



**IA International Holdings Limited**

**毅興科技國際控股有限公司\***

*(incorporated in Bermuda with limited liability)*

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**ANNUAL REPORT 2003-2004**

## **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 companies.

CORPORATE INFORMATION	2
CHAIRMAN'S STATEMENT	3
MANAGEMENT DISCUSSION AND ANALYSIS	4-6
COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS	7-12
USE OF PROCEEDS FROM ISSUANCE OF NEW SHARES	13
DIRECTORS AND SENIOR MANAGEMENT	14-15
REPORT OF THE DIRECTORS	16-24
REPORT OF THE AUDITORS	25
AUDITED FINANCIAL STATEMENTS:	
CONSOLIDATED INCOME STATEMENT	26
CONSOLIDATED BALANCE SHEET	27
BALANCE SHEET	28
STATEMENT OF CHANGES IN EQUITY OF THE GROUP AND THE COMPANY	29
CONSOLIDATED CASH FLOW STATEMENT	30
NOTES TO FINANCIAL STATEMENTS	31-51
NOTICE OF ANNUAL GENERAL MEETING	52-62

## 2 Corporate Information

### Board of Directors

#### *Executive Directors*

Li Ting (Chairman)

Zhang Fulin (Deputy Chairman)

#### *Independent Non-executive Directors*

Leung Wai Ling, Wylie

Gui Gan

### Company Secretary

Lui Mui Ching, CPA (Aust.), AHKSA

### Qualified Accountant

Lui Mui Ching, CPA (Aust.), AHKSA

### Compliance Officer

Li Ting

### Authorised Representatives

Li Ting

Zhang Fulin

### Audit Committee

Leung Wai Ling, Wylie

Gui Gan

### Auditors

Baker Tilly Hong Kong Limited

*Certified Public Accountants*

### Legal Adviser

Vincent T.K. Cheung, Yap & Co.

### Principal Banker

Standard Chartered Bank

### Registered Office

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

### Head Office and Principal Place of Business in Hong Kong

Units 1001-1004

10th Floor

238 Nathan Road

Kowloon

Hong Kong

### Principal Place of Business in China

中國深圳市福田區八卦一路

郵電大廈四樓

### Share Registrars and Transfer Offices

#### *Principal registrar*

The Bank of Bermuda Limited

Bank of Bermuda Building

6 Front Street

Hamilton HM 11

Bermuda

#### *Branch registrar*

Tengis Limited

Ground Floor

BEA Harbour View Centre

56 Gloucester Road

Wanchai

Hong Kong

On behalf of the board of directors (the "Board"), we hereby present the Annual Report of IA International Holdings Limited (the "Company") and its subsidiaries (together the "Group") for the year ended 31st March, 2004 to our shareholders.

## Market Overview

The first half of the Group's financial year ended 31st March, 2004 has indeed been challenging and difficult for most of the companies in Hong Kong with the outbreak of Severe Acute Respiratory Syndrome. Fortunately, in the second half of the Group's financial year, the conditions in Hong Kong and worldwide started to improve.

## Financial Overview

The Group recorded a decline of approximately 7.3% in its turnover for the year ended 31st March, 2004 to approximately HK\$96.8 million compared to the previous corresponding year. The decrease was attributable to the decrease in various services and related fees from the development of Internet platforms in the People's Republic of China (the "PRC").

Net profit from ordinary activities attributable to shareholders for the year ended 31st March, 2004 amounted to approximately HK\$1,532,000, representing a decrease of approximately 63.2% compared to the previous corresponding year. The decrease was mainly attributable to the decrease in turnover and gross profit margin.

## Prospects and Appreciation

Mr. Chiu Ting San ("Mr. Chiu") resigned as the chairman of the Group and executive director of the Company in December, 2003 and Mr. Cheng Kwong Chung ("Mr. Cheng") resigned as the deputy chairman of the Group and executive director of the Company in the beginning of this month, both of whom are the founders of the Group. Mr. Chiu and Mr. Cheng are still holding 18.75% and 26.25% respectively of the issued share capital of the Company through their investment holding companies. Mr. Chiu resigned so that he could allocate more time to his other private investments and Mr. Cheng resigned due to health reason. I was appointed as the chairman of the Group with effect from 1st June, 2004. I like to take this opportunity to thank the Board for their trusts in me and I will use my best efforts to manage the business of the Group and hopefully, lead the Group to a new era.

For the coming financial year, the Board maintains a positive business view. We expect the recent pick up in Europe and the United States ("US") will benefit our customers and our products. However, recent measures to cool the economy by the Government of the PRC will, we believe, slow the growth of the PRC economy, hence may affect our PRC market. Nevertheless, we believe that the measures will result in a soft landing.

Finally, on behalf of the Board, I would like to take this opportunity to express my gratitude to all members of the Board and staff for their dedication and contribution to the Group and to those who have supported us. We will continue to make our best efforts in developing our businesses to produce good economic results and better return for our shareholders.

## Li Ting

*Chairman*

Hong Kong, 15th June, 2004

## 4 Management Discussion and Analysis

### **Business Review**

#### **General**

The Group is principally engaged in the research, development and provision of information-on-demand ("IOD") system solutions and the provision of related products and services. An IOD system solution enables internet users to obtain and process information via the internet. The Group, based on the developed e-commerce platform, is finalizing on the specific features for the targeted e-education segment and is also improving its capability to supply internet appliances and strengthening its research and development capabilities.

During the year under review, the Group assisted the Guangzhou Government in the PRC in the development of an e-Tax platform, working hand in hand with a business partner in the PRC and service fee of approximately HK\$2 million was received. The Group is also in the final stage of launching the Group's IOD system solution for an education institute in Hong Kong. The Group is confident that with the successful launch of the Group's IOD system solution, more contracts will be secured. The Group also continued to broaden its customer base and diversify its products and services to stay competitive and to seek further growth opportunities.

### **Financial Review**

#### **Results**

The Group recorded a decline of approximately 7.3% in its turnover for the year ended 31st March, 2004 to approximately HK\$96.8 million compared to the previous corresponding year. The decrease was attributable to the decrease in various services and related fees from the development of internet platforms in the PRC. The gross profit margin decreased to approximately 10.2% from approximately 13.8% in the previous corresponding year. The decrease in gross profit margin was attributable to the decrease in average selling prices due to intense competition.

Net profit from ordinary activities attributable to shareholders for the year ended 31st March, 2004 amounted to approximately HK\$1,532,000, representing a decrease of approximately 63.2% compared to the previous corresponding year. The decrease was mainly attributable to the decrease in turnover and gross profit margin. Administrative expenses decreased by approximately 28.6% to approximately HK\$4 million during the year due to the decrease in directors' remuneration and staff salaries in an effort to reduce operating costs of the Group.

#### **Liquidity, financial resources and capital structure**

As at 31st March, 2004, the Group had total assets of approximately HK\$54.4 million (2003: HK\$59.3 million), including cash and bank balances of approximately HK\$9.3 million (2003: HK\$34.8 million).

For the year ended 31st March, 2004, the Group financed its operations mainly with its own working capital and was granted general banking facilities of HK\$10 million (2003: HK\$30 million). This was not utilised at the balance sheet date (2003: HK\$12 million). There was no charge on the Group's assets as at 31st March, 2004 and 2003.

As at 31st March, 2004, the gearing ratio (defined as the ratio between total bank borrowings and total assets) was zero (2003: 0.03) as the Group has no bank borrowings as at 31st March, 2004 (2003: HK\$2 million). The Group had no borrowings stated at fixed interest rates at the balance sheet date (2003: Nil).

Most of the transactions of the Group are denominated in US Dollars, Hong Kong Dollars and Renminbi. As the exchange rate of US Dollars and the Renminbi to Hong Kong Dollars are fairly stable, the Board is of the view that the exposure to foreign currency exchange risk is limited. Hence, no hedging or other arrangements to reduce the currency risk have been implemented.

## **Segment information**

The revenue of the Group comprises the sales of internet appliances and related products and service fees from the provision of the development of e-commerce platforms and related services.

Revenue from the sales of internet appliances and related products increased by approximately 2.5% to approximately HK\$87.3 million and that from the provision of the development of e-commerce platform and related services decreased to approximately HK\$9.5 million from approximately HK\$19.2 million in the previous corresponding year, a decrease of approximately 50.5%.

As to the geographical segments, all sales of the Group of approximately HK\$96.8 million were generated in the PRC market as compared to approximately HK\$98.9 million, representing approximately 94.8% of the total sales of the Group, in the previous year. No sales were made to the US and other markets in the year ended 31st March 2004, as compared to approximately HK\$4.2 million and HK\$1.3 million in the corresponding previous year.

Please also refer to note 5 to the financial statements for details of segment information.

## **New products and services**

During the year, the Group continued to develop new products to increase its products range and strengthen its competitive position.

The Group also continued to receive services fee from the development of internet platforms for governmental agencies in the PRC during the year, working hand in hand with a business partner in the PRC and will continue to promote the development of internet platforms to other governmental agencies in the PRC.

## 6 Management Discussion and Analysis

### **Significant investments**

At 31st March, 2004, the significant investment held by the Group is detailed in note 16 to the financial statements (2003: Nil).

### **Material acquisitions or disposals of subsidiaries and affiliated companies**

Other than the investments as described in note 17 to the financial statements, there were no material acquisitions or disposals of subsidiaries and affiliated companies during the year.

### **Future plans for material investments and expected source of funding**

Details for the Group's plans for material investments or capital assets and their expected source of funding for the period up to 31st March, 2004 have been stated in the Company's prospectus dated 24th October, 2001 (the "Prospectus") under the sections headed "Statement of Business Objectives" and "Reasons for the Placing and Use of Proceeds" respectively. Other than those disclosed therein and in particular under sections headed "Use of Proceeds from Issuance of New Shares" and "Comparison of Business Objectives with Actual Business Progress" in this annual report, the Group has no other plans for material investments or capital assets.

