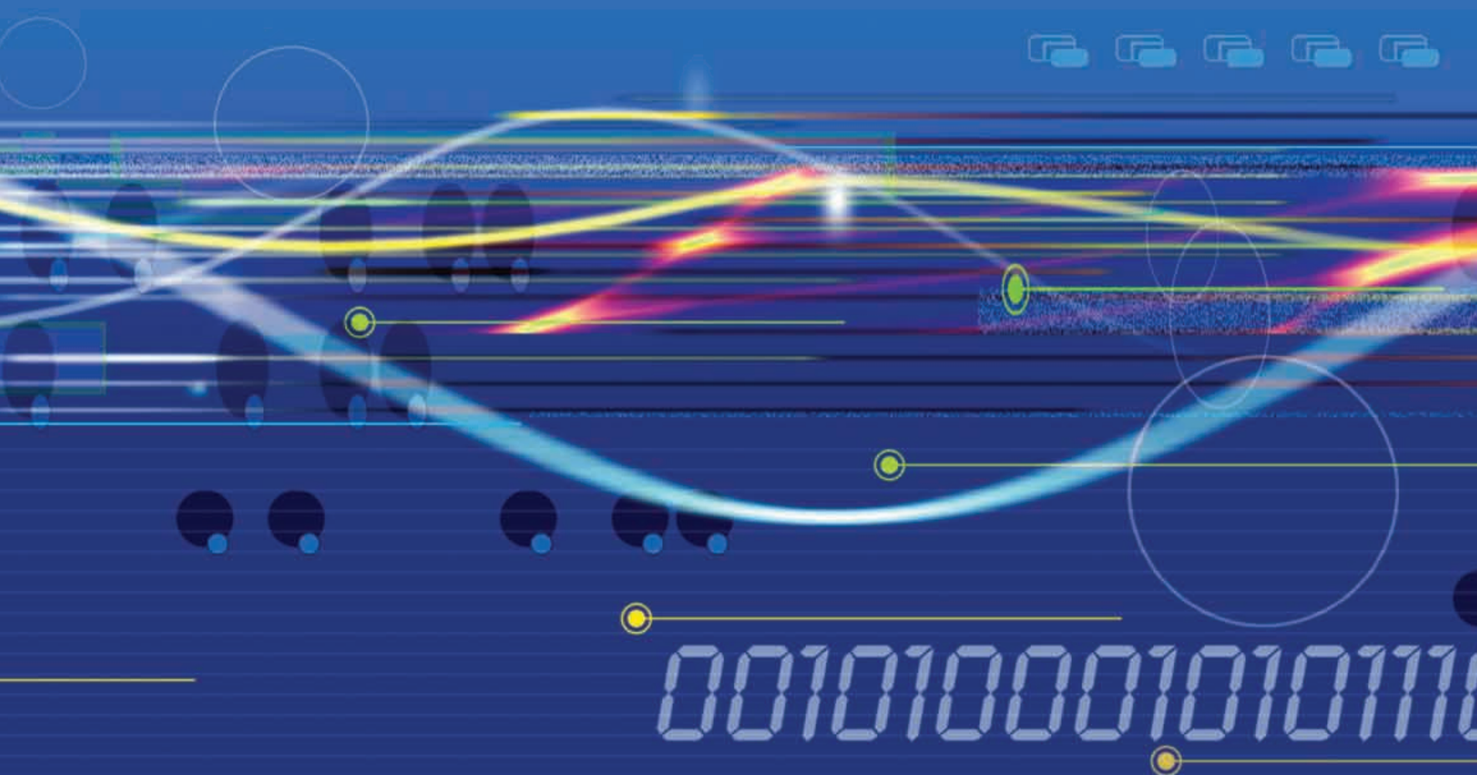
# IA International Holdings Limited

*(incorporated in Bermuda with limited liability)*



## ANNUAL REPORT 2001-2002

# 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.

# Contents

## Board of Directors

*Chairman*
Chiu Ting San

*Executive Directors*
Zhang Fulin
Cheng Kwong Chung
Wang Lee Lee

*Independent Non-executive Directors*
Leung Wai Ling, Wylie
Chung Tung Sau

## Company Secretary

Wang Lee Lee *FCCA, AHKSA*

## Qualified Accountant

Wang Lee Lee *FCCA, AHKSA*

## Compliance Officer

Cheng Kwong Chung

## Authorised Representatives

Cheng Kwong Chung
Chiu Ting San

## Audit Committee

Leung Wai Ling, Wylie
Chung Tung Sau
Wang Lee Lee

## Legal Advisers to the Company

Vincent T.K. Cheung, Yap & Co.
Conyers Dill & Pearman
GFE Law Office (also known as Guangzhou Foreign Economic Law Office)

