



IA International Holdings Limited

(incorporated in Bermuda with limited liability)

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First Quarterly Report for the Three Months Ended 30th June, 2002

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

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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 Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

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

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Highlights

- The shares of the Company were successfully listed on GEM on 1st November, 2001.
- For the three months ended 30th June, 2002, the Group's turnover increased by approximately 4%, as compared to the corresponding period last year to approximately HK\$14.8 million and achieved a gross profit margin of approximately 20%.
- The Board does not recommend the payment of an interim dividend for the three months ended 30th June, 2002.

Financial results

The board of directors (the “Board”) of the Company announces the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the three months ended 30th June, 2002 together with the comparative unaudited figures for the corresponding period in 2001 as follows:

	<i>Note</i>	Three months ended	
		30th June,	2001
		2002	2001
		HK\$'000	HK\$'000
Turnover	2	14,750	14,137
Cost of sales		(11,816)	(10,476)
Gross profit		2,934	3,661
Other revenue		9	7
Selling and distribution costs		(330)	(185)
Administrative expenses		(1,476)	(627)
Other operating expenses		(1,052)	(458)
Profit from operating activities		85	2,398
Finance costs		(67)	(5)
Profit before tax		18	2,393
Tax	3	(3)	(470)
Profit before minority interests		15	1,923
Minority interests		(2)	—
Net profit from ordinary activities attributable to shareholders		13	1,923
Dividend		0	0
Earnings per share			
— Basic (cent)	4	0.0043	0.78
— Diluted (cent)		N/A	N/A

Financial results

Notes:

1. Group reorganisation and basis of presentation

The Company was incorporated in Bermuda under the Companies Act 1981 of Bermuda as an exempted company with limited liability on 7th June, 2001. Pursuant to a group reorganisation (the "Reorganisation") in preparation for the listing of the Company's shares on GEM, the Company acquired the entire issued share capital of Smart Time Development Limited and became the holding company of the subsidiaries comprising the Group on 18th October, 2001. Details of the Reorganisation are set out in the prospectus of the Company dated 24th October, 2001 (the "Prospectus"). The shares of the Company (the "Shares") were listed on GEM on 1st November, 2001.

The comparative unaudited combined results have been prepared using the merger basis of accounting as a result of the Reorganisation. On this basis, the Company has been treated as the holding company of its subsidiaries since their respective dates of incorporation rather than from the date of their acquisition pursuant to the Reorganisation. Accordingly, the unaudited combined results of the Group for the three months ended 30th June, 2001 included the results of the Company and its subsidiaries with effect from 1st April, 2001 as if the current Group structure has been in existence throughout the three months ended 30th June, 2001.

In the opinion of the Board, the unaudited combined results prepared on the above basis present fairly the results of the Group as a whole.

All significant transactions and balances within the Group have been eliminated on consolidation.

2. Turnover

Turnover represents the net invoiced value of goods sold and services rendered, less discounts, returns, and applicable business taxes.

	Unaudited	
	For the three months ended 30th June,	
	2002	2001
	HK\$'000	HK\$'000
Turnover		
Sales of internet appliances	13,807	14,137
Income from e-commerce platform related services	943	—
	14,750	14,137

Financial results

3. Tax

Hong Kong profits tax for the three months ended 30th June, 2002 have been provided at 16% (three months ended 30th June, 2001: 16%) on the estimated assessable profits arising in Hong Kong during the periods. Taxes on profits assessable overseas have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practice in respect thereof.

No deferred tax had been provided for the Group because there were no significant timing differences at the respective balance sheet dates.

4. Earnings per share

The calculation of basic earnings per share for the three months ended 30th June, 2002 is based on the unaudited net profit from ordinary activities attributable to shareholders of approximately HK\$13,000 (three months ended 30th June, 2001: approximately HK\$1,923,000) and the weighted average of 300,000,000 shares in issue throughout the period (pro forma number of shares in issue for the three months ended 30th June, 2001: 245,000,000 shares).

No diluted earnings per share has been presented as no diluting events existed during the three months ended 30th June, 2002 and the corresponding period in 2001.

5. Reserves

	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Exchange fluctuation reserve <i>HK\$'000</i>	Retained earnings <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st April, 2001	—	5,789	—	3,562	9,351
Issue of shares of a subsidiary	—	226	—	—	226
Net profit for the period	—	—	—	1,923	1,923
At 30th June, 2001	—	6,015	—	5,485	11,500
At 1st April, 2002	5,902	6,015	149	7,241	19,307
Net profit for the period	—	—	—	13	13
At 30th June, 2002	5,902	6,015	149	7,254	19,320

Business Review and Prospect

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.

With a view to becoming a total IOD system solutions provider, the Group is working on the development of its e-commerce platform and related applications and is improving its capability to supply Internet appliances. In addition, the Group develops and distributes a series of Internet appliances which can be used in the Group’s IOD system solutions with such modifications as may be required by content providers.

Financial performance

For the three months ended 30th June, 2002

For the three months ended 30th June, 2002, the Group’s turnover increased by approximately 4.0% compared to the previous corresponding period. The variation comprised of sales of internet appliances which decreased by approximately 2.3% due to a decrease in average price sold due to intense competition and poor market environment generally and income from e-commerce platform related services which increased by approximately HK\$0.9 million as no such services were provided in the previous corresponding period.

