



# IA International Holdings Limited

*(incorporated in Bermuda with limited liability)*

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Interim Report for the Six Months Ended 30th September, 2002

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

**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 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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## Highlights

- The shares of the Company were successfully listed on GEM on 1st November, 2001.
- For the six months ended 30th September, 2002, the Group's turnover increased by approximately 43%, as compared to the corresponding period last year to approximately HK\$38.1 million and achieved a gross profit margin of approximately 19.4%.
- The Board does not recommend the payment of an interim dividend for the six months ended 30th September, 2002.

## Financial Results

The board of directors (the “Board”) of the Company announces the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) as follows:

	Notes	Six months ended 30th September, 2002		Three months ended 30th September, 2002	
		(Unaudited) HK\$000	(Unaudited) 2001 HK\$000	(Unaudited) HK\$000	(Unaudited) 2001 HK\$000
Turnover	3	<b>38,070</b>	26,540	<b>23,320</b>	12,402
Cost of sales		<b>(30,698)</b>	(19,673)	<b>(18,882)</b>	(9,197)
Gross profit		<b>7,372</b>	6,867	<b>4,438</b>	3,205
Other revenue		<b>17</b>	27	<b>9</b>	20
Selling and distribution costs		<b>(531)</b>	(375)	<b>(201)</b>	(190)
Administrative expenses		<b>(2,701)</b>	(1,101)	<b>(1,225)</b>	(437)
Other operating expenses		<b>(1,776)</b>	(1,249)	<b>(725)</b>	(791)
Profit from operating activities		<b>2,381</b>	4,169	<b>2,296</b>	1,807
Finance costs		<b>(209)</b>	—	<b>(142)</b>	—
Profit before tax	4	<b>2,172</b>	4,169	<b>2,154</b>	1,807
Tax	5	<b>(245)</b>	(867)	<b>(242)</b>	(397)
Net profit before minority interests		<b>1,927</b>	3,302	<b>1,912</b>	1,410
Minority interests		<b>(68)</b>	67	<b>(66)</b>	67
Net profit from ordinary activities attributable to shareholders		<b>1,859</b>	3,369	<b>1,846</b>	1,477
Dividend		—	—	—	—
Earnings per share	6				
— Basic (cents)		<b>0.62</b>	1.38	<b>0.62</b>	0.60
— Diluted (cents)		<b>N/A</b>	N/A	<b>N/A</b>	N/A

## Financial Results

### Condensed Consolidated Balance Sheet

		As at 30th September, 2002 (Unaudited) <i>HK\$'000</i>	As at 31st March, 2002 (Audited) <i>HK\$'000</i>
	<i>Notes</i>		
<b>NON-CURRENT ASSETS</b>			
Fixed assets		1,857	2,060
<b>CURRENT ASSETS</b>			
Accounts receivable	7	11,124	9,345
Prepayments, deposits and other receivables		6,716	6,463
Cash and bank balances		17,146	9,468
Time deposits		18,330	18,330
		<b>53,316</b>	<b>43,606</b>
<b>CURRENT LIABILITIES</b>			
Accounts payable	8	1,682	1,620
Trust receipt loans		4,847	—
Accrued liabilities and other payables		799	1,271
Tax payable		1,413	1,295
Bank overdraft		8,000	4,975
		<b>16,741</b>	<b>9,161</b>
<b>NET CURRENT ASSETS</b>		<b>36,575</b>	<b>34,445</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>38,432</b>	<b>36,505</b>
<b>MINORITY INTERESTS</b>		<b>2,266</b>	<b>2,198</b>
		<b>36,166</b>	<b>34,307</b>
<b>CAPITAL AND RESERVES</b>			
Issued capital		15,000	15,000
Reserves		21,166	19,307
		<b>36,166</b>	<b>34,307</b>

## Financial Results

### Condensed Consolidated Statement of Changes in Equity

	Share capital	Share premium	Contributed surplus	Exchange fluctuation reserve	Retained earnings	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1st April, 2001	225	—	5,789	—	3,562	9,576
Issue of shares of a subsidiary	—	—	226	—	—	226
Net profit for the period	—	—	—	—	3,369	3,369
At 30th September, 2001	225	—	6,015	—	6,931	13,171
At 1st April, 2002	15,000	5,902	6,015	149	7,241	34,307
Net profit for the period	—	—	—	—	1,859	1,859
At 30th September, 2002	15,000	5,902	6,015	149	9,100	36,166