### **Contingent liabilities**

The Company had provided guarantees for the bank facilities granted to a wholly-owned subsidiary which was not utilised as at 31st March, 2004 (2003: HK\$12 million).

The Group had no other material contingent liabilities (2003: Nil).

### **Employees and remuneration policies**

As at 31st March, 2004, the Group had 42 (2003: 51) employees including directors. Total staff costs (excluding directors' emoluments) amounted to approximately HK\$3.8 million for the year ended 31st March, 2004 (2003: HK\$3.1 million). Remuneration is determined with reference to market terms and the performance, qualification and experience of individual employee. Year-end bonus based on individual performance will be paid to employees as recognition of and reward for their contributions. Other benefits include contributions to statutory mandatory provident fund scheme to its employees in Hong Kong and basic insurance for the elderly, basic medical insurance, work injury insurance and unemployment insurance to its employees in the PRC. To date, no share options have been granted to employees.

The following is a summary of the actual progress of the Group compared with the business objectives set out in the Prospectus for the period from 1st October, 2003 to 31st March, 2004 (the "Review Period"). The actual progress of the Group compared with the business objectives as set out in the Prospectus for the period from 1st April, 2003 to 30th September, 2003 has been disclosed in the interim report for the six months ended 30th September, 2003.

## Business Objectives as Stated in the Prospectus

## Actual Progress

### 1. *Research and product development*

Develop new models of Internet appliances which incorporates traditional electronic appliances with Internet related functions

- Portable iDVDs.
- Auto iDVDs.

The Group has developed the cost down version of iDVD for the prototype of the IOD System solution for education applications. However, owing to additional specifications required by the customer, the roll out has been delayed to the second half of the year. For the portable iDVD and auto iDVD, the Group is still in the process of researching and developing the specifications. The Group expects to complete the research and development by the end of the year 2004.

Upgrade features of existing Internet appliances products

- Multiple disc functions for iDVDs.
- Wireless enhancement plug in module wireless Lan for iDVDs.

The Group has completed the development of specifications for multiple disc functions for iDVDs. However, based on the feedback from customers, the demand for such products is limited. Accordingly, no further work is carried out.

The Group has postponed the development so as to better allocate its human resources and minimize the operating costs. The Board does not expect the postponement of the development to have any impact on the Group's operations.

## 8 Comparison of Business Objectives with Actual Business Progress

### Business Objectives as Stated in the Prospectus

- Connection with mobile phones.

Develop the e-education application to be operated on the Group's e-commerce platform

- Programming to link e-commerce platform (education application) to Internet appliances.

Upgrade several features of the Group's e-commerce platform such as payment system and security functions

- Programming to support payment using smart cards.
- Upgrading operation system to real time to enhance security functions.

Perform localization of the operation language according to the needs of the targeted market

- Developing applications in the Japanese language.

### Actual Progress

The Group has postponed the development of upgrading such feature as the cost of development is high and not economically viable.

The Group has completed its initial programming work on the interface between the e-commerce platform (education application) to Internet appliances and trial run is being performed. Further programming work is being carried out to meet the customer's additional specifications. Accordingly, the completion has been delayed to the second half of the year.

The Group is in the process of performing technical analysis for the interface between payment and security. Owing to additional resources being allocated to the education application, the analysis is expected to be completed by the end of 2004.

To better utilise the limited human resources, the Group concentrated its resources on the development of applications using Chinese and English languages for the PRC and Hong Kong markets. The Group may reconsider developing applications in the Japanese language when the demand arises and resources are available in the future.

## Business Objectives as Stated in the Prospectus

## Actual Progress

### 2. *Business development*

Negotiate and form alliances with content providers such as educational institutions and entertainment content providers in using the Group's Internet appliances products and e-commerce platform

- Japanese language institutions.
- English language institutions.
- Movie distributors.
- Music distributors.

Negotiate and form alliance with logistics service providers (e.g. transportation companies) for expanding service offering of the e-commerce platform.

Negotiate and form alliance with financial institutions (e.g. banks) for expanding service offering of the e-commerce platform.

Provide on-going technical support (e.g. maintenance and upgrade) for the operation of e-Tax platform.

### 3. *Sales and marketing*

Launch and promote the Group's Internet appliances

- Set-top box.
- New and existing models of iDVDs.
- Portable iDVDs.
- Auto DVDs.

The agreement on the alliance with language institutions has not been reached as the institutions have requested the roll out of the IOD system solution (which the Group expects to be the second half of 2004) before negotiating further. Negotiation with movie and music distributors have been suspended owing to the issue of royalties. Please refer to the interim report for the 6 months to 30th September, 2003 for details.

In order to better allocate human resources and minimize operating costs, the Group postponed forming alliances with logistics service providers.

In order to better allocate human resources and minimize operating costs, the Group postponed forming alliances with financial institutions.

The Group is continuing to provide technical support for the operation of e-Tax platform.

The promotion and/or sales of set-top boxes, iDVDs and auto DVDs are continuing. Portable iDVDs are under development.

## 10 Comparison of Business Objectives with Actual Business Progress

### **Business Objectives as Stated in the Prospectus**

Negotiate and form alliance, such as distributors and business partners for marketing and distribution of the Group's products.

Promote Internet appliance products through joint marketing and/or distribution programs with business partners.

Build and promote the "IA" brand name via advertisements and by participating in trade exhibitions and seminars.

### **Actual Progress**

The Group has formed alliances with customers to market and distribute the Group's products to the PRC and overseas markets.

The Group continued to promote the Group's products through joint marketing with business partners in the form of making presentations to and meetings with the Group's existing and potential customers.

The Group continued to introduce its existing products under the "IA" brandname to its existing customers through making sales presentations and seminars. No sales under "IA" brandname were made during the Review Period as all sales were made under customers' brandnames. During the Review Period, the Group did not hold advertisements and trade exhibitions to promote the "IA" brandname as it was not cost effective to incur such costs due to limited response from customers. The Group considers making presentations and conducting seminars to introduce the "IA" brandname to be sufficient to test the market.

## Business Objectives as Stated in the Prospectus

## Actual Progress

Launch and promote the services of the e-Tax platform.

The Group and its business partner are continuing to promote the services of the e-Tax platform. The Group has also used its expertise to assist the development of e-Tax platform for other governmental agencies in the PRC during the Review Period.

Promote application of an Internet platform to governmental agencies in the PRC.

The Group promoted the application of Internet platform to governmental agencies by holding meetings and presentations and participating in the development of e-Tax platform for other governmental agencies in the PRC during the Review Period.

Launch and promote the e-education application of the Group's e-commerce platform to content providers such as educational institutions.

The Group continued to promote the e-education application to content providers by holding presentations and meetings with content providers.

Launch and promote the e-entertainment application of the Group's e-commerce platform to content providers such as movie distributors.

The launch and promotion of the e-entertainment application was suspended owing to the issue of royalties. Please refer to the interim report for the 6 months to 30th September, 2003 for details.

## 12 Comparison of Business Objectives with Actual Business Progress

### Business Objectives as Stated in the Prospectus

#### 4. *Geographical expansion*

Negotiate with business partners in relation to operation in the PRC and other overseas markets.

Form jointly controlled entities or joint marketing/distribution arrangements with content providers in the PRC to promote both Internet appliances and e-commerce platform in the market.

Expansion into overseas markets such as the US and the Middle East by forming jointly controlled entities or joint marketing/distribution arrangements with distributors to promote both Internet appliances and e-commerce platform in the market.

#### 5. *Human resources deployment*

Expand the research team by recruiting additional engineers.

Expand the sales team in Hong Kong and the PRC, by recruiting additional staff members.

Set up branch offices in major cities in the PRC.

Set up sales team in main overseas markets such as the US and the Middle East.

### Actual Progress

Negotiations are on-going and no plans have been agreed with any business partners in relation to the Group's operation in the PRC and other overseas markets.

Negotiations are on-going with potential partners. No jointly controlled entities or joint marketing/distribution arrangements were formed as the potential partners are in the process of conducting market feasibility studies for the PRC market.

To better allocate its resources and minimize the operating costs, the Group has suspended expansion into these markets. The Group may resume the expansion into these overseas markets when the needs arise.

As at 31st March, 2004, the Group has 21 staff in the research and development department (31st March, 2003 : 28). 17 and 4 are based in the PRC and Hong Kong offices respectively.

As at 31st March, 2004, the Group has 7 staff in the sales and marketing department (31st March, 2003: 9). 4 and 3 are based in the PRC and Hong Kong offices respectively.

In order to keep costs down, the Group is considering having representative offices or distributors in the PRC instead of setting up branch offices. The Group considers that this would not have significant impact on the business operation.

To better allocate its resources and minimize the operating costs, the Group has suspended expansion into these markets. The Group may resume expansion into these overseas markets when the needs arise.

## Use of Proceeds from Issuance of New Shares 13

The Company obtained net proceeds, after deducting related expenses, of approximately HK\$15 million from the placing of shares. The shares of the Company were listed on GEM on 1st November, 2001. The usage of the net proceeds for the period from 1st April, 2003 to 30th September, 2003 was disclosed in the interim report for the six months ended 30th September, 2003.

During the period from 1st October, 2003 to 31st March, 2004, and from 18th October, 2001 (Latest Practicable Date, as defined in the Prospectus of the Company) to 31st March, 2004, the Group has applied the net proceeds as follows:

	1st October, 2003 to 31st March, 2004		18th October, 2001 to 31st March, 2004	
	Proposed HK\$'000	Actual HK\$'000	Proposed HK\$'000	Actual HK\$'000
Expenditure in relation to developing and enhancing the infrastructure of the Group's e-commerce platform, including upgrading existing equipment and purchasing new equipment	-	-	9,300	9,300
Expenditure in relation to marketing and brand building activities, including conducting seminars, direct marketing and advertising to promote the Group's overall image, services and products	-	-	3,000	3,000
Expenditure in relation to the research and development of the technology for developing internet appliances and other relevant products	500	500	2,000	2,000
General working capital	-	-	700	700
<b>Total</b>	<b>500</b>	<b>500</b>	<b>15,000</b>	<b>15,000</b>

The net proceeds from the placing of shares on the GEM of the Stock Exchange on 1st November, 2001 of approximately HK\$15 million have all been applied as at 31st March, 2004.

