is not suitable for listing and has determined to reject the Application. The Company does not agree with the Listing Division's decision and intends to continue to proceed with the Application. On 19 June 2006, the Company submitted a request for review of such decision by the Listing Committee pursuant to Rule 4.05 of the GEM Listing Rules.

Details of the proposed acquisition are set out in the announcements of the Company dated 23 November 2004, 17 March 2005, 29 September 2005, 6 January 2006 and 22 June 2006. As at the date of this announcement, the acquisition has not been completed because the relevant regulatory approval procedure is still on going.

Save as disclosed above, there were neither significant investments held by the Group nor material acquisitions and disposals of subsidiaries and affiliated companies for the year ended 31 March 2006.

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 31 March 2006, the Company has provided corporate guarantees of approximately HK$11.0 million (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 45 as at 31 March 2006 (as at 31 March 2005: 52). The staff cost for the year ended 31 March 2006 was approximately HK$26.4 million (for the year ended 31 March 2005: approximately HK$10.2 million). The remuneration of employees of the Group is based on the performance and experience of individuals and is determined with reference to the Company's performance, the remuneration benchmark in the industry and the prevailing market conditions. In addition to salaries, employee benefits included medical scheme, insurance, retirement benefits schemes and share option scheme.

The board of directors (the “Board”) of the Company is pleased to announce the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 March 2006, together with comparative figures for the year ended 31 March 2005.

CONSOLIDATED INCOME STATEMENT

For the Year Ended 31 March 2006

	Notes	**2006** **HK$'000**	2005 HK$'000
Turnover	7	**274,311**	34,448
Cost of sales		**(357,328)**	(35,308)
Gross loss		**(83,017)**	(860)
Other income	9	**9,281**	3,977
Selling and distribution costs		**(21,012)**	(2,424)
Impairment loss recognised in respect of goodwill		**(14,843)**	–
General and administrative expenses		**(60,717)**	(28,210)
Other expenses		**–**	(1,244)
Finance costs	10	**(2,704)**	(1,117)
Loss before taxation	11	**(173,012)**	(29,878)
Taxation	12	**(22,049)**	–
Loss for the year		**(195,061)**	(29,878)
Attributable to:			
Equity holders of the Company		**(117,063)**	(19,295)
Minority interests		**(77,998)**	(10,583)
		(195,061)	(29,878)
Loss per share	13		
Basic		**HK$(0.50)**	HK$(0.10)
Diluted		**HK$(0.50)**	HK$(0.10)

CONSOLIDATED BALANCE SHEET

At 31 March 2006

	Notes	2006 HK$'000	2005 HK$'000 (restated)
Non-current assets			
Property, plant and equipment		**1,952**	4,061
Goodwill		**–**	15,764
Interest in an associate		**–**	–
Deferred tax assets		**–**	22,543
		1,952	42,368
Current assets			
Inventories		**655**	1,873
Film costs		**198,207**	441,311
Trade receivables	14	**25,001**	83,321
Other receivables, deposits and prepayments		**23,295**	20,312
Amounts due from related companies		**458**	584
Tax recoverable		**15**	–
Pledged bank deposits		**59,861**	9,014
Bank balances and cash		**233,123**	353,009
		540,615	909,424
Current liabilities			
Trade payables	15	**59,371**	52,650
Other payables and accrued charges		**46,444**	110,520
Amounts due to related companies		**2,454**	1,549
Loans from directors		**3,044**	3,044
Loans from related companies		**12,582**	12,582
Preference dividend payable		**673**	673
Other borrowings		**3,374**	3,374
Bank borrowings		**127,133**	249,510
Promissory notes		**–**	36,084
		255,075	469,986
Net current assets		**285,540**	439,438
Total assets less current liabilities		**287,492**	481,806
Capital and reserves			
Share capital		**235,831**	235,831
Share premium and reserves		**51,661**	168,598
Equity attributable to equity holders of the Company		**287,492**	404,429
Minority interests		**–**	77,377
Total equity		**287,492**	481,806

