

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 reports 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.



IA International Holdings Limited

(incorporated in Bermuda with limited liability)

Third Quarterly Report 2002

The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

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 GEM of the Stock Exchange 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.

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 and nine months ended 31st December, 2002 together with the comparative unaudited figures for the corresponding periods in 2001 as follows:

	Note	Nine months ended		Three months ended	
		31st December,	2001	31st December,	2001
		2002	2001	2002	2001
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	2	54,847	37,950	16,777	11,410
Cost of sales		(44,582)	(28,379)	(13,883)	(8,706)
Gross profit		10,265	9,571	2,894	2,704
Other revenue		384	288	366	260
Selling and distribution costs		(648)	(788)	(117)	(412)
Administrative expenses		(3,853)	(2,398)	(1,139)	(1,305)
Other operating expenses		(2,775)	(1,902)	(996)	(645)
Profit from operating activities		3,373	4,771	1,008	602
Finance costs		(332)	–	(139)	–
Profit before tax		3,041	4,771	869	602
Tax	3	(333)	(956)	(87)	(90)
Net profit before minority interests		2,708	3,815	782	512
Minority interests		(1)	49	67	(17)
Net profit from ordinary activities attributable to shareholders		2,707	3,864	849	495
Dividend		–	–	–	–
Earnings per share	4				
– Basic (cents)		0.90	1.50	0.28	0.18
– Diluted (cents)		N/A	N/A	N/A	N/A

Notes:

1. Group reorganisation and basis of presentation

The Company was incorporated in Bermuda on 7th June, 2001 under the Companies Act 1981 of Bermuda as an exempted company with limited liability. Pursuant to a group reorganisation (the "Reorganisation") implemented on 18th October, 2001 to rationalise the structure of the Group in preparation for the listing of the Company's shares on GEM, the Company became the holding company of the companies now comprising the Group. Details of the Reorganisation are set out in the prospectus of the Company dated 24th October, 2001. The shares of the Company (the "Shares") were listed on GEM on 1st November, 2001.

The unaudited consolidated results of the Group for the three months and nine months ended 31st December, 2002 include the results of the Company and all of its subsidiaries for the three months and nine months ended 31st December, 2002.

The comparative unaudited consolidated results have been prepared using the merger basis of accounting as a result of the Reorganisation. Under 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 consolidated results of the Group for the three months and nine months ended 31st December, 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 and nine months ended 31st December, 2001.

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

2. Turnover

The Group's turnover represents the net invoiced value of goods sold and services rendered less discounts, returns and applicable business taxes.

	Nine months ended		Three months ended	
	31st December,		31st December,	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover				
Sales of internet appliances	52,198	37,950	16,109	11,410
Income from e-commerce platform related services	2,649	–	668	–
	54,847	37,950	16,777	11,410

3. Tax

Hong Kong profits tax for the three months and nine months ended 31st December, 2002 have been provided at 16% (three months and nine months ended 31st December, 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 is based on the unaudited net profit from ordinary activities attributable to shareholders for the three months and nine months ended 31st December, 2002 of approximately HK\$849,000 and HK\$2,707,000 (three months and nine months ended 31st December, 2001: approximately HK\$495,000 and HK\$3,864,000, respectively) and the weighted average of approximately 300,000,000 shares in issue (pro forma number of shares in issue for the three months and nine months ended 31st December, 2001: 281,467,000 and 257,200,000 shares).

No diluted earnings per share has been presented as no diluting events existed during the three months and nine months ended 31st December, 2002 and the corresponding periods in 2001.

5. Reserves

	Share premium account <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 share of a subsidiary	–	226	–	–	226
Net profit for the period	–	–	–	3,369	3,369
At 30th September, 2001 and at 1st October, 2001	–	6,015	–	6,931	12,946
Premium arising from placing of new shares	25,230	–	–	–	25,230
Capitalisation on issue of shares	(12,005)	–	–	–	(12,005)
Share issue expenses	(7,652)	–	–	–	(7,652)
Net profit for the period	–	–	–	495	495
At 31st December, 2001	5,573	6,015	–	7,426	19,014
At 1st April, 2002	5,902	6,015	149	7,241	19,307
Net profit for the period	–	–	–	1,859	1,859
At 30th September, 2002 and at 1st October, 2002	5,902	6,015	149	9,100	21,166
Net profit for the period	–	–	–	849	849
At 31st December, 2002	5,902	6,015	149	9,949	22,015

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the nine months ended 31st December, 2002 (nine months ended 31st December, 2001: Nil).

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 review

For the nine months ended 31st December, 2002

Despite the challenging global economic environment, the Group had achieved a growth of approximately 45% in its turnover for the nine months ended 31st December, 2002 to approximately HK\$54.8 million compared to the corresponding period in previous year. The increase was mainly attributed to increases in the quantity of internet appliances sold and services rendered in relation to e-commerce platform as compared to the corresponding period in previous year. The gross profit margin decreased to approximately 19% from 25% as compared to the corresponding period in previous year. The decrease in gross profit margin was mainly attributed to a decrease in average price sold due to intense competition and poor market generally.

The net profit from ordinary activities attributable to shareholders for the nine months ended 31st December, 2002 amounted to approximately HK\$2.7 million, representing a decrease of approximately 30% compared to the corresponding period in previous year. The decrease was mainly attributable to the decrease in gross profit margin, an increase in administrative expenses and other operating expenses. The increase in administrative expenses was mainly due to an increase in overheads such as staff salaries. The other operating expenses represented the research and development expenses which comprised staff costs and overheads and are related to the research and development of the group's e-commerce platform and internet appliances. The increase was due to the increase in the number of research and development staff and expansion of office facilities.

Business review

To strengthen its research and development team, the Group set up a research and development team in Hong Kong (the "R & D team") during the three months ended 31st December, 2002. The R & D team will continue the research and development of the Group's e-education application and e-entertainment application to be operated on the Group's e-commerce platform. At the same time, the R & D team will develop other software applications so as to expand the Group's products range.

As to the e-Tax platform, owing to additional requirements by the customer, additional time for the trial run is required. In addition to the current customer, the Group has undertaken negotiations with other potential customers/governmental agencies to provide and support the application for e-Tax platform in other cities in the PRC.

The Group also continued to promote its internet appliances to existing distributors and business partners and to develop new alliances with business partners for the distribution of the Group's internet appliances.

Prospects

Despite the poor economic situation, the Group continued to work towards its objective of becoming a total IOD system solutions provider to content providers to enable them to conduct their e-commerce effectively and with a high degree of security. At the same time, the Group will continue to promote its internet appliances to new and existing customers.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at 31st December, 2002, according to the register required to be kept under Section 29 of the Securities (Disclosure of Interests) 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 "GEM Listing Rules"), the interests of directors and chief executive in the Shares were as follows:

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

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 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 the following persons were interested in 10% or more of the Shares:

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%

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, 2002, 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 31st December, 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' and chief executive's interests in securities" above, at no time during the period under review 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 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 nine months ended 31st December, 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 31st December, 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.

COMPLIANCE WITH RULES 5.28 TO 5.39 OF THE GEM LISTING RULES

The Company has complied with the board practices and procedures as set out in Rules 5.28 to 5.39 of the Listing Rules, since the listing of the Company's shares on GEM on 1st November, 2001.

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. The audit committee comprises two independent non-executive Directors, namely, Ms. Leung Wai Ling, Wylie and Mr. Chung Tung Sau. The Group's unaudited results for the nine months ended 31st December, 2002 has 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 has been made.

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

Hong Kong, 23rd January, 2003