## Auditors

Ernst & Young
*Certified Public Accountants*

## Principal Bankers

Standard Chartered Bank
DBS Kwong On Bank

## Registered Office

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

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

Units 1001–1007
10th Floor
238 Nathan Road
Kowloon
Hong Kong

## Principal Place of Business in China

Unit 583, 5th Floor,
418 Building
Huaqiang North Road
Shenzhen
The People's Republic of China (``PRC'')

## 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
4th Floor, Hutchison House
10 Harcourt Road
Central
Hong Kong

On behalf of the Board of Directors (the ``Board''), we hereby present the first Annual Report of IA International Holdings Limited (the ``Company'') and its subsidiaries (together the ``Group'') for the year ended 31st March, 2002 to our shareholders after the successfully listing of the shares of the Company on GEM of the Stock Exchange on 1st November, 2001.

## MARKET OVERVIEW

The year ended 31st March, 2002 has been a challenging year as the global economy experienced decline for the second consecutive year. The problem is further aggravated by the 9–11 terrorist attack in the United States (``US'').

Nevertheless, there are signs of hope notably with the China's World Trade Organisation (``WTO'') accession which will bring opportunities to the Group. In addition, there are signs that the consumer confidence in the US is improving. With these factors, the Directors are confident of the prospects of the Group.

## FINANCIAL OVERVIEW

Despite the challenging global economic environment, the Group has achieved a growth of 32.8% in its turnover for the year ended 31st March, 2002 to HK$49.3 million compared to the previous corresponding year. The increase was mainly attributable to an increase in the quantity sold for iDVDs and auto DVDs as compared to the previous corresponding year.

The net profit from ordinary activities attributable to shareholders for the year ended 31st March, 2002 amounted to HK$3,679,000, representing a decrease of 35.1% compared to the previous corresponding year. 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 an increase in rental expenses, directors' remuneration and staff costs resulting from the expansion of the Group's operations. 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.

## CHANGE OF CHIEF EXECUTIVE OFFICER

To improve the operational efficiency in the management of the Group as well as the expansion of the Group's operation in the PRC, the Group has undertaken a change in the organisation structure. With effect from 1st June, 2002, Mr. Zhang Fulin, an executive Director of the Group has undertaken the responsibility of both the Chief Executive Officer and Chief Technical Officer of the Group while Mr. Chiu Ting San, an executive Director retains the role as Chairman of the Group. Mr. Zhang Fulin is responsible for the overall management of the Group as well as the design, research and development functions of the Group. Mr. Chiu Ting San remains responsible for the overall strategic planning and oversees the production functions of the Group.

## PROSPECTS AND APPRECIATION

The year ended 31st March, 2002 is a milestone for the Group as the Company successfully listed its shares on GEM 1st November, 2001.

Despite the challenging and intense market environment, the Group is optimistic about its future prospects. The globalization of the world economy, China's accession to the WTO and the increase in the usage of Internet will increase the demand for the Group's products generally. Nevertheless, the competition for such market will also be intense. The Group will continue to develop new products and control costs in order to remain competitive.

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 continuously supported us. We will make our best efforts in developing our businesses to produce good economic results and better returns for our shareholders.

**Chiu Ting San**
*Chairman*

Hong Kong, 17 June, 2002

## FINANCIAL REVIEW

### Results

Despite the challenging global economic environment, the Group has achieved a growth of 32.8% in its turnover for the year ended 31st March, 2002 to HK$49.3 million compared to the previous corresponding year. The increase was mainly attributable to an increase in the quantity sold for iDVDs and auto DVDs as compared to the previous corresponding year.

The net profit from ordinary activities attributable to shareholders for the year ended 31st March, 2002 amounted to HK$3,679,000, representing a decrease of 35.1% compared to the previous corresponding year. 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 an increase in rental expenses, directors' remuneration and staff costs resulting from the expansion of the Group's operations. 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.