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Year Ended 31 March 2006

	Attributable to equity holders of the Company							
	Share capital HK$'000	Share premium HK$'000	Merger reserve HK$'000 (Note)	Exchange reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
At 1 April 2004	831	–	53,022	–	(126,168)	(72,315)	–	(72,315)
Exchange differences on translation of overseas operation recognised directly in equity	–	–	–	(2,793)	–	(2,793)	(2,538)	(5,331)
Loss for the year	–	–	–	–	(19,295)	(19,295)	(10,583)	(29,878)
Total recognised expense for the year	–	–	–	(2,793)	(19,295)	(22,088)	(13,121)	(35,209)
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 placements	111,000	232,500	–	–	–	343,500	–	343,500
Share issue expenses	–	(9,237)	–	–	–	(9,237)	–	(9,237)
Acquisition of subsidiaries	–	–	–	–	–	–	90,498	90,498
	235,000	263,832	–	–	–	498,832	90,498	589,330
At 31 March 2005	235,831	263,832	53,022	(2,793)	(145,463)	404,429	77,377	481,806
Effect of changes in accounting policies (see note 3)	–	–	–	–	(505)	(505)	–	(505)
At 1 April 2005, as restated	235,831	263,832	53,022	(2,793)	(145,968)	403,924	77,377	481,301
Exchange differences on translation of overseas operation recognised directly in equity	–	–	–	631	–	631	621	1,252
Loss for the year	–	–	–	–	(117,063)	(117,063)	(77,998)	(195,061)
Total recognised income and expense for the year	–	–	–	631	(117,063)	(116,432)	(77,377)	(193,809)
At 31 March 2006	235,831	263,832	53,022	(2,162)	(263,031)	287,492	–	287,492

Note: Pursuant to a group reorganisation (the "Group Reorganisation") to rationalize the structure of the Group in preparation for the listing of the Company's shares on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, the Company issued shares in exchange for the entire issued share capital of Cyber On-Air Multimedia Limited (formerly known as HKcyber Limited) ("HKCYBER") and thereby became the holding company of the Group on 17 July 2000. Details of the Group Reorganisation and the issue and placing of shares of the Company are set out in Section I in the prospectus dated 21 July 2000 issued by the Company.

Merger reserve of the Group represents the difference between the share capital and share premium of HKCYBER whose shares were exchanged for the Company's shares and the nominal amount of share capital issued by the Company pursuant to the Group Reorganisation.

1. GENERAL

The Company is a public listed company incorporated in the Cayman Islands. Its immediate holding company is Mediastar International Limited ("Mediastar") (incorporated in British Virgin Islands). Its intermediate holding company and ultimate holding company are Chow Tai Fook Enterprises Limited ("CTF") (incorporated in Hong Kong) and Cheng Yu Tung Family (Holdings) Limited (incorporated in British Virgin Islands) respectively. The address of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section to the annual report.

The financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

The Company acts as an investment holding company.

The shares of the Company have been listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 31 July 2000.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRS(s)"), Hong Kong Accounting Standards ("HKAS(s)") and Interpretations ("INT(s)") (hereinafter collectively referred to as "new HKFRS(s)") issued by the Hong Kong Institute of Certified Public Accountants that are effective for accounting periods beginning on or after 1 January 2005 other than HKFRS 3 "Business Combinations" that had been adopted during the year ended 31 March 2005 for business combinations for which the agreement date is on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and the consolidated statement of changes in equity. In particular, the presentation of minority interests have been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current accounting years are prepared and presented:

Business combinations

In the current year, the Group has applied HKFRS 3 "Business combinations" other than business combinations for which the agreement date is on or after 1 January 2005 which was adopted during the year ended 31 March 2005. The principal effects of the application of HKFRS 3 to the Group are summarised below:

Goodwill

In previous years, goodwill arising on acquisition was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3.

With respect to goodwill previously capitalised on the consolidated balance sheet, the Group on 1 April 2005 eliminated the carrying amount of the related accumulated amortisation of HK$32,124,000 with a corresponding decrease in the cost of goodwill. The Group has discontinued amortising such goodwill from 1 April 2005 onwards and such goodwill will be tested for impairment at least annually. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current year. Comparative figures for 2004 have not been restated (see note 3 for the financial impact).