## 14 Directors and Senior Management

### **Executive Directors**

*Li Ting*, aged 38, was appointed as the chairman of the Group from 1st June, 2004. He is also an executive director of the Company since June 2003. Mr. Li is responsible for business development in the PRC. Prior to joining the Group, Mr. Li worked for a private technology company as a general manager in the PRC. He graduated with a bachelor degree in economics in 1989 from Nanjing University in the PRC. He was appointed as an independent non-executive director on 3rd March, 2003 and was re-designated as an executive director with effect from 1st June, 2003.

*Zhang Fulin*, aged 37, was appointed as the deputy chairman of the Group as from 1st June, 2004. He is also the Chief Executive Officer and Chief Technical Officer of the Group. He was appointed as a director in June 2001. Mr. Zhang is responsible for the design, research and development functions of the Group. He holds a degree in the design of telecommunication equipment from the South East University, the PRC. Prior to joining the Group in May 2000, Mr. Zhang worked as the general manager and head of system design and programming in a system design and engineering company in the PRC. Mr. Zhang has over ten years of experience in the system design, engineering and software programming.

Chiu Ting San and Cheng Kwong Chung resigned as executive directors effective from 31st December, 2003 and 1st June, 2004 respectively.

### **Independent Non-Executive Directors**

*Leung Wai Ling, Wylie*, aged 37, holds a bachelor degree in business administration from the City University of New York in the US. She is currently an accounting and administration manager for an international trading and manufacturing company in Hong Kong. Ms. Leung has more than ten years of experience in accounting, audit and finance. She was appointed as the Company's independent non-executive director in June 2001.

*Gui Gan*, aged 37, holds a master degree of business administration in international management from American Graduate School of International Management. He has held various managerial positions in companies in the PRC and the US. He is currently a deputy general manager of an import/export company in the PRC. He was appointed the Company's independent non-executive director on 16th September 2003.

Chung Tung Sau resigned as independent non-executive director effective from 1st October, 2003.

## Senior Management

Chiu Ting San, aged 50, is an ex-director of the Company and co-founder of the Group. He resigned as an executive director of the Company effective from 31st December, 2003 so that he could allocate more time to his other private investments. He is now responsible for overseeing the production functions of the Group. Mr. Chiu holds a master of business administration from the University of Hull, United Kingdom. Mr. Chiu has over twenty years experience in production and management. Before founding the Group, Mr. Chiu was a director and general manager of an electronic manufacturing company in Hong Kong.

Cheng Kwong Chung, aged 39, is an ex-director of the Company and co-founder of the Group. He resigned as an executive director of the Company effective from 1st June, 2004 due to health reason. He is now responsible for the research, development and marketing of the IOD system solutions. Mr. Cheng holds a bachelor of engineering degree in electronics engineering from the Hong Kong Polytechnic University in Hong Kong. Mr. Cheng has over ten years experience in sales and marketing and over five years in software programming. Before founding the Group, Mr. Cheng worked as a general manager for an electronic trading company in Hong Kong.

*Lui Mui Ching*, aged 41, is the qualified accountant and company secretary of the Group. Ms. Lui is responsible for the financial management and accounting functions of the Group. She is an associate member of the Hong Kong Society of Accountants and a Certified Practising Accountant of the CPA Australia. Ms. Lui has more than twenty years experience in accounting and secretarial fields and prior to joining the Group in January 2004, she worked as an accountant in a private trading company in Hong Kong.

Feng Jian (馮劍), aged 30, is the project manager in the PRC. He is responsible for the research and development functions. He holds a bachelor degree in electronics and information science (計算機及應用) from Xian Petroleum institute (西安石油學院) in the PRC. Prior to joining the Group in February 2002, he was responsible for system analysis, design and development for a software technology company in the PRC. He has over six years experience in system analysis, design and development.

*Leung Kwok Shing, Norman*, aged 32, is the project manager of the Group in Hong Kong. He is responsible for the research and development functions of the Group in Hong Kong. He holds a bachelor of computer science degree from the Monash University in Australia and has more than ten years experience in research and development. Prior to joining the Group in December 2002, he worked as a technical manager in a software system company responsible for product development and customisation.

Wang Lee Lee resigned as qualified accountant and company secretary of the Group effective from 1st January, 2004. Wu Ming and Zhang Yu Hong left the Group effective from 20th August, 2003 and 10th October, 2003 respectively.

## 16 Report of the Directors

The directors herein present their annual report and the audited financial statements of IA International Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ended 31st March, 2004.

### **PRINCIPAL ACTIVITIES**

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 17 to the financial statements. There have been no changes in the nature of the Group's principal activities during the year.

### **SEGMENT INFORMATION**

An analysis of the Group's turnover and contribution to results by principal activity and geographical area of operations for the year ended 31st March, 2004 is set out in note 5 to the financial statements.

### **RESULTS AND DIVIDENDS**

The Group's profit for the year ended 31st March, 2004 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 26 to 51.

The directors do not recommend any dividends during the year.

**SUMMARY FINANCIAL INFORMATION**

The following is a summary of the published results of the Group for each of the four years ended 31st March, 2004 and of the assets, liabilities and minority interests of the Group as at 31st March, 2004, 2003, 2002 and 2001 prepared on the basis set out in the note below.

**Results**

	Year ended 31st March,			
	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000
Turnover	<b>96,804</b>	104,385	49,330	37,136
Profit before taxation	<b>2,752</b>	5,062	4,694	6,835
Taxation	<b>(1,221)</b>	(971)	(817)	(1,166)
Profit before minority interests	<b>1,531</b>	4,091	3,877	5,669
Minority interests	<b>1</b>	72	(198)	-
Net profit from ordinary activities attributable to shareholders	<b>1,532</b>	4,163	3,679	5,669

**Assets, liabilities and minority interests**

	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000
Total assets	<b>54,432</b>	59,293	45,666	17,743
Total liabilities	<b>(11,065)</b>	(18,697)	(9,161)	(8,167)
Minority interests	<b>(2,125)</b>	(2,126)	(2,198)	-
	<b>41,242</b>	38,470	34,307	9,576

Note:

The summary of the combined results of the Group for the year ended 31st March, 2001 was extracted from the Prospectus. Such summary was prepared as if the current Group structure had been in existence throughout the financial year. The results of the Group for the years ended 31st March, 2003 and 2004 are set out on page 26 of the financial statements.

## 18 Report of the Directors

### **FIXED ASSETS**

Details of movements in the fixed assets of the Group during the year are set out in note 15 to the financial statements.

### **SHARE CAPITAL**

Details of movements in the Company's issued share capital are set out in note 22 to the financial statements.

### **PRE-EMPTIVE RIGHTS**

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

### **PURCHASE, REMEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY**

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

### **RESERVES**

Details of movements in the reserves of the Company and the Group during the year are set out in the statement of changes in equity on page 29 of and in note 23 to the financial statements.

### **DISTRIBUTABLE RESERVES**

At 31st March, 2004, the Company's reserves available for cash distribution and/or distribution in specie amounted to HK\$12,611,000, as computed in accordance with the Companies Act 1981 of Bermuda. In addition, the Company's share premium account with a balance of HK\$5,902,000 as at 31st March, 2004 may be distributed in the form of fully paid bonus shares.

### **MAJOR CUSTOMERS AND SUPPLIERS**

During the year, sales to the Group's five largest customers accounted for 90% of the total sales for the year and sales to the largest customer included therein amounted to 24%. Purchases from the Group's five largest suppliers accounted for 98% of the total purchases for the year and purchases from the Group's largest supplier included therein accounted for 44% of the total purchases for the year.

As far as the directors are aware, neither the directors of the Company, any of their associates nor any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interests in the Group's five largest customers and suppliers during the year.

## DIRECTORS

The directors of the Company during the year and up to the date of this report were:

### Executive directors:

Cheng Kwong Chung	(resigned on 1st June, 2004)
Chiu Ting San	(resigned on 31st December, 2003)
Li Ting	
Zhang Fulin	

### Independent non-executive directors:

Chung Tung Sau	(resigned on 1st October, 2003)
Leung Wai Ling, Wylie	
Gui Gan	(appointed on 16th September, 2003)

In accordance with Bye-law 87 of the Company's bye-laws, Leung Wai Ling, Wylie will retire by rotation at the forthcoming annual general meeting and, being eligible, offer herself for re-election.

In accordance with Bye-law 86(2) of the Company's bye-laws, Gui Gan will hold office only until the forthcoming annual general meeting of the Company and, being eligible, offer himself for re-election.

## DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 14 to 15 of the Company's annual report.

## DIRECTORS' SERVICE CONTRACTS

Cheng Kwong Chung and Zhang Fulin entered into service contracts with Internet Appliances (Hong Kong) Limited, a subsidiary of the Company, for an initial term of two years commencing from 1st October, 2001, which will continue thereafter until terminated by either party giving not less than three months' notice in writing to the other party.

With the resignation of Cheng Kwong Chung as an executive director of the Company with effect from 1st June, 2004, Li Ting and Zhang Fulin entered into new directors' service contracts with the Company. The contracts are for an initial term of two years commencing from 1st June, 2004 and will continue thereafter until terminated by either party giving not less than three months' notice in writing to the other party.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

### DIRECTORS' INTERESTS IN CONTRACTS

No director had a significant beneficial interest, either direct or indirect, in any contract of significance to the business of the Group to which the Company, its holding company or any of its subsidiaries was a party during the year.