## Financial Results

### Condensed Consolidated Cash Flow Statement

	Six months ended 30th September, 2002 (Unaudited) <i>HK\$'000</i>	Six months ended 30th September, 2001 (Unaudited) <i>HK\$'000</i>
<b>NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES</b>		
Cash generated from operations	238	11,022
Interest received	18	5
Interest paid	(208)	—
Tax paid	(128)	—
<b>Net cash (outflow)/inflow from operating activities</b>	<b>(80)</b>	<b>11,027</b>
<b>INVESTING ACTIVITIES</b>		
Increase in time deposits	—	(18,330)
Purchase of fixed assets	(114)	(31)
<b>Net cash (outflow) from investing activities</b>	<b>(114)</b>	<b>(18,361)</b>
<b>NET CASH (OUTFLOW) BEFORE FINANCING ACTIVITIES</b>		
	<b>(194)</b>	<b>(7,334)</b>
<b>FINANCING ACTIVITIES</b>		
Proceed from issue of shares before public listing	—	6,000
Proceed from issue of shares of a subsidiary	—	226
Capital contribution from the minority equity holder of a subsidiary	—	2,000
Repayment from a shareholder	—	3,350
<b>Net cash inflow from financing activities</b>	<b>—</b>	<b>11,576</b>



## Financial Results

	<b>Six months ended 30th September, 2002 (Unaudited) <i>HK\$'000</i></b>	Six months ended 30th September, 2001 (Unaudited) <i>HK\$'000</i>
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INCREASE IN CASH AND CASH EQUIVALENTS	<b>(194)</b>	4,242
Cash and cash equivalents at beginning of period	<b>4,493</b>	95
<hr/>		
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<b>4,299</b>	4,337
<hr/>		
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	<b>17,146</b>	4,337
Bank overdraft	<b>(8,000)</b>	—
Trust receipt loan with maturity of less than three months when advanced	<b>(4,847)</b>	—
<hr/>		
	<b>4,299</b>	4,337
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# Financial Results

*Notes:*

## **1. Group reorganisation and basis of presentation**

The Company was incorporated in Bermuda on 7th June, 2001 as an exempted company with limited liability under the Companies Act 1981 of Bermuda. 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 “Prospectus”). The shares of the Company (the “Shares”) were listed on GEM on 1st November, 2001.

The comparative unaudited pro-forma combined 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 combined results of the Group for the three months and six months ended 30th September, 2001 included the results of the Group with effect from 1st April, 2001, as if the current Group structure has been in existence throughout the three months and six months ended 30th September, 2001.

All significant intercompany transactions and balances within the Group have been eliminated on consolidated/combination.

## **2. Effect of new and revised Hong Kong Statement of Standard Accounting Practice**

The following new and revised Hong Kong Statements of Standard Accounting Practice (“SSAPs”) are effective for the first time for the current periods’ condensed consolidated financial statements:

SSAP 1 (Revised)	:	“Presentation of Financial Statements”
SSAP 11 (Revised)	:	“Foreign Currency Translation”
SSAP 15 (Revised)	:	“Cash Flow Statements”
SSAP 34	:	“Employee Benefits”

A summary of their major effects is as follows:

SSAP 1 (Revised) prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The main revision to this SSAP is to change the requirements from presenting a statement of recognised gains and losses to a statement of changes in equity. The condensed consolidated statement of changes in equity for the current interim period and the comparative figures have been presented in accordance with the revised SSAP.

## Financial Results

SSAP 11 (Revised) prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of this revised SSAP on the condensed consolidated financial statements is that the profit and loss account of subsidiaries and associates operating in Mainland China and overseas are translated at an average rate for the period on consolidation, rather than translated at the applicable rates of exchange ruling at the balance sheet date as was previously required. This SSAP is required to be applied retrospectively. The Group has adopted the transitional provision of this SSAP that where the calculation of a prior year adjustment is impractical, these changes in policy are applied only to current and future financial statements and the effect on the results of the current period is not significant.