In the current year, 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 the historical rate at each balance sheet date. In accordance with the relevant transitional provisions in HKAS 21, goodwill arising on acquisition prior to 1 April 2005 is treated as a non-monetary foreign currency item. Therefore, no prior period adjustment has been made.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES *(Continued)*

Share-based payments

In the current year, the Group has applied HKFRS 2 "Share-based payment" which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of share options granted to directors and employees of the Company and its subsidiaries, determined at the date of grant of the share options, over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1 April 2005. In relation to share options granted before 1 April 2005, the Group chooses not to apply HKFRS 2 with respect to share options granted on or before 7 November 2002 and vested before 1 April 2005. However, the Group is still required to apply HKFRS 2 retrospectively to share options that were granted after 7 November 2002 and had not vested on 1 April 2005. There were no unvested options on 1 April 2005. The adoption of HKFRS 2 has had no effect on the result of prior or current accounting years.

Financial instruments

In the current year, the Group has applied HKAS 32 "Financial instruments: Disclosure and Presentation" and HKAS 39 "Financial instruments: Recognition and Measurement". HKAS 32 requires retrospective application. The application of HKAS 32 has had no material impact on how financial instruments of the Group are presented for current and prior accounting periods. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit the recognition, derecognition or measurement of 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 has classified and measured its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of the Statement of Standard Accounting Practice 24 "Accounting for Investments in Securities" 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 "other financial liabilities". Other financial liabilities are carried at amortised cost using the effective interest method after initial recognition.

Prior to the application of HKAS 39, interest-free 6-month promissory notes were stated at the nominal amount. HKAS 39 requires all financial assets and financial liabilities to be measured at fair value on initial recognition. Such interest free notes are measured at amortised cost determined using the effective interest method at subsequent balance sheet dates. The Group has applied the relevant transitional provision in HKAS 39. As a result of this change in the accounting policy, the carrying amount of the promissory notes and the goodwill as at 1 April 2005 has been decreased by HK$416,000 and HK$921,000 respectively in order to state the promissory notes at amortised cost in accordance with HKAS 39. The Group's accumulated losses as at 1 April 2005 has been increased by HK$505,000. Loss for the year has been increased by HK$416,000 due to recognition of imputed interest expense (see Note 3 for the financial impact).

3. SUMMARY OF EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of the changes in the accounting policies described above on the results for the current and prior years are as follows:

	2006 **HK$'000**	2005 HK$'000
Non-amortisation of goodwill	**1,810**	–
Imputed interest expense on the promissory notes	**(416)**	–
Decrease in loss for the year	**1,394**	–

The cumulative effects of the application of the new HKFRSs on 31 March 2005 and 1 April 2005 are summarised below:

	As at 31.3.2005 HK$'000 (originally stated)	**Effect of HKAS 1** HK$'000	**As at 31.3.2005** HK$'000 (restated)	**Effect of HKAS 39** HK$'000	**As at 1.4.2005** HK$'000 (restated)
Goodwill	15,764	–	15,764	(921)	14,843
Promissory notes	(36,084)	–	(36,084)	416	(35,668)
Other assets/liabilities	502,126	–	502,126	–	502,126
	481,806	–	481,806	(505)	481,301
Share capital	235,831	–	235,831	–	235,831
Accumulated losses	(145,463)	–	(145,463)	(505)	(145,968)
Other reserves	314,061	–	314,061	–	314,061
Minority interests	–	77,377	77,377	–	77,377
Total equity	404,429	77,377	481,806	(505)	481,301
Minority interests	77,377	(77,377)	–	–	–
	481,806	–	481,806	(505)	481,301

3. SUMMARY OF EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES *(Continued)*

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective. The directors of the Company anticipate that the application of these new and revised HKFRSs will not have any material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital disclosures [1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures [2]
HKAS 21 (Amendment)	Net investment in a foreign operation [2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions [2]
HKAS 39 (Amendment)	The fair value option [2]
HKAS 39 and HKFRS 4 (Amendments)	Financial guarantee contracts [2]
HKFRS 6	Exploration for and evaluation of mineral resources [2]
HKFRS 7	Financial instruments: Disclosures [1]
HK(IFRIC) – INT 4	Determining whether an arrangement contains a lease [2]
HK(IFRIC) – INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds [2]
HK(IFRIC) – INT 6	Liabilities arising from participating in a specific market — waste electrical and electronic equipment [3]
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies [4]
HK(IFRIC) – INT 8	Scope of HKFRS 2 [5]
HK(IFRIC) – INT 9	Reassessment of embedded derivatives [6]

1 *Effective for annual periods beginning on or after 1 January 2007.*
2 *Effective for annual periods beginning on or after 1 January 2006.*
3 *Effective for annual periods beginning on or after 1 December 2005.*
4 *Effective for annual periods beginning on or after 1 March 2006.*
5 *Effective for annual periods beginning on or after 1 May 2006.*
6 *Effective for annual periods beginning on or after 1 June 2006.*

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the Hong Kong Institute of Certified Public Accountants. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from equity attributable to equity holders of the Company therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Goodwill

Goodwill arising on acquisitions prior to 1 January 2005

Goodwill arising on an acquisition of a subsidiary for which the agreement date is before 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiary or associate at the date of acquisition.