### DIRECTORS' INTERESTS IN SHARES

As at 31st March, 2004, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) ("SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to 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 as recorded in the register required to be kept by the Company under Section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the required standards of dealings by directors as referred to in Rules 5.46 to 5.67 of the GEM Listing Rules were as follows:

Director	Number of Shares				Total Interests
	Corporate Interests	Personal Interests	Family Interests	Other Interests	
Cheng Kwong Chung (resigned on 1st June, 2004) (Note)	225,000,000	–	–	–	225,000,000

Note:

These shares are registered in the name of Internet Appliances (Holdings) Limited. The issued share capital of Internet Appliances (Holdings) Limited is beneficially owned by Global Plus Ltd., Team Concept Limited, Perfect Chance Limited and IT Motion Corp. in the proportion of approximately 35%, 25%, 25% and 15% respectively. Global Plus Ltd. is wholly and beneficially owned by Mr. Cheng Kwong Chung.

Save as disclosed above, as at 31st March, 2004, none of the directors nor the chief executive of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to 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 to be recorded in the register kept by the Company under Section 352 of the SFO, or otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules.

### DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the heading "Directors' interests in shares" above, at no time since incorporation of the Company were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company or of any other body corporate granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, its holding company or any of its subsidiaries a party to any arrangement to enable the director, their respective spouse or children under 18 years of age to acquire such rights in any other body corporate.

### SUBSTANTIAL SHAREHOLDERS

As at 31st March, 2004, the interests and short positions of persons, other than a director or chief executive of the Company, in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or substantial shareholders as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name	Number of shares held	Approximate percentage or attributable percentage of the shareholding in the Company
Internet Appliances (Holdings) Limited ( <i>Note</i> )	225,000,000	75.00%
Global Plus Ltd. ( <i>Note</i> )	225,000,000	75.00%

## 22 Report of the Directors

*Note:*

These shares are registered in the name of Internet Appliances (Holdings) Limited. The issued share capital of Internet Appliances (Holdings) Limited is beneficially owned by Global Plus Ltd., Team Concept Limited, Perfect Chance Limited and IT Motion Corp. in the proportion of approximately 35%, 25%, 25% and 15% respectively. Global Plus Ltd. is wholly and beneficially owned by Mr. Cheng Kwong Chung.

Save as disclosed above, as at 31st March, 2004, the directors or chief executive of the Company were not aware of any other person (other than the directors or chief executive of the Company) who had an interest or short position 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, who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or any other substantial shareholders whose interests or short positions were recorded in the register required to be kept by the Company under Section 336 of the SFO.

### **SHARE OPTION SCHEME**

The Company operates a share option scheme (the "Scheme") for the purpose of recognising significant contributions of the employees of the Group to the growth of the Group, by rewarding them with opportunities to obtain an ownership interest in the Company and to further motivate and give an incentive to these persons to continue to contribute to the Group's long term success and prosperity.

Eligible participants of the Scheme include any employees, consultants, suppliers or customers of the Company and its subsidiaries, including any independent non-executive directors of the Company. The Scheme became effective on 1st November, 2001 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period up to the date of grant, is limited to 1% of the shares of the Company in issue at that date of grant. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

The offer of a grant of share options may be accepted in writing within 21 days from the date of the offer, upon payment of a normal consideration of HK\$1 in total by the grantee. Any share option may be exercised in accordance with the terms of the Scheme at any time during a period to be notified by the board of directors to an eligible participant but may not be exercised after the expiry of 10 years from the date of grant of the share option.

The exercise price of the share options is determinable by the board of directors, but may not be less than the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of offer of the option, which must be a business day, (ii) the average of the closing prices of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of offer of the option, or (iii) the nominal value of the Company's shares on the date of offer.

At the balance sheet date, no share options had been granted under the Scheme.

### **SPONSOR'S INTERESTS**

As at 31st March, 2004 and at the date of this report, DBS Asia Capital Limited (the "Continuing Sponsor"), its directors, employees or associates did not have any interest in the securities of the Company or of any members of the Group, or have any right to subscribe for or to nominate persons to subscribe for the securities of the Company or of any members of the Group.

Pursuant to the agreement dated 10th July, 2001 entered into between the Company and the Continuing Sponsor, the Continuing Sponsor received, and will receive, fees for acting as the Company's retained sponsor for the period from 1st November, 2001 to 31st March, 2004. Following the expiry of the agreement between the Company and the Continuing Sponsor, DBS Asia Capital Limited ceased to act as the Company's retained sponsor with effect from 1st April, 2004.

### **COMPLIANCE WITH RULES 5.34 TO 5.45 OF THE GEM LISTING RULES**

The Company has complied with the Board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules during the year.

### **AUDIT COMMITTEE**

The Company set up an audit committee (the "Committee") on 18th October, 2001, with written terms of reference in compliance with the GEM Listing Rules, for the purpose of reviewing and providing supervision over the financial reporting process and internal control of the Group. The Committee currently comprises the two independent non-executive directors of the Company, namely, Ms. Leung Wai Ling, Wylie and Mr. Gui Gan. Mr. Chung Tung Sau resigned as a member of the audit committee with effect from 1st October, 2003. During the year, the audit committee held 4 meetings to review and supervise the financial reporting process, and to provide advice and recommendations to the board of directors. The financial statements of the Group for the year ended 31st March, 2004 have been reviewed by the Committee, who are of the opinion that such statements comply with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures have been made.

## 24 Report of the Directors

### **AUDITORS**

The financial statements have been audited by Glass Radcliffe Chan who were appointed during the year. Glass Radcliffe Chan now practice under the name of "Baker Tilly Hong Kong Limited" who, being eligible, offer themselves for re-appointment.

Baker Tilly Hong Kong Limited (Previous name: Glass Radcliffe Chan) were appointed as the Company's auditors in April 2003 to audit the Company's accounts for the year ended 31st March, 2003. Ernst & Young acted as the Company's auditors for the year ended 31st March, 2002.

ON BEHALF OF THE BOARD

**Li Ting**

*Chairman*

Hong Kong

15th June, 2004

## **AUDITORS' REPORT TO THE MEMBERS OF IA INTERNATIONAL HOLDINGS LIMITED**

*(Incorporated in Bermuda with limited liability)*

We have audited the financial statements on pages 26 to 51 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

### **Respective responsibilities of directors and auditors**

The Hong Kong Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### **Basis of opinion**

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

### **Opinion**

In our opinion the financial statements give a true and fair view, in all material respects, of the state of the affairs of the Company and of the Group as at 31st March, 2004 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

## **BAKER TILLY HONG KONG LIMITED**

*Certified Public Accountants*

Hong Kong, 15th June, 2004

## 26 Consolidated Income Statement

For the year ended 31st March, 2004

	Notes	2004 HK\$'000	2003 HK\$'000
<b>TURNOVER</b>	6	<b>96,804</b>	104,385
Cost of sales		<b>(86,938)</b>	(89,962)
Gross profit		<b>9,866</b>	14,423
Other revenue	7	<b>937</b>	717
Distribution costs		<b>(976)</b>	(1,149)
Administrative expenses		<b>(4,009)</b>	(5,614)
Other operating expenses		<b>(3,044)</b>	(2,943)
<b>PROFIT FROM OPERATING ACTIVITIES</b>	8	<b>2,774</b>	5,434
Finance costs	9	<b>(22)</b>	(372)
<b>PROFIT BEFORE TAXATION</b>		<b>2,752</b>	5,062
Taxation	11	<b>(1,221)</b>	(971)
<b>PROFIT BEFORE MINORITY INTERESTS</b>		<b>1,531</b>	4,091
Minority interests		<b>1</b>	72
<b>NET PROFIT FROM ORDINARY ACTIVITIES</b>			
<b>ATTRIBUTABLE TO SHAREHOLDERS</b>	12	<b>1,532</b>	4,163
<b>DIVIDENDS</b>	13	<b>-</b>	-
<b>EARNINGS PER SHARE</b>	14		
- Basic		<b>HK0.51 cents</b>	HK1.39 cents
- Diluted		<b>N/A</b>	N/A

The accompanying notes form an integral part of these financial statements.

# Consolidated Balance Sheet 27

As at 31st March, 2004

	Notes	2004 HK\$'000	2003 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Fixed assets	15	9,199	1,724
Other investments	16	10,800	–
		<b>19,999</b>	1,724
<b>CURRENT ASSETS</b>			
Accounts receivable	18	23,268	18,230
Prepayments, deposits and other receivables		1,909	4,581
Cash and bank balances	19	9,256	34,758
		<b>34,433</b>	57,569
<b>CURRENT LIABILITIES</b>			
Accounts payable	20	4,969	12,967
Accrued expenses and other payables		4,051	1,384
Taxes payable		2,045	2,341
Bank overdrafts – secured	21	–	2,005
		<b>11,065</b>	18,697
<b>NET CURRENT ASSETS</b>		<b>23,368</b>	38,872
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>43,367</b>	40,596
<b>MINORITY INTERESTS</b>		<b>(2,125)</b>	(2,126)
		<b>41,242</b>	38,470
<b>CAPITAL AND RESERVES</b>			
Issued capital	22	15,000	15,000
Reserves	23	26,242	23,470
		<b>41,242</b>	38,470

Li Ting  
Director

Zhang Fulin  
Director

The accompanying notes form an integral part of these financial statements.

# 28 Balance Sheet

As at 31st March, 2004

	Notes	2004 HK\$'000	2003 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Investments in subsidiaries	17	13,172	13,172
<b>CURRENT ASSETS</b>			
Amounts due from subsidiaries	17	20,360	20,461
Cash and bank balances	19	6	6
		<b>20,366</b>	20,467
<b>CURRENT LIABILITIES</b>			
Accrued expenses and other payables		25	270
<b>NET CURRENT ASSETS</b>			
		<b>20,341</b>	20,197
<b>NET ASSETS</b>			
		<b>33,513</b>	33,369
<b>CAPITAL AND RESERVES</b>			
Issued capital	22	15,000	15,000
Reserves	23	18,513	18,369
		<b>33,513</b>	33,369

**Li Ting**  
*Director*

**Zhang Fulin**  
*Director*

The accompanying notes form an integral part of these financial statements.