SSAP 15 (Revised) prescribes the provision of information about the historical changes in cash and cash equivalents. The condensed consolidated cash flow statement for the current interim period and the comparative figures are presented in accordance with the revised SSAP.

SSAP 34 prescribes the accounting and disclosure for employee benefits. This SSAP has had no major impact on the condensed consolidated financial statements.

### **3. Turnover and segment information**

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

## Financial Results

An analysis of the Group's turnover and segment results by business and geographical segment is as follows:

(a) *Business segments*

The following tables present revenue and results for the Group's business segments.

	Six months ended 30th September,					
	Internet appliances products		E-commerce platform		Consolidated	
	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue	<b>36,089</b>	26,540	<b>1,981</b>	—	<b>38,070</b>	26,540
Segment results	<b>5,391</b>	6,867	<b>207</b>	(1,296)	<b>5,598</b>	5,571
Interest income					<b>18</b>	27
Net unallocated expenses					<b>(3,235)</b>	(1,422)
Profit from operating activities					<b>2,381</b>	4,176
Finance costs					<b>(209)</b>	(7)
Profit before tax					<b>2,172</b>	4,169
Tax					<b>(245)</b>	(867)
Profit before minority interests					<b>1,927</b>	3,302
Minority interests					<b>(68)</b>	67
Net profit from ordinary activities attributable to shareholders					<b>1,859</b>	3,369

## Financial Results

### (b) *Geographical segments*

The following table presents revenue for the Group's geographical segments.

	Six months ended 30th	
	September,	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
The People's Republic of China (including Hong Kong, SAR)	33,913	24,512
United States of America	4,157	468
Middle East	—	1,560
	<b>38,070</b>	<b>26,540</b>

### 4. Profit before tax

The Group's profit before tax is arrived at after charging:

	For the six months		For the three months	
	ended 30th September,		ended 30th September,	
	2002	2001	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Interest on overdrafts and bank loans	209	—	142	—
Depreciation	317	86	163	43

### 5. Tax

Hong Kong profits tax for the three months and six months ended 30th September, 2002 have been provided at 16% (three months and six months ended 30th September, 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.

## Financial Results

### 6. 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 six months ended 30th September, 2002 of approximately HK\$1,846,000 and HK\$1,859,000, respectively, (three months and six months ended 30th September, 2001: approximately HK\$1,477,000 and HK\$3,369,000, respectively) and the weighted average of 300,000,000 shares in issue (pro forma number of shares in issue for the three months and six months ended 30th September, 2001: 245,000,000 shares).

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

### 7. Accounts receivable

The Group has a policy of allowing an average credit period of 31–90 days to its trade customers.

An aged analysis of accounts receivable at the balance sheet date, based on date of goods delivered, is as follows:

	<b>30th September</b>	31st March,
	<b>2002</b>	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<b>(Unaudited)</b>	<b>(Audited)</b>
Within 30 days	<b>6,709</b>	5,050
Between 31 to 60 days	<b>3,034</b>	1,627
Over 61 days	<b>1,381</b>	2,668
	<b>11,124</b>	9,345

### 8. Accounts payable

An aged analysis of accounts payable as at the balance sheet date, based on date of goods received, is as follows:

	<b>30th September</b>	31st March,
	<b>2002</b>	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<b>(Unaudited)</b>	<b>(Audited)</b>
Within 30 days	<b>1,682</b>	1,620

# Business Review and Prospect

## MANAGEMENT DISCUSSION AND ANALYSIS

### 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.

## MARKET OVERVIEW

The six months ended 30th September, 2002 continues to be a challenging environment as the global economy continues to be slow. The Group continues to expect margin pressures on the Group’s products. Nevertheless, the Group is confident of meeting such challenges and continues to explore new market opportunities.

## FINANCIAL REVIEW

### Results

*For the six months ended 30th September, 2002*

Despite the challenging global economic environment, the Group has achieved a growth of approximately 43% in its turnover for the six months ended 30th September, 2002 to approximately HK\$38.1 million compared to the corresponding period in previous year. The increase was mainly attributable to an increase in the quantity of internet appliances sold as compared to the corresponding period. The gross profit margin decreased to 19.4% from 26% 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.