For previously capitalised goodwill arising on acquisitions, the Group has discontinued amortisation from 1 April 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired.

Goodwill arising on acquisitions on or after 1 January 2005

Goodwill arising on an acquisition of a subsidiary for which the agreement date is on or after 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the balance sheet.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill *(Continued)*

Goodwill arising on acquisitions on or after 1 January 2005 (Continued)

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Investments in associates

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value.

Financial assets

The Group's financial assets are mainly loans and receivables. The accounting policies adopted in respect of each category of financial assets are set out below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade receivables, other receivables and deposits, amount due from an associate, bank deposits, bank balances and amount due from related companies) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities

Financial liabilities including trade payables, other payables and accrued charges, amounts due to related companies, loans from directors, loans from related companies, preference dividend payable, bank and other borrowings and promissory notes are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

For financial liabilities, they are removed from the Group's balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expires). The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in profit or loss.

Equity-settled share-based payment transactions

Share options granted to employees of the Group

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium and share capital. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to accumulated losses.

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Engineering service income is recognised over the relevant contract period on a straight line basis.

Other service income is recognised when the services are rendered.

Fee licensing income is recognised when the film production is completed and the ownership of the production has been passed to the distributors. Also, the licensing contract is signed with a fixed or determinable fees and the collectibility of proceeds is reasonable assured.

Interest income from a financial asset is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

Depreciation is provided using the straight line method to write off the cost of items of property, plant and equipment over their estimated useful lives from the date on which they become fully operational and after taking into account their estimated residual value.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

Intangible assets

On initial recognition, intangible assets acquired separately and from business combinations are recognised at cost and at fair value respectively. After initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses below).

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

Impairment

Intangible assets with finite useful lives are tested for impairment when there is an indication that an asset may be impaired (see the accounting policies in respect of impairment losses for tangible and intangible assets below).

Impairment losses (other than goodwill)

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Film costs

Film costs represents film rights and films and animation series produced by the Group or acquired by the Group.

Film rights are started at cost less accumulated amortisation and any identified impairment loss. Amortisation is charged to the income statement based on the proportion of actual income earned during the year to the total estimated income from the distribution of film rights.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight line basis.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable and deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profits, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax asset is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

4. **SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

All other borrowings costs are recognised in profit or loss in the period in which they are incurred.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

As mentioned in Note 2, goodwill and fair value adjustments arising on acquisitions of foreign operations prior to 1 April 2005 are treated as non-monetary foreign currency items of the acquirer and reported using the historical exchange rate prevailing at the date of the acquisition.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

Retirement benefits costs

Payments to retirement benefits schemes are charged as an expense as they fall due.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies described in note 4, the management has made various estimates based on past experiences, expectations of the future and other information. The key source of estimation uncertainty and the critical amounting judgement that may significantly affect on the amounts recognised in the financial statements are disclosed below:

Allowance for obsolete inventories

The management of the Group reviews the inventories listing at each balance sheet date and identifies obsolete and slow-moving inventory items which are no longer suitable for use in production. Allowance was made by reference to the latest market value for those inventories identified. In addition, the Group carries out an inventory review on a product-by-product basis at balance sheet date and make the necessary write-down for obsolete items.

Estimated impairment of goodwill

Determination whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual cash flows are less than expected, impairment loss may arise. As at 31 March 2006, the carrying amount of goodwill is nil.

Allowance for bad and doubtful debts

The provisioning policy for bad and doubtful debts of the Group is based on the evaluation of collectability and aging analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowance may be required.