# Statement of Changes in Equity of the Group and the Company 29

For the year ended 31st March, 2004

## Group

	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000	Exchange reserve HK\$'000	Capital reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
Balance at 1st April, 2002	15,000	5,902	6,015	149	-	7,241	34,307
Net profit for the year	-	-	-	-	-	4,163	4,163
Balance at 31st March, 2003	15,000	5,902	6,015	149	-	11,404	38,470
Arising on consolidation of a subsidiary company	-	-	-	40	-	-	40
Negative goodwill ( <i>Note 24b</i> )	-	-	-	-	1,200	-	1,200
Net profit for the year	-	-	-	-	-	1,532	1,532
Balance at 31st March, 2004	15,000	5,902	6,015	189	1,200	12,936	41,242

## Company

	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000	Accumulated loss HK\$'000	Total HK\$'000
Balance at 1st April, 2002	15,000	5,902	12,947	(469)	33,380
Net loss for the year	-	-	-	(11)	(11)
Balance at 31st March, 2003	15,000	5,902	12,947	(480)	33,369
Net profit for the year	-	-	-	144	144
Balance at 31st March, 2004	15,000	5,902	12,947	(336)	33,513

The accompanying notes form an integral part of these financial statements.

# 30 Consolidated Cash Flow Statement

For the year ended 31st March, 2004

	Notes	2004 HK\$'000	2003 HK\$'000
Profit before taxation		2,752	5,062
Adjustments for:			
Depreciation		538	605
Interest expenses		22	372
Interest income		(209)	(299)
Operating cash flows before movements in working capital		3,103	5,740
Increase in accounts receivable		(5,038)	(8,885)
Decrease in prepayments, deposits and other receivables		2,672	1,882
(Decrease)/increase in accounts payable		(7,998)	11,347
(Decrease)/increase in accrued expenses and other payables		(818)	327
Cash (used in)/generated from operating activities		(8,079)	10,411
Interest paid		(22)	(372)
Hong Kong profits tax paid		(1,632)	(139)
<b>NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES</b>		<b>(9,733)</b>	<b>9,900</b>
<b>INVESTING ACTIVITIES</b>			
Interest received		209	299
Decrease/(increase) in time deposits		25,709	(7,379)
Purchases of fixed assets		(8,013)	(269)
Purchase of a subsidiary company	24(b)	(6,000)	-
<b>NET CASH INFLOW/(OULFLOW) FROM INVESTING ACTIVITIES</b>		<b>11,905</b>	<b>(7,349)</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>2,172</b>	<b>2,551</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		<b>7,044</b>	<b>4,493</b>
<b>CHANGES IN FOREIGN EXCHANGE RATES</b>		<b>40</b>	<b>-</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		<b>9,256</b>	<b>7,044</b>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and bank balances	19	9,256	9,049
Bank overdrafts		-	(2,005)
		<b>9,256</b>	<b>7,044</b>

The accompanying notes form an integral part of these financial statements.

## 1. CORPORATION INFORMATION

The Company was incorporated in Bermuda on 7th June, 2001 as an exempted company with limited liability under the Companies Act 1981 of Bermuda. The shares of the Company were listed on the Growth Enterprise Market ("GEM") on 1st November, 2001. Details of the group reorganization are set out in the Company's prospectus dated 24th October, 2001.

The principal activity of the Company is investment holding. During the year, the Group was principally involved in the provision of research, development and information-on-demand ("IOD") system solutions and the provision of related products and services.

In the opinion of the directors, as at 31st March, 2004, the ultimate holding company of the Company was Internet Appliances (Holdings) Limited ("IA Holdings") which is incorporated in the British Virgin Islands.

## 2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted, for the first time, the revised Statement of Standard Accounting Practice ("SSAP") 12 issued by the Hong Kong Society of Accountants.

The revision to SSAP 12 (Revised) "Income taxes" has introduced a new basis of accounting for income taxes (including both current taxation and deferred taxation). The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred taxation. On adoption of the revised SSAP 12, deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. As the adoption of SSAP 12 (Revised) has no material effect on the results for the current or prior accounting periods, no prior period adjustment is required.

## 3. BASIS OF PRESENTATION

The financial statements have been prepared under the historical convention and in accordance with accounting standards issued by Hong Kong Society of Accountants, generally accepted accounting principles in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

In the opinion of the directors, the consolidated financial statements prepared on the above basis present more fairly the results and the state of affairs of the Group as a whole.

All significant inter-company transactions and balances within the Group are eliminated in the preparation of the consolidated financial statements.

## 4. PRINCIPAL ACCOUNTING POLICIES

### (a) **Subsidiary companies**

A subsidiary company is a company in which the Company, directly or indirectly, controls more than half of the voting power or issued share capital or controls the composition of the board of directors. The Company's investments in subsidiaries are stated at cost less any impairment.

### (b) **Joint venture company**

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the ventures stipulates the capital contribution of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profit and loss from the joint venture company's operations and any distributions of its surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as a subsidiary if the Company has unilateral control over the joint venture company.

### (c) **Related parties**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

### (d) **Negative goodwill**

Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisition.

On disposals of investments in subsidiary companies, the attributable amount of negative goodwill previously credited to the reserve accounts is included in the determination of the profit or loss on disposals of the subsidiary companies.

**4. PRINCIPAL ACCOUNTING POLICIES (Continued)****(e) Fixed assets**

Fixed assets are stated at cost less accumulated depreciation and any provisions for impairment losses required to reflect recoverable amounts. Cost represents the purchase price and any directly attributable costs of bringing the asset to its working condition for its intended use. Subsequent expenditure is capitalised when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the enterprise. All other subsequent expenditure, such as repairs and maintenance and overhaul costs, is recognised as an expense in the period in which it is incurred.

Depreciation is calculated to write off the cost of fixed assets over their estimated useful lives, on a straight-line basis, at the following annual rates:-

Leasehold improvements	Over the remaining lease terms
Furniture and fixtures	20%
Computer and office equipment	20%
Motor vehicles	10%

The gain or loss arising from the retirement or disposals of fixed assets, representing the difference between the estimated net disposal proceeds and the carrying amount of the asset, is recognised in the income statement.

**(f) Research and development costs**

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are amortised using the straight-line basis over the commercial lives of the underlying products of not exceeding five years, commencing from the date when the products are put into commercial production.

## 4. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (g) Other investments

Securities intended to be held for identified long-term purpose or strategic reason are included in the balance sheet under non-current assets and are carried at cost less provision. The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such investment will be reduced to its fair value. The impairment loss is recognised as an expense in the income statement and is written back to income statement when the circumstances and events that led to the write-down cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

### (h) Operating leases

Leases where a significant portion of the risk and rewards of ownership are retained by the lessors are classified as operating leases. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

### (i) Cash and cash equivalents

Cash and cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance.

### (j) Taxation

The charge for taxation is based on the results for the year as adjusted for items, which are non-assessable or disallowable. Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date is used to determine deferred taxation.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred tax assets is provided on temporary differences arising on investments in subsidiary companies, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

#### 4. PRINCIPAL ACCOUNTING POLICIES (Continued)

##### (k) Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (i) Revenue from the sales of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold and
- (ii) Revenue from the sales of e-commerce platform systems is recognised when the customer accepts the installation and that the system is operating satisfactorily.
- (iii) Revenue from provision of computer network setup service is recognised when the customer accepts the delivery and that the system is operating satisfactorily.
- (iv) Interest income is recognised on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable.

##### (l) Dividends

Dividends proposed by the directors are classified as a separate allocation of retained earnings within capital and reserves in the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

##### (m) Translation of foreign currencies

Transactions in foreign currency during the year are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Gains or losses arising on exchange are dealt with in the income statement.

On consolidation, the assets and liabilities of the Group's overseas subsidiaries are translated into Hong Kong dollars at exchange rate prevailing on the balance sheet date. Income and expense items are translated into Hong Kong dollars at the average exchange rate during the year. Exchange differences arising, if any, are dealt with in the exchange reserve.

## 4. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (n) Accounts receivable

Trade debtors which generally have credit terms of not more than 90 days, except for certain well established customers, where the terms are extended to not more than 180 days, are recognised and carried at original invoiced amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

### (o) Pension scheme

The Group, other than the subsidiary company in the People's Republic of China ("PRC") operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of MPF Scheme are held separately from those of the Group in an independently administrated fund. The Group's employer contributions vest fully with the employees when contributed to the MPF Scheme except for the Group's employer voluntary contributions, which will be refunded to the Group when the employee leaves employment prior to the contributions vesting fully in accordance with the rules of the MPF Scheme.

The PRC subsidiary company's contributions to a local municipal government retirement scheme in the PRC are expensed as incurred while the local municipal government in the PRC undertakes to assume the retirement benefit obligations of all existing and future retirees of the qualified staff in the PRC.

### (p) Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication an impairment loss previously recognised for an asset in prior years may no longer be required. An asset's recoverability amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the income statement in the period in which it arises.

#### 4. PRINCIPAL ACCOUNTING POLICIES (Continued)

(p) **Impairment of assets (Continued)**

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the income statement in the period in which it arises.

#### 5. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

- (a) the internet appliance products segment provides internet appliances and related products; and
- (b) the e-commerce platform segment provides an e-marketplace for content providers and their users with features such as security enhancements and related services.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers and assets are attributed to the segments based on the location of assets.

# 38 Notes to Financial Statements

31st March, 2004

## 5. SEGMENT INFORMATION (Continued)

### (a) Business segments

The following tables present revenue, results and certain assets, liabilities and expenditure information for the Group's business segments.