## Business Review and Prospect

The net profit from ordinary activities attributable to shareholders for the six months ended 30th September, 2002 amounted to approximately HK\$1,859,000, representing a decrease of approximately 45% compared to the corresponding period in previous year. The decrease was mainly attributable to decrease in gross profit margin, a substantial increase in the administrative expenses and other operating expenses. The increase in administrative expenses was mainly due to an 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 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.

### *For the three months ended 30th September, 2002*

During the three months ended 30th September, 2002, the Group's turnover increased by approximately 88% as compared to the corresponding period in previous year to approximately HK\$23.3 million. The increase in turnover was mainly attributable to the increase in the quantity of internet appliances sold as compared to the corresponding period in previous year. However, the gross profit margin decreased to 19% from 26% as compared to the corresponding period in previous year.

During the same period, the Group's net profit from ordinary activities attributable to shareholders increased by approximately 25% to approximately HK\$1,846,000 as compared to the corresponding period in previous year.

## **LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE**

As at 30th September, 2002, the Group had total assets of approximately HK\$55.2 million (31st March, 2002: HK\$45.7 million), including cash and cash equivalents of approximately HK\$35.5 million (31st March, 2002: HK\$27.8 million)

During the six months ended 30th September, 2002, the Group financed its operations mainly with its own working capital and was granted overdrafts facilities of approximately HK\$8 million (31st March, 2002: approximately HK\$5 million) and trade facilities of HK\$10,000,000 (31st March, 2002: Nil). As at 30th September, 2002, bank overdraft denominated in Hong Kong dollars of approximately HK\$8 million (31st



## Business Review and Prospect

March, 2002: approximately HK\$5 million) and trust receipt loans of approximately HK\$4.8 million (31st March, 2002: Nil) were utilised. There was no charge on the Group's assets as at 30th September, 2002 and 31st March, 2002.

As at 30th September, 2002, the gearing ratio, (defined as the ratio between total bank borrowings and total assets), was approximately 0.23 (31st March, 2002: approximately 0.11). The Group had no borrowings stated at fixed interest rates at the balance sheet date (31st March, 2002: 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 Directors are 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 sale of internet appliances and consultancy and related services fee in relation to e-commerce platform. The development of the Group's e-commerce platform and e-Tax platform, is still ongoing. The e-Tax platform has been undergoing trial runs since the end of 2001.

As to the geographical segments, the sale of the Group's products to the US and PRC/HK markets have increased and the Group is planning to sell directly in the PRC.

Please also refer to note 3 to the interim report for details of business and geographical segments.

### NEW PRODUCTS

The Group introduced auto DVD in the financial year ended 31st March, 2002 and have achieved good results from the sale of auto DVDs. The Group is developing other new internet appliances.

## Business Review and Prospect

### **SIGNIFICANT INVESTMENTS**

At 30th September, 2002, there was no significant investment held by the Group (31st March, 2002: Nil).

### **MATERIAL ACQUISITIONS OR DISPOSAL OF SUBSIDIARIES AND AFFILIATED COMPANIES**

There were no material acquisitions or disposal of subsidiaries and affiliated companies in the course of the six months ended 30th September, 2002.

### **FUTURE PLANS FOR MATERIAL INVESTMENTS AND EXPECTED SOURCE OF FUNDING**

Details for the Group's future plans for material investments or capital assets and their expected source of funding have been stated in the Company's prospectus dated 24th October, 2001 under the sections headed "Statement of Business Objectives" and "Reasons for the Placing and Use of Proceeds" respectively. Other than those disclosed herein, in particular under sections headed "Use of Proceeds" and "Comparison of Business Objectives with Actual Business Progress" in this interim report, the Group did not have any plan for material investments or capital assets.

### **CONTINGENT LIABILITIES**

The Company had provided guarantees for the bank facilities granted to a wholly-owned subsidiary to the extent of HK\$18 million of which bank overdraft of HK\$8 million (31st March, 2002: HK\$5 million) and trust receipt loans of HK\$4.8 million (31st March, 2002: Nil) were utilised as at 30th September, 2002.

The Group had no other material contingent liabilities (31st March, 2002: Nil).

### **EMPLOYEES AND REMUNERATION POLICIES**

As at 30th September, 2002, the Group had 53 (31st March, 2002: 49) full time employees. 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.