Estimated impairment of film costs

Once that is indication of impairment of film costs, the management of the Group reviews the fair values of film costs on a film-by-film basis by referring to respective present value which was calculated based on the estimated future income. The income forecast calculation requires the Group to estimate the future income expected to arise. Where the actual income less than expected, impairment loss of film costs may arise.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade receivables, other receivables, amounts due from related companies, pledged bank deposits, bank balances, trade payables, other payables, amounts due to related companies, loans from directors, loans from related companies, and bank and other borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform the counterparties failure to perform their obligations as at 31 March 2006 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a term responsible credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the management of the Group reviews the recoverable amount of each individual trade receivable at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on bank deposits is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Currency risk

Certain trade receivables, trade payables and borrowings of the Group are denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Interest rate risk

The Group's cash flow interest rate risk mainly relates to variable-rate borrowings. The Group currently does not have any interest rate hedging policy. The directors monitor the Group's exposure on ongoing basis and will consider hedging interest rate risk should the need arise.

7. TURNOVER

	2006	2005
	HK$'000	HK$'000
The Group's turnover comprises:		
Sales of goods	**8,112**	5,517
Service income	**8,727**	10,417
Film licensing income	**257,472**	18,514
	274,311	34,448

8. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

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

Principal activities are as follows:

Network solutions	–	Providing enabling services to operators and enterprises to set up broadband networks
Project services	–	Project implementation services to manufacturers, carriers and enterprises
Entertainment business	–	Production and licensing of theatrical motion pictures in a variety of genres

During the years ended 31 March 2005 and 2006, the Group had one more operating division, application solutions, which provided wireless applications to operators and enterprises based on wireless technologies. As the revenue, segment results and assets of application solutions division for both years are less than 10% of the Group's revenue, segment results and assets, no separate disclosure of segment information on application solutions has been presented.

Segment information about these businesses is presented below.

Income statement for the year ended 31 March 2006

	Network solutions HK$'000	Project services HK$'000	Entertainment business HK$'000	Others HK$'000	Elimination HK$'000	Consolidated HK$'000
TURNOVER						
External sales	**8,112**	**6,796**	**257,472**	**1,931**	**–**	**274,311**
Inter-segment sales	**105**	**–**	**–**	**–**	**(105)**	**–**
Total	**8,217**	**6,796**	**257,472**	**1,931**	**(105)**	**274,311**
Inter-segment sales are charged at prevailing market prices.						
RESULTS						
Segment results	**(2,500)**	**1,641**	**(162,672)**	**983**	**–**	**(162,548)**
Other income						**9,281**
Unallocated expenses						**(17,041)**
Finance costs						**(2,704)**
Loss before taxation						**(173,012)**
Taxation						**(22,049)**
Loss for the year						**(195,061)**

8. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Business segments *(Continued)*

Balance sheet at 31 March 2006

	Network solutions HK$'000	Project services HK$'000	Entertainment business HK$'000	Others HK$'000	Consolidated HK$'000
ASSETS					
Segment assets	**1,040**	**1,198**	**240,837**	**422**	**243,497**
Unallocated corporate assets					**299,070**
Consolidated total assets					**542,567**
LIABILITIES					
Segment liabilities	**1,515**	**2,407**	**95,132**	**1,005**	**100,059**
Unallocated corporate liabilities					**155,016**
Consolidated total liabilities					**255,075**

Other information for the year ended 31 March 2006

	Network solutions HK$'000	Project services HK$'000	Entertainment business HK$'000	Others HK$'000	Consolidated HK$'000
Additions to property, plant and equipment and film costs	**38**	**–**	**83,411**	**176**	**83,625**
Depreciation and amortisation	**168**	**–**	**235,838**	**2,218**	**238,224**
Loss on write-off of property, plant and equipment	**–**	**–**	**–**	**67**	**67**
Impairment loss recognised in respect of film costs	**–**	**–**	**100,748**	**–**	**100,748**
Impairment loss recognised in respect of goodwill	**4,807**	**–**	**10,036**	**–**	**14,843**
Allowance for bad and doubtful debts	**–**	**–**	**11,874**	**–**	**11,874**

8. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Business segments *(Continued)*