	Internet appliances and related products		E-commerce platform and related services		Consolidated	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
<b>TURNOVER</b>	<b>87,311</b>	85,209	<b>9,493</b>	19,176	<b>96,804</b>	104,385
<b>RESULTS</b>						
Segment results	<b>6,503</b>	11,490	<b>917</b>	408	<b>7,420</b>	11,898
Other revenue					<b>209</b>	299
Distribution costs					<b>(976)</b>	(1,149)
Administrative expenses					<b>(3,879)</b>	(5,614)
Profit from operating activities					<b>2,774</b>	5,434
Finance costs					<b>(22)</b>	(372)
Profit before taxation					<b>2,752</b>	5,062
Taxation					<b>(1,221)</b>	(971)
Profit before minority interests					<b>1,531</b>	4,091
Minority interests					<b>1</b>	72
Net profit from ordinary activities attributable to shareholders					<b>1,532</b>	4,163
<b>BALANCE SHEET</b>						
<b>ASSETS</b>						
Segment assets	32,174	17,091	343	5,195	<b>32,517</b>	22,286
Unallocated assets	-	-	-	-	<b>21,915</b>	37,007
Total assets					<b>54,432</b>	59,293
<b>LIABILITIES</b>						
Segment liabilities	4,822	12,344	147	1,465	<b>4,969</b>	13,809
Unallocated liabilities	-	-	-	-	<b>6,096</b>	4,888
Total liabilities					<b>11,065</b>	18,697
Other segment information:						
Depreciation	130	-	-	-	<b>130</b>	-
Depreciation - unallocated	-	-	-	-	<b>408</b>	605
Capital expenditure	7,819	-	-	-	<b>7,819</b>	-
Capital expenditure - unallocated	-	-	-	-	<b>194</b>	269

**5. SEGMENT INFORMATION (Continued)****(b) Geographical segments**

The following tables present revenue, results and certain assets and expenditure information for the Group's geographical segments.

**Group**

	PRC (including Hong Kong)		US		Others		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue	<b>96,804</b>	98,933	-	4,157	-	1,295	<b>96,804</b>	104,385
Other segment information:								
Segment assets	<b>54,432</b>	59,293	-	-	-	-	<b>54,432</b>	59,293
Capital expenditure	<b>8,013</b>	269	-	-	-	-	<b>8,013</b>	269

**6. TURNOVER**

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts where applicable and services rendered. All significant intra-group transactions have been eliminated on consolidation.

**7. OTHER REVENUE**

	Group	
	2004 HK\$'000	2003 HK\$'000
Interest income	<b>209</b>	299
Setup fee for computer networks and others	<b>728</b>	418
	<b>937</b>	717

# 40 Notes to Financial Statements

31st March, 2004

## 8. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after crediting and charging the following:

	2004 HK\$'000	2003 HK\$'000
<b>Crediting:</b>		
Interest income	209	299
<b>Charging:</b>		
Auditors' remuneration	270	270
Bad debts	56	–
Cost of inventories sold	86,831	89,832
Directors' remuneration	359	1,417
Depreciation of fixed assets	538	605
Exchange losses	139	35
Operating leases in respect of land and buildings	603	658
Research and development costs	2,894	2,593
Pension scheme contributions	132	105
Staff costs (excluding directors' remuneration)	3,650	2,993

Research and development costs include HK\$2,520,000 (2003: HK\$1,454,000) relating to staff costs and pension scheme contributions, which are also included in the respective total amounts disclosed separately above for each of these types of expenses. Research and development costs are included in "Other operating expenses" on the face of the income statement.

## 9. FINANCE COSTS

	Group	
	2004 HK\$'000	2003 HK\$'000
Interest on bank overdrafts and bills wholly repayable within five years	22	372

**10. DIRECTORS' REMUNERATION AND SENIOR EXECUTIVES**

- (a) Directors' remuneration disclosed pursuant to the Rules Governing the Listing of Securities on GEM and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Fees:		
Executive directors	-	-
Independent non-executive directors	180	240
	<b>180</b>	240
Other emoluments of executive directors:		
Basic salaries, housing benefits, other allowances and benefits in kind	179	1,177
Pension scheme contributions	-	-
	<b>179</b>	1,177

The independent non-executive directors as at 31st March, 2004 received HK\$120,000 (2003: HK\$120,000) respectively. The other independent non-executive director, who retired during the year, received HK\$60,000 during the year (2003: HK\$120,000).

Emoluments of executive directors are as follows:-

	Group	
	2004 HK\$'000	2003 HK\$'000
Executive director A	179	377
Executive director B	-	390
Executive director C	-	250
Executive director D, retired	-	160

# 42 Notes to Financial Statements

31st March, 2004

## 10. DIRECTORS' REMUNERATION AND SENIOR EXECUTIVES (Continued)

(a) (Continued)

The emoluments of the Directors of the Company fell within the following bands:

	Number of directors	
	2004	2003
<b>Emolument bands</b>		
Nil to HK\$1,000,000	7	6

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

(b) The five highest paid employees during the year included no (2003: four) directors, details of whose remuneration are set out above. Details of the remuneration of the five (2003: one) non-director, highest paid employee are set out as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Salaries, allowances and benefits in kind	1,455	289
Pension scheme contributions	60	13
	<b>1,515</b>	<b>302</b>

Emoluments of the five individuals of the Group fell within the following bands:

	2004	2003
	<b>Emolument bands</b>	
Nil to HK\$1,000,000	5	5

During the year, no emoluments were paid by the Group to the directors or the highest paid, non-director employee as an inducement to join or upon joining the Group, or as compensation for loss of office (2003: Nil).

**11. TAXATION**

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 16%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

The provision for the year can be reconciled from taxation based on the consolidated income statement as follows:

	2004 HK\$'000	2003 HK\$'000
Profit before taxation	2,752	5,062
Tax at the domestic tax rate of 17.5% (2003: 16%)	482	810
Effect of different tax rates of a subsidiary company operating in the PRC	-	7
Tax effect on non-deductible expenses	23	190
Tax effect of non-taxable revenue	(26)	(3)
Tax effect on accelerated depreciation allowance	(9)	(33)
Over provision in the prior year	(369)	-
Under provision in the prior year	1,120	-
<b>Tax charge for the year</b>	<b>1,221</b>	<b>971</b>

Deferred tax has not been provided (2003: Nil) because the Company and the Group had no significant temporary differences at the balance sheet date.

**12. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS**

Net profit from ordinary activities attributable to shareholders for the year ended 31st March, 2004 dealt with in the financial statements of the Company was HK\$144,000 (2003: Net loss of HK\$11,000).

**13. DIVIDENDS**

No dividends have been paid or declared by the Company during the year (2003: Nil).

**14. EARNINGS PER SHARE**

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year of HK\$1,532,000 (2003: HK\$4,163,000) and on the weighted average number of 300,000,000 (2003: 300,000,000) ordinary shares of the Company.

Diluted earnings per share is not presented as there are no diluting events during the year.

# 44 Notes to Financial Statements

31st March, 2004

## 15. FIXED ASSETS

### Group

	Leasehold improvements HK\$'000	Furniture and fixtures HK\$'000	Computer and office equipment HK\$'000	Motor vehicles HK\$'000	Plant and machinery HK\$'000	Total HK\$'000
Cost						
At 1st April, 2003	781	182	1,387	526	-	2,876
Additions	147	1	46	-	7,819	8,013
At 31st March, 2004	928	183	1,433	526	7,819	10,889
Accumulated depreciation						
At 1st April, 2003	659	68	366	59	-	1,152
Charge for the year	57	34	268	49	130	538
At 31st March, 2004	716	102	634	108	130	1,690
Net book value						
At 31st March, 2004	212	81	799	418	7,689	9,199
At 31st March, 2003	122	114	1,021	467	-	1,724

## 16. OTHER INVESTMENTS

Other investments represent an investment, at cost, in a company listed in Hong Kong. Details of other investments held by the Group as at 31 March 2004, are as follows:

Name	Place of incorporation	Class of shares	Percentage holding	Nature of business
MP Logistics International Holdings Limited	Cayman Islands	Ordinary	3%	Provision of logistics services

**17. INVESTMENTS IN SUBSIDIARIES AND AMOUNTS DUE FROM SUBSIDIARIES**

	Company	
	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	13,172	13,172
Amounts due from subsidiaries	20,360	20,461
	<b>33,532</b>	33,633

Amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Details of subsidiary companies are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of ordinary share/registered capital	Percentage of attributable equity interest		Principal activities
			Direct	Indirect	
Smart Time Development Limited	British Virgin Islands	US\$800,000 Ordinary	100	–	Investment holding
Internet Appliances (Hong Kong) Limited	Hong Kong	HK\$1,000,000 Ordinary	–	100	Trading of internet appliances
Shencai (Hong Kong) Holding Limited	British Virgin Islands	US\$10,000 Ordinary	–	100	Dormant
Innotech Development Limited	British Virgin Islands	US\$1,000 Ordinary	–	100	Holding of fixed assets
Global Form Limited	British Virgin Islands	US\$50,000 Ordinary	–	100	Investment holding

# 46 Notes to Financial Statements

31st March, 2004

## 17. INVESTMENTS IN SUBSIDIARIES AND AMOUNTS DUE FROM SUBSIDIARIES (Continued)

Name	Place of incorporation/ registration and operations	Nominal value of ordinary share/registered capital	Percentage of attributable equity interest		Principal activities
			Direct	Indirect	
深圳毅興科技企業有限公司	PRC	HK\$20,000,000	-	90	Provision of IOD system solutions
IA Enterprise Limited note (a)	Hong Kong	HK\$1,000,000 Ordinary	-	100	Trading of internet appliances
Sunny Sky Investments Management Limited note (a)	British Virgin Islands	US\$1 Ordinary	-	100	Investment holding

Note:

(a) These are new subsidiaries established/acquired during the year.