### Liquidity, financial resources and capital structure

As at 31st March, 2002, the Group had total assets of approximately HK$45.7 million (2001: HK$17.7 million), including cash and bank balances of approximately HK$27.8 million (2001: HK$0.3 million)

During the year ended 31st March, 2002, the Group financed its operations mainly with its own working capital and was granted overdrafts facilities of approximately HK$5 million (2001: Nil), which was utilised at the balance sheet date. There was no charge on the Group's assets as at 31st March, 2002 and 2001.

As at 31st March, 2002, the gearing ratio, (defined as the ratio between total bank borrowings and total assets), was 0.11 (2001: Nil). The outstanding bank borrowing represents bank overdraft denominated in Hong Kong dollars of approximately HK$5 million (2001: Nil). The Group had no borrowings stated at fixed interest rates at the balance sheet date (2001: 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 wholly the sale of Internet appliances. The development of the 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 to US markets have increased substantially during the year from HK$10 million in 2001 to HK$24 million in 2002, representing 26.8% and 49.5% of total turnover in 2001 and 2002, respectively. In addition to the current principal markets sold by the Group, the Group is planning to sell directly in the PRC.

Please also refer to note 5 to the financial statements for details of business and geographical segments.

### New products

To expand its product range, the Group introduced auto DVD during the financial year. The Group is developing the Internet functions for its auto DVD products.

### Significant investments

At 31st March, 2002, there was no significant investment held by the Group (2001: Nil).

### Material acquisitions or disposal of subsidiaries and affiliated companies

Other than in connection with the group reorganisation in preparation for the listing of the Company's shares on GEM, there were no material acquisitions or disposal of subsidiaries and affiliated companies in the course of the year.

### 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 from Issuance of New Shares'' and ``Comparison of Business Objectives with Actual Business Progress'' in this annual 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 of which HK$5 million was utilised as at 31st March, 2002 (2001: Nil).

The Group had no other material contingent liabilities (2001: Nil).

### Employees and remuneration policies

As at 31st March, 2002, the Group had 49 (2001: 24) 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.

## BUSINESS PROSPECTS

The Directors believes that year ending 31st March, 2003 will be a challenging year. The key factor will be the speed of recovery for the global economy in particular the key markets which the Group is exposed to, namely Hong Kong and the US. The Group will continue to explore new markets such as the PRC, to develop new products and control the costs in order to stay competitive.

The Directors believe that with the continual growth of the PRC economy and the PRC's accession into the WTO, the demand for the Group's products and services will be increased in the PRC. These will provide a promising prospect for the Group.

The Group will also make effort to explore investment opportunities in the areas relating to the Group's existing operations so as to achieve the aim of optimising the shareholders' interests.

The following is a summary of the actual 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 period from 18th October, 2001 (Latest Practicable Date) to 31st March, 2002 (the ``Review Period'').

| BUSINESS OBJECTIVES AS STATED IN THE PROSPECTUS | ACTUAL BUSINESS PROGRESS/ CHANGE IN BUSINESS OBJECTIVES |
|---|---|
| 1. *Research and product development* | |
| Develop new models of Internet appliances which incorporate traditional electronic appliances with Internet related functions — Auto iDVDs. | The auto DVD was developed and sold as planned. The Group is continuing developing the Internet functions for the auto DVD. |
| Develop application for the e-Tax platform. | The e-Tax platform has been substantially developed and is undergoing tests and trial runs as at 31st March, 2002. |
| 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. | The Group has commenced the development of common interface program to link the education application to Internet appliances. |
| 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:<br>— Japanese language institution.<br>— Movie distributors. | The Group has commenced negotiation with a Japanese language institute and a movie distributor on forming alliances. |
| Provide on-going technical support (e.g. maintenance and upgrade) for the operation of e-Tax platform. | The e-Tax platform has been substantially developed and is undergoing tests and trial runs as at 31st March, 2002. |