Income statement for the year ended 31 March 2005

	Network solutions HK$'000	Project services HK$'000	Entertainment business HK$'000	Others HK$'000	Consolidated HK$'000
TURNOVER					
External sales	5,517	8,648	18,514	1,769	34,448
Inter-segment sales	–	–	–	–	–
Total	5,517	8,648	18,514	1,769	34,448
Inter-segment sales are charged at prevailing market prices.					
RESULTS					
Segment results	1,998	2,299	(21,325)	957	(16,071)
Other income					898
Unallocated expenses					(13,588)
Finance costs					(1,117)
Loss before taxation					(29,878)
Taxation					–
Loss for the year					(29,878)

8. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Business segments *(Continued)*

Balance sheet at 31 March 2005

	Network solutions HK$'000	Project services HK$'000	Entertainment business HK$'000	Others HK$'000	Consolidated HK$'000
ASSETS					
Segment assets	3,927	3,020	608,714	243	615,904
Unallocated corporate assets					335,888
Consolidated total assets					951,792
LIABILITIES					
Segment liabilities	4,135	3,478	126,587	557	134,757
Unallocated corporate liabilities					335,229
Consolidated total liabilities					469,986

Other information for the year ended 31 March 2005

	Network solutions HK$'000	Project services HK$'000	Entertainment business HK$'000	Others HK$'000	Consolidated HK$'000
Additions to property, plant and equipments, film costs and goodwill	328	–	486,306	2,545	489,179
Depreciation and amortisation	57	15	30,831	2,317	33,220
Loss on write-off of property, plant and equipment	–	–	–	14	14
Allowance for bad and doubtful debts	–	–	4,247	–	4,247
Loss on write-off of inventories	–	–	–	22	22

8. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

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	
	2006	2005
	HK$'000	HK$'000
Hong Kong	**14,669**	15,045
Elsewhere in the PRC	**2,170**	977
USA	**127,978**	12,636
Europe	**112,596**	5,482
Asia other than Hong Kong and the PRC	**16,898**	308
	274,311	34,448

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment, film costs and goodwill, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment, film costs and goodwill	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong	**292,535**	342,146	**25,692**	2,566
Elsewhere in the PRC	**676**	3,032	**9**	307
USA	**249,356**	584,071	**57,924**	486,306
	542,567	929,249	**83,625**	489,179

9. OTHER INCOME

	2006	2005
	HK$'000	HK$'000
Gain on disposal of property, plant and equipment	**–**	1
Interest income on bank deposits	**9,227**	684
Sundry income	**54**	21
Rental income	**–**	192
Discount on acquisition	**–**	3,079
	9,281	3,977

10. FINANCE COSTS

	2006 HK$'000	2005 HK$'000
Interest on bank overdrafts and bank loans	**17,651**	4,483
Interest on loans from related companies	**510**	567
Interest on loans from directors	**111**	289
Interest on other loans	**111**	241
Imputed interest expense on promissory notes	**416**	–
	18,799	5,580
Less: Amount capitalised in film costs	**(16,095)**	(4,463)
	2,704	1,117

11. LOSS BEFORE TAXATION

	2006 HK$'000	2005 HK$'000
Loss before taxation has been arrived at after charging:		
Allowance for bad and doubtful debts	**11,874**	4,247
Allowance for obsolete inventories (included in cost of sales)	**–**	27
Amortisation of film costs (included in cost of sales)	**235,577**	30,495
Amortisation of goodwill (included in other expenses)	**–**	968
Amortisation of intangible assets (included in general and administrative expenses)	**–**	175
Auditors' remuneration	**1,800**	1,516
Cost of inventories recognised as an expense (included in cost of sales)	**11,034**	9,991
Depreciation of property, plant and equipment	**2,647**	1,582
Impairment loss recognised in respect of film costs (included in cost of sales)	**100,748**	–
Loss on write-off of inventories	**–**	22
Loss on write-off of property, plant and equipment	**67**	14
Net foreign exchange loss	**376**	8
Rental expenses under operating leases on		
– premises	**3,699**	1,753
– equipment	**394**	267
Staff costs, including directors' emoluments		
– Salaries and allowances	**25,875**	10,204
– Retirement benefits schemes contributions	**495**	15
	26,370	10,219

12. TAXATION

	2006	2005
	HK$'000	HK$'000
Deferred taxation	**22,049**	–

No provision for Hong Kong Profits Tax or taxation arising in other jurisdictions has been made in the financial statements as the Company and its subsidiaries have no assessable profits for both years.

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

The income tax rate of the Group's subsidiaries operating in the PRC is 33%.