## Comparison of Business Objectives with Actual Business Progress

The following is a summary of the actual business progress of the Group compared with the business objectives set out in the prospectus of the Company dated 24th October, 2001 (the "Prospectus") for the 6-month period ended 30th September, 2002 (the "Review Period")

<b>BUSINESS OBJECTIVES AS STATED IN THE PROSPECTUS</b>	<b>ACTUAL BUSINESS PROGRESS/ CHANGE IN BUSINESS OBJECTIVES</b>
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### 1. Research and product development

Develop new models of internet appliances which incorporate traditional electronics appliances with internet related functions.

As planned, the Group has commenced during the second quarter of the Group's financial year, to research and develop specifications for the portable iDVDs. The portable iDVD player is a DVD player which can be carried with ease and is enhanced with features such as Internet access on either narrow or broad bandwidth and comes with a wireless keyboard. Once this is developed, the Group intends to include a built in data processor, which will have the ability to read the compressed content and is compatible to the Group's IOD system solutions. The portable iDVD is not part of the Group's current product range. The Group is also continuing to research and develop specifications for the internet functions for the auto DVD.

Upgrade features of existing internet appliance products.

As planned, the Group has commenced during the second quarter of the Group's financial year, to research and develop specifications for the multiple disc functions for iDVDs.

## Comparison of Business Objectives with Actual Business Progress

<b>BUSINESS OBJECTIVES AS STATED IN THE PROSPECTUS</b>	<b>ACTUAL BUSINESS PROGRESS/ CHANGE IN BUSINESS OBJECTIVES</b>
Develop application for the e-Tax platform.	The Group has completed during the first quarter of the Group's financial year, its initial stage of application for the e-Tax platform and is in the process of performing trial run.
Develop the e-education application to be operated on the Group's e-commerce platform.	As planned, the Group has completed during the first quarter of the Group's financial year, its analysis for the interface between e-commerce platform (education application) to internet appliances and has commenced programming work on the interface.
Develop the e-entertainment application to be operated on the Group's e-commerce platform.	As planned, the Group has commenced during the second quarter of the Group's financial year, its development on e-entertainment application by performing analysis for the interface between e-commerce platform (entertainment application) to internet appliances
Upgrade several features of the Group's e-commerce platform such as payment system and security functions.	As planned, the Group has commenced during the second quarter of the Group's financial year, its upgrade of the features of the Group's e-commerce platform by performing an analysis for the interface between payment and security.

## Comparison of Business Objectives with Actual Business Progress

BUSINESS OBJECTIVES AS STATED IN THE PROSPECTUS	ACTUAL BUSINESS PROGRESS/ CHANGE IN BUSINESS OBJECTIVES
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### 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.

The Group is in the process of negotiating and forming alliance with a Japanese language institution and movie distributor on the contents as planned.

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

The Group has completed during the first quarter of the Group's financial year its initial stage of application for the e-Tax platform and is in the process of performing trial run. During the second quarter of the Group's financial year, the Group continued to provide technical support to its customer for the trial run. No technical support for maintenance and upgrade has commenced as the trial run has not been completed.

### 3. Sales and marketing

Launch and promote the Group's internet appliances.

The Group continued to promote its set-top boxes, new and existing models of iDVDs and auto DVDs to its customers as demonstrated by the sale of the internet appliances products during the period.

## Comparison of Business Objectives with Actual Business Progress

<b>BUSINESS OBJECTIVES AS STATED IN THE PROSPECTUS</b>	<b>ACTUAL BUSINESS PROGRESS/ CHANGE IN BUSINESS OBJECTIVES</b>
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Negotiate and form alliance, such as distributors with business partners for marketing and distribution of the Group's products.

The Group formed a marketing alliance with one of its customers to market and distribute the Group's set-top boxes, iDVDs and auto DVDs in overseas and Hong Kong.

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

The Group continued to promote its products through joint marketing with a business partner which include making presentations and meetings with the Group's customers.

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

The Group introduced its existing products under the "IA" brandname to its existing customers through making sales presentations and seminar. However, no sales under "IA" brandname took place during the period. During the 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 the limited response from the customers.

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

The Group is still in the process of performing the trial run due to changes in the specifications required by its customer. The Group expects the trial run to complete during the forth quarter of the Group's financial year.