| BUSINESS OBJECTIVES AS STATED IN THE PROSPECTUS | ACTUAL BUSINESS PROGRESS/ CHANGE IN BUSINESS OBJECTIVES |
|---|---|
| 3. *Sales and marketing* | |
| Launch and promote the Group's Internet appliances<br>— Set-top box.<br>— New and existing models of iDVDs.<br>— Auto DVDs. | The Group continues to promote both existing and new models of its Internet appliances to new and existing customers. During the period under review, the Group obtained new customers for its auto DVD products. |
| Negotiate and form alliance with business partners, for marketing and distribution of the Group's products. | The Group commenced negotiation relating to the formation of alliances for marketing and distribution of the Group's products. |
| Promote Internet appliance products through joint marketing and/or distribution programs with business partners. | The Group commenced negotiation to promote Internet appliances through joint marketing and/or distribution programs. |
| Launch and promote the services of the e-Tax platform. | Together with Shenzhen E-commerce Centre, the Group has commenced promotion of the e-Tax platform via meetings with business enterprises based in Shenzhen. |
| Promote application of an Internet platform to governmental agencies in the PRC. | The Group has commenced discussion with various governmental agencies in the PRC to promote the application of the Group's e-commerce platform. |
| Launch and promote the e-education application of the Group's e-commerce platform to content provider such as educational institutions. | The Group has commenced discussion to launch and promote the e-education application with various content providers which include various educational institutions. |

| BUSINESS OBJECTIVES AS STATED IN THE PROSPECTUS | ACTUAL BUSINESS PROGRESS/ CHANGE IN BUSINESS OBJECTIVES |
|---|---|
| 4. *Geographical expansion* | |
| Negotiate with business partners in relation to operation in the PRC and other overseas markets. | As planned, the Group has commenced negotiation with educational institutions and movie distributor to operate in the PRC. In view of the uncertainty in the overseas market resulted from the 911 event, the Group will delay such plan until such time as it seems appropriate. |
| 5. *Human resources deployment* | |
| Expand the research team by recruiting additional engineers. | As at 31st March, 2002, the Group has 25 staff members in the research and development department. |
| Expand the sales team in Hong Kong and the PRC by recruiting additional staff members. | As at 31st March, 2002, the Group has 5 staff members in the sales and marketing department. |

# Use of Proceeds from Issuance of New Shares

The Company obtained net proceeds, after deducting related expenses, of approximately HK$15 million from the placing of shares. During the period from 1st November, 2001 (the date of listing of the Company's shares on GEM) to 31st March, 2002, the Group has applied the net proceeds as follows:

| | 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 | 4,300 | 4,300 |
| 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 | 500 | 488 |
| Expenditure in relation to the research and development of the technology for developing Internet appliances and other relevant products | 500 | 500 |
| General working capital | 700 | 700 |
| Total | 6,000 | 5,988 |

The remaining net proceeds as at 31st March, 2002 was approximately HK$9 million of which HK$8 million was placed on short-term interest bearing deposits with a bank in Hong Kong and HK$1 million was placed with a bank in the PRC.

## EXECUTIVE DIRECTORS

*Chiu Ting San*, aged 48, is the Chairman, and Co-Founder of the Group. He was appointed as a Director in June 2001. Mr. Chiu is responsible for the overall strategic planning and management of the Group and overseeing the production functions of the Group. Mr. Chiu holds a Master of Business Administration degree from the University of Hull, United Kingdom and a Higher Certificate of Mechanical Engineering from the Hong Kong Polytechnic. Mr. Chiu has over twenty years of experience in production and management. Before founding the Group, Mr. Chiu was a director and general manager of an electronics company, which is principally engaged in the manufacturing of computer peripherals, in Hong Kong.

*Cheng Kwong Chung*, aged 37, is the Deputy Chairman, Chief Operation Officer and Co-Founder of the Group. He was appointed as a Director in June 2001. Mr. Cheng is responsible for marketing and management functions of the Group. Mr. Cheng holds a Bachelor of Engineering degree in Electronics Engineering from the Hong Kong Polytechnic University. Mr. Cheng has over 10 years of experience in sales and marketing and over five years experience in software programming. Before founding the Group, Mr. Cheng worked as a general manager for an electronics company, which is principally engaged in the trading of electronic components, in Hong Kong.

*Zhang Fulin*, aged 35, is 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 and R&D 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 10 years of experience in the system design, engineering and software programming.

*Wang Lee Lee*, aged 33 is the Chief Financial Officer of the Group. She was appointed as a Director in June 2001. Ms. Wang is responsible for the financial management and accounting functions of the Group. She graduated from the University of Kent, United Kingdom with a Bachelor of Arts degree in Accounting and Computing. She is a fellow member of the Association of Chartered Certified Accountants and associate member of the Hong Kong Society of Accountants. Ms. Wang has over seven years experience working in commercial and public accountants' firms. Prior to joining the Group in May 2000, Ms. Wang worked as a manager in the accounting department of an investment and brokerage house.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

*Leung Wai Ling, Wylie*, aged 35, 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.