The income tax rate of the Group's subsidiaries operating in the USA is 36.8%.

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

The tax charge for the year can be reconciled to the loss per the income statement as follows:

	USA		**Hong Kong and the PRC**		**Total**	
	2006	2005	**2006**	2005	**2006**	2005
	HK'000	HK'000	**HK'000**	HK'000	**HK'000**	HK'000
Loss before taxation	**(150,197)**	(21,604)	**(22,815)**	(8,274)	**(173,012)**	(29,878)
Tax at the income tax rates of 36.8% for USA and 17.5% for Hong Kong and the PRC	**(55,272)**	(7,950)	**(3,993)**	(1,448)	**(59,265)**	(9,398)
Tax effect of expenses not deductible for tax purpose	**2,370**	1,621	**2,631**	509	**5,001**	2,130
Tax effect of income not taxable for tax purpose	**–**	–	**(1,545)**	(644)	**(1,545)**	(644)
Tax effect of tax losses not recognised and deductible temporary difference	**52,902**	6,329	**2,904**	1,583	**55,806**	7,912
Effect of different tax rates of subsidiaries operating in other jurisdictions	**–**	–	**(6)**	–	**(6)**	–
Reversal of deferred tax assets due to change in estimate	**22,049**	–	**–**	–	**22,049**	–
Others	**–**	–	**9**	–	**9**	–
Tax charge for the year	**22,049**	–	**–**	–	**22,049**	–

13. LOSS PER SHARE

The calculation of basic and diluted loss per share attributable to the ordinary equity holders of the Company for the year ended 31 March 2006 together with the comparative figures for 2005 are based on the following data:

	2006 **HK$'000**	2005 HK$'000
Loss		
Loss for the purpose of basic and diluted loss per share	**(117,063)**	(19,295)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	**235,831,447**	192,793,091

	2006	2005
Loss per share		
Basic and diluted loss per share	**HK$(0.50)**	HK$(0.10)

The computation of diluted loss per share does not assume the exercise of the subsidiary's outstanding share options since their exercise would result in a decrease in loss per share.

The following table summaries the impact on basic loss per share as a result of adjustments arising from changes in accounting policies:

	2006 **HK$**	2005 HK$
Impact on basic and diluted loss per share		
Reported figures before adjustments	**(0.51)**	(0.10)
Adjustments arising from changes in accounting policies (see note 3)	**0.01**	–
	(0.50)	(0.10)

14. TRADE RECEIVABLES

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

	2006	2005
	HK$'000	HK$'000
Aged:		
0 – 30 days	**1,112**	34,335
31 – 60 days	**172**	1,292
61 – 90 days	**6,624**	18,560
Over 90 days	**17,093**	29,134
	25,001	83,321

In the opinion of the directors, the carrying amount of the trade receivables approximates to their fair value.

15. TRADE PAYABLES

The aged analysis of trade payables is as follows:

	2006	2005
	HK$'000	HK$'000
Aged:		
0 – 30 days	**2,871**	9,071
31 – 60 days	**253**	6,950
61 – 90 days	**65**	11,585
Over 90 days	**56,182**	25,044
	59,371	52,650

In the opinion of the directors, the carrying amount of the trade payables approximates to their fair value.

16. DIVIDEND

The Board of directors does not recommmend the payment of a final dividend for the year ended 31 March 2006 (2005: nil).

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

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

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 during the year under review.

AUDIT COMMITTEE

The Company has established an audit committee in July 2000 with written terms of reference in compliance with the requirements of the GEM Listing Rules. The audit committee has three members comprising two independent non-executive directors, namely Mr. Cheung Hon Kit and Mr. Wong Chi Keung and a non-executive director, Mr. Wu Wing Kin. The primary duties of the audit committee are to review and supervise the financial reporting process and internal controls of the Group. During the year, the audit committee met four times with the executive Directors and the management to review the financial reporting process, internal controls of the Group, the Company's reports and accounts including the annual results for the year ended 31 March 2006, and provided advice and recommendations to the board of directors. The Audit Committee also met with external auditors once to discuss the financial reporting process and internal controls of the Group during the year.

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

Hong Kong, 26 June 2006

As at the date of this announcement, 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

This announcement will remain at www.hkgem.com on the "Latest Company Announcements" page of the GEM website for at least 7 days from the date of its posting and on the website of the Company at www.cyberonair.com.