## 18. ACCOUNTS RECEIVABLE

The aging analysis of the Group's accounts receivable at the balance sheet date, based on the date of goods delivered, is as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Within 30 days	5,745	15,787
31 – 60 days	6,194	2,443
Over 61 days	11,329	-
	<b>23,268</b>	18,230

**19. CASH AND BANK BALANCES**

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Cash and bank balances	9,256	9,049	6	6
Time deposits	-	25,709	-	-
	<b>9,256</b>	<b>34,758</b>	<b>6</b>	<b>6</b>

**20. ACCOUNTS PAYABLE**

The aging analysis of the Group's accounts payable at the balance sheet date, based on the date of goods received, is as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Within 30 days	4,867	12,632
31 – 60 days	-	-
Over 61 days	102	335
	<b>4,969</b>	<b>12,967</b>

**21. BANKING FACILITIES**

At 31st March, 2004, the Group has general banking facilities available of HK\$10,000,000 (2003: HK\$30,000,000). The facilities provided to the subsidiary of the Company were guaranteed by the Company.

# 48 Notes to Financial Statements

31st March, 2004

## 22. SHARE CAPITAL

### (a) Shares

	2004 HK\$'000	2003 HK\$'000
Authorised:		
2,000,000,000 ordinary shares of HK\$0.05 each	100,000	100,000
Issued and fully paid:		
300,000,000 ordinary shares of HK\$0.05 each	15,000	15,000

There have been no movements in share capital during the years ended 31st March, 2003 and 31st March, 2004.

### (b) Share options

The Company operates a share option scheme (the "Scheme"), further details of which are set out under the heading "Share option scheme" in the Report of the Directors.

At the balance sheet date and the date of approval of these financial statements, no share options had been granted under the Scheme.

## 23. RESERVES

The movements of reserves of the Group and Company are set out under the statement of changes in equity.

The contributed surplus of the Group arose as a result of the group reorganisation for the listing of the Company's shares on the GEM and represents the difference between the nominal value of the aggregate share capital of the subsidiaries acquired under the group reorganisation, over the nominal value of Company's shares in exchange therefor.

The contributed surplus of the Company arose as a result of the same group reorganisation and represents the excess of the then combined net assets of the subsidiaries acquired, over the nominal value of the Company's shares issued in exchange therefor.

Under the Companies Act 1981 of Bermuda, the Company's contributed surplus is available for cash distribution and/or distribution in specie under certain circumstances.

**24. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT****(a) Analysis of changes in financing during the year**

	<b>Issued capital and share premium account</b>	<b>Contributed surplus</b>	<b>Minority interests</b>
	HK\$'000	HK\$'000	HK\$'000
At 1st April, 2002	20,902	6,015	2,198
Share of loss for the year	–	–	(72)
At 31st March, 2003	20,902	6,015	2,126
Share of loss for the year	–	–	(1)
At 31st March, 2004	20,902	6,015	2,125

**(b) Purchase of a subsidiary company**

	<b>2004</b>	2003
	HK\$'000	HK\$'000
Net assets acquired		
Listed securities	<b>10,800</b>	–
Other payables	<b>(3,600)</b>	–
	<b>7,200</b>	–
Less: Acquisition cost (by cash)	<b>(6,000)</b>	–
Negative goodwill	<b>1,200</b>	–

The subsidiary company acquired during the year did not contribute any cash flows to the Group.

# 50 Notes to Financial Statements

31st March, 2004

## 25. UNRECOGNISED DEFERRED TAXATION

At the balance sheet date, the Group had unrecognised deferred taxation assets as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Taxation effect of temporary differences arising as a result of:		
Tax losses available to set off against future assessable profits	9	7
Excess of depreciation charged in the financial statements over depreciation allowance claimed for tax purposes	(26)	(9)
	(17)	(2)

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

The amount of unrecognised deferred taxation credit for the year is as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Taxation effect of timing differences arising as a result of:		
Tax losses arising	2	7
Excess of depreciation allowance claimed for tax purposes over depreciation charged in the financial statements	(17)	(25)
	(15)	(18)

The Company had no significant unrecognised deferred taxation at the balance sheet date.

**26. OPERATING LEASE ARRANGEMENTS**

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging 12 months to 24 months.

At 31st March, 2004, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Within one year	213	230
In the second to fifth years, inclusive	-	330
	<b>213</b>	<b>560</b>

**27. COMMITMENTS**

Save for the operating lease commitments detailed in note 26 above, at the balance sheet date, neither the Group, nor the Company had significant commitments.

**28. CONTINGENT LIABILITIES**

	Company	
	2004 HK\$'000	2003 HK\$'000
Guarantee provided to a subsidiary company for its utilized banking facilities at the balance sheet date	-	12,005

**29. APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements were approved and authorised for issue by the Board of Directors on 15th June, 2004.

## 52 Notice of Annual General Meeting

**NOTICE IS HEREBY GIVEN** that the Annual General Meeting of IA International Holdings Limited (the "Company") will be held at Room 1536, Pruton Prudential Hotel, 222 Nathan Road, Tsimshatsui, Kowloon, Hong Kong on 28th July, 2004 (Wednesday) at 10:00 a.m. for the following purposes:

1. To receive and consider the audited financial statements and the reports of the directors and auditors for the year ended 31st March, 2004;
2. To re-elect retiring directors and authorise the board of directors to fix their remuneration;
3. To re-appoint auditors and authorise the board of directors to fix their remuneration;

and, as special business, to consider and, if thought fit, to pass with or without amendments, the following resolutions as ordinary and special resolutions of the Company:

### Ordinary Resolutions

4. **"THAT**
  - (i) subject to paragraph (iii) of this resolution, pursuant to the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules"), the exercise by the directors of the Company during the Relevant Period (as defined below) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options (including bonds, warrants and debentures convertible into shares) which might require the exercise of such powers be and is hereby generally and unconditionally approved;
  - (ii) the approval in paragraph (i) of this resolution shall authorise the directors of the Company during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;
  - (iii) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the directors of the Company pursuant to the approval in paragraph (i) of this resolution, otherwise than pursuant to (a) a Rights Issue (as defined below), (b) the exercise of warrants to subscribe for shares of the Company or the exercise of options granted under any ordinary share option scheme adopted by the Company, or (c) an issue of shares of the Company in lieu of whole or part of a dividend on shares of the Company in accordance with the bye-laws of the Company, shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this resolution and this approval shall be limited accordingly; and

- (iv) for the purpose of this resolution:

“Relevant Period” means the period from the date of this resolution until whichever is the earliest of:

- (a) the conclusion of the next annual general meeting of the Company;
- (b) the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company or the Company Act 1981 of Bermuda (as amended) or any applicable laws to be held; and
- (c) the date on which the authority sets out in this resolution is revoked or varied by the passing of an ordinary resolution by shareholders of the Company in general meeting.

“Rights Issue” means an offer of shares of the Company open for a period fixed by the directors of the Company to holders of shares on the register of members of the Company on a fixed record date in proportion to their then holdings of such shares as at that date (subject to such exclusions or other arrangements as the directors of the Company may deem necessary or expedient in relation to overseas shareholders or fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of, any recognised regulatory body or any stock exchange in any territory outside Hong Kong).”

5. **“THAT**

- (i) subject to paragraph (ii) of this resolution, the exercise by the directors of the Company during the Relevant Period (as defined below) of all powers of the Company to repurchase issued shares in the capital of the Company on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) or any other stock exchange on which the securities of the Company may be listed and recognised by the Securities and Futures Commission of Hong Kong and the Stock Exchange for such purpose, subject to and in connection with all applicable laws and/or the requirements of the GEM Listing Rules (as defined in Resolution No. 4 as set out in the notice of this meeting) or of any other stock exchange as amended from time to time, be and the same is hereby generally and unconditionally approved;

## 54 Notice of Annual General Meeting

(ii) the aggregate nominal amount of shares of the Company which the Company is authorised to repurchase pursuant to the approval in paragraph (i) of this resolution shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this resolution, and this approval shall be limited accordingly; and

(iii) for the purpose of this resolution:

“Relevant Period” means the period from the passing of this resolution until whichever is the earliest of:

(a) the conclusion of the next annual general meeting of the Company;

(b) the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company or the Company Act 1981 of Bermuda (as amended) or any applicable laws to be held; and

(c) the date on which the authority sets out for this resolution is revoked or varied by the passing of an ordinary resolution by shareholders of the Company in general meeting.”

6. **“THAT** conditional upon ordinary resolutions nos. 4 and 5 above being passed, the aggregate nominal amount of shares of the Company which are repurchased by the Company under the authority granted to the directors of the Company as mentioned in ordinary resolution no. 5 above shall be added to the aggregate nominal amount of the share capital of the Company that may be allotted or agreed conditionally or unconditionally to be allotted by the directors of the Company pursuant to ordinary resolution no. 4 above.”