*Chung Tung Sau*, aged 49, has over twenty years of experience in playing management role in the areas of production and sales in the manufacturing industry and was previously the executive director of a listed company. He was appointed as the Company's independent non-executive Director in July 2001.

## SENIOR MANAGEMENT

*Wu Ming*, aged 31, is the project manager of the Group. He is responsible for the research and development functions of the Group. He holds a Bachelor of Environmental Engineering degree from the China North West Construction University in the PRC. Prior to joining the Group in November 2000, he worked as a manager of system support and network security control for a computer company and a manager of information technology department for a corporation in the PRC for a period of 3 years.

*Zhang Yu Hong*, aged 36, is the production manager of the Group. He is responsible for the manufacturing and procurement functions of the Group. Prior to joining the Group in March 2001, he worked as a production and administration manager for an electronics company. Mr. Zhang has over 12 years experience in the production of electronics products in the PRC.

The directors herein present their first annual report and the audited financial statements of IA International Holdings Limited (the ``Company'') for the period from 7th June, 2001 (date of incorporation) to 31st March, 2002 and of the Group for the year ended 31st March, 2002.

## GROUP REORGANISATION

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 ``Group Reorganisation'') to rationalise the Group structure in preparation for the listing of the Company's shares on the Growth Enterprise Market (``GEM'') of The Stock Exchange of Hong Kong Limited (the ``Stock Exchange''), the Company became the holding company of the companies now comprising the Group on 18th October, 2001. Further details of the Group Reorganisation and of the subsidiaries acquired pursuant thereto are set out in notes 1 and 21, and 16 to the financial statements, respectively, and in the Company's prospectus dated 24th October, 2001 (the ``Prospectus'').

The shares of the Company were listed on GEM on 1st November, 2001.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 16 to the financial statements. There were 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, 2002 is set out in note 5 to the financial statements.

## RESULTS AND DIVIDENDS

The Group's profit for the year ended 31st March, 2002 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 24 to 54.

The directors do not recommend the payment of any dividend in respect of the period.

## SUMMARY FINANCIAL INFORMATION

The following is a summary of the published results of the Group for each of the three years ended 31st March, 2002 and of the assets, liabilities and minority interests of the Group as at 31st March, 2002 and 2001 prepared on the basis set out in notes 1 and 2 below.

### Results

| | Year ended 31st March, | | |
|---|---|---|---|
| | 2002 | 2001 | 2000 |
| | HK$'000 | HK$'000 | HK$'000 |
| Turnover | 49,330 | 37,136 | 25,272 |
| Profit before tax | 4,694 | 6,835 | 2,162 |
| Tax | (817) | (1,166) | (369) |
| Profit before minority interests | 3,877 | 5,669 | 1,793 |
| Minority interests | (198) | — | — |
| Net profit from ordinary activities attributable to shareholders | 3,679 | 5,669 | 1,793 |

### Assets, Liabilities and Minority Interests

| | 31st March, | |
|---|---|---|
| | 2002 | 2001 |
| | HK$'000 | HK$'000 |
| Total assets | 45,666 | 17,743 |
| Total liabilities | (9,161) | (8,167) |
| Minority interests | (2,198) | — |
| | 34,307 | 9,576 |

Notes:

1. The summary of the combined results of the Group for each of the two years ended 31st March, 2001 was extracted from the Prospectus. Such summary was prepared as if the current Group structure had been in existence throughout these financial years. The results of the Group for the year ended 31st March, 2002 are those set out on page 24 of the financial statements.

2. The only published consolidated balance sheets of the Group are those set out on page 26 of the financial statements.

## 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 since its incorporation on 7th June, 2001, together with the reasons therefor, are set out in note 21 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, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Other than in connection with the Company's placing of shares as detailed in note 21 to the financial statements, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the period.

## RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 22 to the financial statements.

## DISTRIBUTABLE RESERVES

At 31st March, 2002, the Company's reserves available for cash distribution and/or distribution in specie amounted to HK$12,478,000, 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, 2002 may be distributed in the form of fully paid bonus shares.

## MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 86% of the total sales for the year and sales to the largest customer included therein amounted to 33%. Purchases to the Group's only supplier accounted for approximately 100% of the total purchases for the year.

## MAJOR CUSTOMERS AND SUPPLIERS (continued)

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 the supplier during the year.

## DIRECTORS

The directors of the Company during the period from 7th June, 2001 (date of incorporation) to the date of this report were:

**Executive directors:**

| | |
|---|---|
| Chiu Ting San | (appointed on 11th June, 2001) |
| Cheng Kwong Chung | (appointed on 11th June, 2001) |
| Zhang Fulin | (appointed on 11th June, 2001) |
| Wang Lee Lee | (appointed on 11th June, 2001) |

**Independent non-executive directors:**

| | |
|---|---|
| Chung Tung Sau | (appointed on 5th July, 2001) |
| Leung Wai Ling, Wylie | (appointed on 20th June, 2001) |
| Li Cho Ki | (appointed on 20th June, 2001 and resigned on 5th July, 2001) |

In accordance with the Company's bye-laws, Wang Lee Lee, Leung Wai Ling, Wylie and Chung Tung Sau will retire by rotation and, being eligible, may offer themselves for re-election at the forthcoming annual general meeting. The independent non-executive directors are not appointed for specific terms but are subject to retirement by rotation in accordance with the Company's bye-laws.

## 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 13 to 14 of the Company's annual report.

## DIRECTORS' SERVICE CONTRACTS

Each of the executive directors has entered into a service contract 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.

## DIRECTORS' SERVICE CONTRACTS (continued)

Apart from the forgoing, 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

Save as disclosed in the Prospectus, 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, 2002, the interests of the directors and their associates in the share capital of the Company or its associated corporations, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the ``SDI Ordinance''), were as follows:

### The Company

| Directors | Note | Type of interest | Number of ordinary shares held |
|---|---|---|---|
| Cheng Kwong Chung | (a) | Corporate | 225,000,000 |

Note:

(a) These shares represent a 75% equity interest in the Company and are owned by Internet Appliances (Holdings) Limited. The issued share capital of Internet Appliances (Holdings) Limited is beneficially owned by Global Plus Ltd. as to 35%, Team Concept Limited as to 25%, Perfect Chance Limited as to 25% and IT Motion Corp. as to 15%. The issued share capital of Global Plus Ltd. is wholly-owned by Cheng Kwong Chung.

Save as disclosed above, as at the balance sheet date, none of the directors or their associates had any personal, family, corporate or other beneficial interest in the issued share capital of the Company or any of its associated corporations as defined in the SDI Ordinance or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standard of dealings prescribed by the Rules Governing the Listing of Securities (the ``Listing Rules'') on GEM.

## 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 directors, their respective spouse or children under 18 years of age to acquire such rights in any other body corporate.

## 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 the 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 nominal 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.

## SHARE OPTION SCHEME (continued)

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.

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

## SUBSTANTIAL SHAREHOLDERS

As at 31st March, 2002, so far as the directors are aware, other than the interests of the directors as disclosed under the heading ``Directors' interests in shares'' above, the register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the SDI Ordinance disclosed no person as having an interest of more than 10% of the nominal value of the Company's issued share capital.

Save as disclosed above, the Company had not been notified of any other interest representing 10% or more in the issued share capital of the Company at the balance sheet date.

## SPONSORS' INTERESTS

As at 31st March, 2002 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.

## COMPLIANCE WITH RULES 5.28 TO 5.39 OF THE 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 set up an audit committee (the ``Committee'') on 18th October, 2001, with written terms of reference in compliance with the Listing Rules, for the purpose of reviewing and providing supervision over the financial reporting process and internal control of the Group. The Committee comprises the two independent non-executive directors of the Company and one executive director, Ms. Wang Lee Lee. During the period, the audit committee has met twice 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, 2002 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.

## AUDITORS

Ernst & Young were appointed as the first auditors of the Company for the period ended 31st March, 2002.

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

**Chiu Ting San**
*Chairman*

Hong Kong
17 June 2002

ERNST & YOUNG
安永會計師事務所

To the members
**IA International Holdings Limited**
(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 24 to 54 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

## RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of 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 to you.