The gross margin decreased to approximately 20% from 26% in the previous corresponding period. The significant decrease was mainly due to the decrease in the average price sold for internet appliances.

During the period, the Group’s net profit from ordinary activities attributable to shareholders decreased by approximately 99%, as compared to the corresponding period in 2001, to approximately HK\$13,000. The decrease was mainly attributable to a substantial increase in the administrative expenses and other operating expenses. The increase in administrative expenses was mainly due to the increase in overheads such as rental expenses, directors’ remuneration and staff costs. The other operating expenses represented the research and development expenses which comprised staff costs and overheads, and are related to the development of the Group’s internet appliances and e-commerce platform. The increase was due to the increase in the number of research and development staff and expansion of office facilities.

Business Review and Prospect

Research and development

During the three months ended 30th June, 2002, the Group's principal research and product development activities are as follows:

- continue development of new models of internet appliances such as portable iDVDs and auto iDVDs.
- continue development of new features for existing internet appliances products such as multiple disc functions.
- trial run for the e-Tax platform.
- continue to develop the e-education and e-entertainment applications to be operated on the Group's e-commerce platform.
- continue to develop features for the Group's e-commerce platform.

Sales and marketing

During the three months ended 30th June, 2002, the Group continued to promote the internet appliances to existing distributors and business partners. In addition, the Group continued to develop new alliances with new business partners and promote internet appliance products through joint marketing and/or distribution programs with business partners.

On the e-commerce platform, the Group continued to promote the services of e-Tax platform, e-education and e-entertainment applications to the relevant users such as educational institutions and government institutions.

By order of the Board
IA International Holdings Limited
Chiu Ting San
Chairman

Hong Kong, 12th August, 2002

Other Information

Interim Dividend

The Board does not recommend the payment of an interim dividend for the three months ended 30th June, 2002 (three months ended 30th June, 2001: Nil).

Directors' Interests in Securities

As at 30th June, 2002, according to the register required to be kept under Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") or otherwise notified to the Company pursuant to the minimum standards of dealings by directors as referred to in Rule 5.40 to 5.59 of the Rules Governing the Listing of Securities on GEM, the interests of directors and chief executive in the Shares were as follows:

<u>Director</u>	Number of Shares				Total
	Corporate	Personal	Family	Other	
	Interests	Interests	Interests	Interests	Interests
Mr. Cheng Kwong Chung	225,000,000	—	—	—	225,000,000
<i>(Note)</i>					

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.

Other Information

Substantial Shareholders

As at 30th June, 2002, save for the interests of directors and chief executive disclosed above, according to the register required to be kept by the Company under Section 16(1) of the Securities (Disclosure of Interests) Ordinance (“SDI Ordinance”), the following persons were interested in 10% or more of the Shares:

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

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.

Share Option scheme

On 18th October, 2001, the Company adopted the Share Option Scheme under which share options to subscribe for Shares may be granted under the terms and conditions stipulated therein. As at 30th June, 2002, no share option was granted under the Share Option Scheme.

Directors' and Chief Executive's Rights to Acquire Securities

Apart from as disclosed under the heading “Directors' interests in securities” above, at no time since the incorporation of the Company was the Company or any of its subsidiaries a party to any arrangements to enable the directors and chief executive of the Company to acquire benefits by means of the acquisition of shares in, or debt

Other Information

securities, including debentures, of the Company or any other body corporate and none of the Directors, chief executive or their spouses or children under the age of 18 had any right to subscribe for the securities of the Company, or had exercised any such right.

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

During the three months ended 30th June, 2002, there were no purchases, sales or redemptions of the Company's listed securities by the Company or any of its subsidiaries.

Competing Interests

None of the directors or the management shareholders of the Company and their respective associates (as defined in the GEM Listing Rules) has an interest in a business which competes or may compete with the business of the Group.

Interest of Sponsor

According to a sponsorship agreement between the Company and DBS Asia Capital Limited (the "Sponsor"), for a fee, the Sponsor acts as the Company's continuing sponsor for the purpose of Chapter 6 of the GEM Listing Rules for the period up to 31st March, 2004.

As notified by the Sponsor, as at 30th June, 2002, neither the Sponsor nor its directors or employees or associates, had any interests in the securities of the Company or any member of the Group, or any rights to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group.

Other Information

Audit Committee

The Company established an audit committee on 18th October, 2001 with written terms of reference in compliance with the requirements set out in Rules 5.23 and 5.24 of the GEM Listing Rules. The primary duties of the audit committee are to review and to provide supervision over the financial reporting process and internal control system of the Group. After the resignation of Ms. Wang Lee Lee as an audit committee member with effect from 1 August, 2002, the audit committee now comprises two independent non-executive Directors, namely, Ms. Leung Wai Ling, Wylie and Mr. Chung Tung Sau. The Group's unaudited results for the three months ended 30th June, 2002 have been reviewed by the audit committee who was of the opinion that the preparation of such results complied with the applicable accounting standards, the Stock Exchange and legal requirements and that adequate disclosure have been made.