### Special Resolution

7. **“THAT** the following amendments to the Bye-laws of the Company be and are hereby approved:

(a) by adding the following definition after the definition of “Act” and before the definition of “Auditor”:

““associate”                      the meaning attributed to it in the rules of the Designated Stock Exchange.”;

- (b) by deleting the definition of "clearing house" in its entirety and replacing it with the following definition:

"clearing house" a clearing house or authorised share depository recognised by the laws of the jurisdiction in which the shares are listed or quoted on a stock exchange in such jurisdiction.";

- (c) by adding the following words in Bye-law 2(e) after the words "in a visible form":

", including where the representation takes the form of electronic display, provided that both the mode of service of the relevant document or notice and the Members' election comply with all applicable Statutes, rules and regulations";

- (d) by replacing the "." at the end of Bye-law 2(j) with "; and";

- (e) by adding the following Bye-law 2(k) immediately after Bye-law 2(j):

"(k) references to a document being executed include references to it being executed under hand or under seal or by electronic signature or by any other method and references to a notice or document include a notice or document recorded or stored in any digital, electronic, electrical, magnetic or other retrievable form or medium and information in visible form whether having physical substance or not.";

- (f) by adding the following words in Bye-law 6 after the words "issued share capital or" and before the words "any share premium account":

", save for the use of share premium as expressly permitted by the Act,";

- (g) by adding the following words in Bye-law 43(1)(a) immediately after the words "class of shares held by him and" and before the words "the amount paid or agreed to be considered as paid on such shares";

", in respect of any shares that are not fully paid,";

## 56 Notice of Annual General Meeting

- (h) by adding the following words in Bye-law 51 after the words "in accordance with the requirements of any Designated Stock Exchange" and before the words "to that effect":

"or by any means in such manner as may be accepted by the Designated Stock Exchange";

- (i) by amending the reference of the existing Bye-law 76 to Bye-law 76(1) and adding the following new Bye-law 76(2) immediately after Bye-law 76(1):

"(2) Where the Company has knowledge that any Member is, under the rules of the Designated Stock Exchange, required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such Member in contravention of such requirement or restriction shall not be counted.";

- (j) by deleting the word "special" in Bye-law 86(4) and replacing it with the word "ordinary";

- (k) by deleting the existing Bye-law 88 in its entirety and replacing with the following new Bye-law 88:

"88. No person other than a Director retiring at the meeting shall, unless recommended by the Directors for election, be eligible for election as a Director at any general meeting unless a Notice signed by a Member (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also a Notice signed by the person to be proposed of his willingness to be elected shall have been lodged at the head office or at the Registration Office provided that the minimum length of the period, during which such Notice(s) are given, shall be at least seven (7) days and that the period for lodgement of such Notice(s) shall commence no earlier than the day after the despatch of the notice of the general meeting appointed for such election and end no later than seven (7) days prior to the date of such general meeting.";

- (l) by deleting the words "whereupon the Board resolves to accept such resignation" in Bye-law 89(1);

- (m) by deleting the existing Bye-law 103 in its entirety and replacing with the following new Bye-law 103:

"103. (1) A Director shall not vote (nor be counted in the quorum) on any resolution of the Board approving any contract or arrangement or any other proposal in which he or any of his associates is materially interested, but this prohibition shall not apply to any of the following matters namely:

- (i) any contract or arrangement for giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associate(s) or obligations incurred or undertaken by him or any of his associate(s) at the request of or for the benefit of the Company or any of its subsidiaries;
- (ii) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (iii) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (iv) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company;

## 58 Notice of Annual General Meeting

- (v) any contract or arrangement concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or shareholder other than a company in which the Director and/or his associate(s) is/are beneficially interested in shares of that company, provided that the Director and any of his associates are not in aggregate beneficially interested in five (5) per cent. or more of the issued shares or of the voting rights of any class of shares of such company (or any third company through which his interest or that of any of his associates is derived); or
  - (vi) any proposal concerning the adoption, modification or operation of a share option or share incentive scheme, a pension fund or retirement, death or disability benefits scheme or other arrangement which relates both to Directors, his associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director or his associate(s) as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates.
- (2) A company shall be deemed to be a company in which a Director and/or his associate(s) owns five (5) per cent. or more if and so long as (but only if and so long as) he and/or his associates (either directly or indirectly) are the holders of or beneficially interested in five (5) per cent. or more of any class of the equity share capital of such company of the voting rights available to members of such company (or of any third company through which his interest or that of any of his associates is derived). For the purpose of this paragraph there shall be disregarded any shares held by a Director or his associate(s) as bare or custodian trustee and in which he or any of them has/have no beneficial interest, any shares comprised in a trust in which the interests of the Director or his associate(s) is/are in reversion or remainder if and so long as some other person is entitled to receive the income thereof, and any shares comprised in an authorised unit trust scheme in which the Director or his associate(s) is/are interested only as a unit holder and any shares which carry no voting right at general meetings and very restrictive dividend and return of capital right.

- (3) Where a company in which a Director and/or his associate(s) holds five (5) per cent. or more is/are materially interested in a transaction, then that Director and/or his associate(s) shall also be deemed materially interested in such transaction.
- (4) If any question shall arise at any meeting of the Board as to the materiality of the interest of a Director (other than the chairman of the meeting) or his associate(s) or as to the entitlement of any Director (other than such chairman) to vote and such question is not resolved by his voluntarily agreeing to abstain from voting, such question shall be referred to the chairman of the meeting and his ruling in relation to such other Director shall be final and conclusive except in a case where the nature or extent of the interest of the Director and/or his associate(s) concerned as known to such Director has not been fairly disclosed to the Board. If any question as aforesaid shall arise in respect of the chairman of the meeting such question shall be decided by a resolution of the Board (for which purpose such chairman shall not vote thereon) and such resolution shall be final and conclusive except in a case where the nature or extent of the interest of such chairman and/or his associates as known to such chairman has not been fairly disclosed to the Board.”;
- (n) by inserting the words “and Bye-law 153A” after the words “Subject to Section 88 of the Act” in Bye-law 153;
- (o) by inserting the following Bye-law as a new Bye-law 153A:
  - “153A. To the extent permitted by and subject to due compliance with all applicable Statutes, rules and regulations, including, without limitation, the rules of the Designated Stock Exchange, and to obtaining all necessary consents, if any, required thereunder, the requirements of Bye-law 153 shall be deemed satisfied in relation to any person by sending to the person in any manner not prohibited by the Statutes, a summary financial statement derived from the Company’s annual accounts and the directors’ report which shall be in the form and containing the information required by applicable laws and regulations, provided that any person who is otherwise entitled to the annual financial statements of the Company and the directors’ report thereon may, if he so requires by notice in writing served on the Company, demand that the Company sends to him, in addition to a summary financial statement, a complete printed copy of the Company’s annual financial statement and the directors’ report thereon.”;

## 60 Notice of Annual General Meeting

(p) by inserting the following Bye-law as a new Bye-law 153B:

“153B. The requirement to send to a person referred to in Bye-law 153 the documents referred to in that provision or a summary financial report in accordance with Bye-law 153A shall be deemed satisfied where, in accordance with all applicable Statutes, rules and regulations, including, without limitation, the rules of the Designated Stock Exchange, the Company publishes copies of the documents referred to in Bye-law 153 and, if applicable, a summary financial report complying with Bye-law 153A, on the Company’s computer network or in any other permitted manner (including by sending any form of electronic communication), and that person has agreed or is deemed to have agreed to treat the publication or receipt of such documents in such manner as discharging the Company’s obligation to send to him a copy of such documents.”; and

(q) by deleting the existing Bye-laws 160 and 161 in their entirety and replacing them with the following Bye-laws:

“160. Any Notice or document (including any “corporate communication” within the meaning ascribed thereto under the rules of the Designated Stock Exchange), whether or not, to be given or issued under these Bye-laws from the Company to a Member shall be in writing or by cable, telex or facsimile transmission message or other form of electronic transmission or communication and any such Notice and document may be served or delivered by the Company on or to any Member either personally or by sending it through the post in a prepaid envelope addressed to such Member at his registered address as appearing in the Register or at any other address supplied by him to the Company for the purpose or, as the case may be, by transmitting it to any such address or transmitting it to any telex or facsimile transmission number or electronic number or address or website supplied by him to the Company for the giving of Notice to him or which the person transmitting the notice reasonably and bona fide believes at the relevant time will result in the Notice being duly received by the Member or may also be served by advertisement in appointed newspapers (as defined in the Act) or in newspapers published daily and circulating generally in the territory of and in accordance with the requirements of the Designated Stock Exchange or, to the extent permitted by the applicable

laws, by placing it on the Company's website, and giving to the Member a notice stating that the notice or other document is available there (a "notice of availability"). The notice of availability may be given to the Member by any of the means set out above. In the case of joint holders of a share all notices shall be given to that one of the joint holders whose name stands first in the Register and notice so given shall be deemed a sufficient service on or delivery to all the joint holders.

161. Any Notice or other document:
- (a) if served or delivered by post, shall where appropriate be sent by airmail and shall be deemed to have been served or delivered on the day following that on which the envelope containing the same, properly prepaid and addressed, is put into the post; in proving such service or delivery it shall be sufficient to prove that the envelope or wrapper containing the notice or document was properly addressed and put into the post and a certificate in writing signed by the Secretary or other officer of the Company or other person appointed by the Board that the envelope or wrapper containing the notice or other document was so addressed and put into the post shall be conclusive evidence thereof;
  - (b) if sent by electronic communication, shall be deemed to be given on the day on which it is transmitted from the server of the Company or its agent. A notice placed on the Company's website, is deemed given by the Company to a Member on the day following that on which a notice of availability is deemed served on the Member;
  - (c) if served or delivered in any other manner contemplated by these Bye-laws, shall be deemed to have been served or delivered at the time of personal service or delivery or, as the case may be, at the time of the relevant despatch, transmission or publication; and in proving such service or delivery a certificate in writing signed by the Secretary or other officer of the Company or other person appointed by the Board as to the fact and time of such service, delivery, despatch, transmission or publication shall be conclusive evidence thereof; and

## 62 Notice of Annual General Meeting

- (d) may be given to a Member either in the English language or the Chinese language, subject to due compliance with all applicable Statutes, rules and regulations.”.”

By order of the Board

**Li Ting**

*Chairman*

Hong Kong, 23rd June, 2004

*Head Office and Principal*

*Place of Business in Hong Kong:*

Units 1001-1004

10th Floor

238 Nathan Road

Kowloon

Hong Kong

*Registered Office:*

Clarendon House

2 Church Street

Hamilton HM11

Bermuda

Notes:

- (i) A member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint another person as his proxy to attend and vote instead of him. A proxy need not be a member of the Company.
- (ii) In order to be valid, the proxy form together with the power of attorney or other authority, if any, under which it is signed, or a certified copy of such power or authority, must be deposited at the Company's branch share registrar and transfer office in Hong Kong, Tengis Limited at Ground Floor, BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, not less than 48 hours before the time appointed for holding the meeting or any adjourned meeting.
- (iii) Delivery of an instrument appointing a proxy should not preclude a member from attending and voting in person at the meeting convened and in such event, the instrument appointing a proxy shall be deemed to be revoked.