## Comparison of Business Objectives with Actual Business Progress

<b>BUSINESS OBJECTIVES AS STATED IN THE PROSPECTUS</b>	<b>ACTUAL BUSINESS PROGRESS/ CHANGE IN BUSINESS OBJECTIVES</b>
<p>Promote application of an Internet platform to governmental agencies in the PRC.</p>	<p>The Group visited and made presentation to several governmental agencies in the PRC to promote the application.</p>
<p>Launch and promote the e-education application of the group's e-commerce platform to content providers such as educational institutions.</p>	<p>The Group visited and made presentation to an educational institution in the PRC to promote the e-education application.</p>
<p>Launch and promote the e-entertainment application of the group's e-commerce platform to content providers such as movie distributors.</p>	<p>The Group visited and made presentation to an entertainment distributor based in Hong Kong during the first quarter of the Group's financial year to promote the e-entertainment application. The Group is in the process of identifying other suitable movie distributors.</p>
<p><b>4. Geographical expansion</b></p>	
<p>Negotiate with business partners in relation to operation in the PRC and other overseas markets.</p>	<p>The Group continued to negotiate with a business partner based in Shenzhen, the PRC to operate in the PRC. The Group has formed a marketing alliance with one of its customers to market and distribute the Group's set-top boxes, iDVDs and auto DVDs in overseas and Hong Kong.</p>

## Comparison of Business Objectives with Actual Business Progress

<b>BUSINESS OBJECTIVES AS STATED IN THE PROSPECTUS</b>	<b>ACTUAL BUSINESS PROGRESS/ CHANGE IN BUSINESS OBJECTIVES</b>
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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.

The Group has commenced negotiating a joint marketing arrangement with a content provider which is an education institution in Shenzhen, the PRC to promote both internet appliances and e-commerce platform in the market.

### 5. Human resources deployment

Expand the research team by recruiting additional engineers.

As at 30th September, 2002, the Group has 34 staff members in the research and development department (31st March, 2002: 25). The Group recruited eleven new staff of which ten are engineers. Of these eleven staff, nine of the staff is additional staff and the remaining two is replacement staff.

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

As at 30th September, 2002, the Group has 5 staff members in the sales and marketing department (31st March 2002: 5). The Group recruited a new sales staff in the PRC and an existing sales staff in Hong Kong left the Group. No suitable replacement was identified.



## Comparison of Business Objectives with Actual Business Progress

### USE OF PROCEEDS

The Company obtained net proceeds, after deducting related expenses, of approximately HK\$15 million from the placing of shares. During the periods from 1st April, 2002 to 30th September, 2002 and from 18th October, 2001 (Latest Practicable Date) to 30th September, 2002, the Group has applied the net proceeds as follows:

	1st April, 2002 to 30th September, 2002		18th October, 2001 to 30th September, 2002	
	Proposed <i>HK\$'000</i>	Actual <i>HK\$'000</i>	Proposed <i>HK\$'000</i>	Actual <i>HK\$'000</i>
Expenditure in relation to developing and enhancing the infrastructure of the Group's e-commerce platform, including upgrading existing equipment and purchasing new equipment	2,000	2,000	6,300	6,300
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	1,000	1,000	1,500	1,488
Expenditure in relation to the research and development of the technology for developing Internet appliances and other relevant products	500	500	1,000	1,000
General working capital	—	—	700	700
<b>Total</b>	<b>3,500</b>	<b>3,500</b>	<b>9,500</b>	<b>9,488</b>

The remaining net proceeds as at 30th September, 2002 was approximately HK\$5.5 million and was placed on short-term interest bearing deposits with a bank in Hong Kong.

## Other Information

### INTERIM DIVIDEND

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

### DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at 30th September, 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>	<u>Number of Shares</u>				<u>Total</u>
	<u>Corporate</u>	<u>Personal</u>	<u>Family</u>	<u>Other</u>	
	<u>Interests</u>	<u>Interests</u>	<u>Interests</u>	<u>Interests</u>	<u>Interests</u>
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.

## Other Information

### SUBSTANTIAL SHAREHOLDERS

As at 30th September, 2002, save for the interests of director 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 Company’s issued share capital:

<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. No share option has been 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

## 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 six months ended 30th September, 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) had 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 September, 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.

## 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 six months ended 30th September, 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.

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

Hong Kong, 6th November, 2002