## 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 an 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 of the state of affairs of the Company and of the Group as at 31 March 2002 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Ernst & Young**
*Certified Public Accountants*

Hong Kong
17 June 2002

# Consolidated Profit and Loss Account

Year ended 31st March, 2002

| | Notes | 2002 HK$'000 | 2001 HK$'000 |
|---|---|---|---|
| TURNOVER | 6 | 49,330 | 37,136 |
| Cost of sales | | (37,502) | (27,705) |
| Gross profit | | 11,828 | 9,431 |
| Other revenue | | 722 | 12 |
| Selling and distribution costs | | (1,018) | (538) |
| Administrative expenses | | (4,448) | (1,758) |
| Other operating expenses | | (2,296) | (312) |
| PROFIT FROM OPERATING ACTIVITIES | 7 | 4,788 | 6,835 |
| Finance costs | 8 | (94) | — |
| PROFIT BEFORE TAX | | 4,694 | 6,835 |
| Tax | 11 | (817) | (1,166) |
| PROFIT BEFORE MINORITY INTERESTS | | 3,877 | 5,669 |
| Minority interests | | (198) | — |
| NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS | 12 | 3,679 | 5,669 |
| DIVIDEND | 13 | — | 3,900 |
| EARNINGS PER SHARE | 14 | | |
| — Basic | | HK1.43 cents | HK2.52 cents |
| — Diluted | | N/A | N/A |

# Consolidated Statement of Recognised Gains and Losses



Year ended 31st March, 2002

| | Note | 2002 HK$'000 | 2001 HK$'000 |
|---|---|---|---|
| Exchange differences on translation of the financial statements of an overseas subsidiary | 22 | 149 | — |
| Net gains not recognised in the profit and loss account | | 149 | — |
| Net profit for the year attributable to shareholders | | 3,679 | 5,669 |
| Total recognised gains and losses | | 3,828 | 5,669 |

# Consolidated Balance Sheet

31st March, 2002

| | Notes | 2002 HK$'000 | 2001 HK$'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Fixed assets | 15 | 2,060 | 722 |
| CURRENT ASSETS | | | |
| Accounts receivable | 17 | 9,345 | 7,917 |
| Prepayments, deposits and other receivables | | 6,463 | 5,985 |
| Due from the ultimate holding company | 2 | — | 2,832 |
| Cash and cash equivalents | 18 | 27,798 | 287 |
| | | 43,606 | 17,021 |
| CURRENT LIABILITIES | | | |
| Accounts payable | 19 | 1,620 | 4,006 |
| Accrued liabilities and other payables | | 1,271 | 2,434 |
| Tax payable | | 1,295 | 1,535 |
| Bank overdraft | 20 | 4,975 | 192 |
| | | 9,161 | 8,167 |
| NET CURRENT ASSETS | | 34,445 | 8,854 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 36,505 | 9,576 |
| MINORITY INTERESTS | | 2,198 | — |
| | | 34,307 | 9,576 |
| CAPITAL AND RESERVES | | | |
| Issued capital | 21 | 15,000 | 225 |
| Reserves | 22 | 19,307 | 9,351 |
| | | 34,307 | 9,576 |

**Chiu Ting San**
*Director*

**Zhang Fulin**
*Director*

# Consolidated Cash Flow Statement

Year ended 31st March, 2002

| | Notes | 2002 HK$'000 | 2001 HK$'000 |
|---|---|---|---|
| NET CASH INFLOW FROM OPERATING ACTIVITIES | 23(a) | 2,658 | 10,662 |
| RETURNS ON INVESTMENTS AND SERVICING OF FINANCE | | | |
| Dividend paid | | — | (3,900) |
| Interest received | | 88 | 12 |
| Interest paid | | (94) | — |
| Net cash outflow from returns on investments and servicing of finance | | (6) | (3,888) |
| TAX | | | |
| Hong Kong profits tax paid | | (1,057) | — |
| INVESTING ACTIVITIES | | | |
| Increase in time deposits | | (18,330) | — |
| Purchases of fixed assets | | (1,770) | (837) |
| Net cash outflow from investing activities | | (20,100) | (837) |
| NET CASH INFLOW/(OUTFLOW) BEFORE FINANCING ACTIVITIES | | (18,505) | 5,937 |
| FINANCING ACTIVITIES | 23(b) | | |
| Proceeds from issue of shares before public listing | | 6,000 | — |
| Proceeds from issue of shares on public listing | | 22,000 | — |
| Share issue expenses | | (7,323) | — |
| Proceeds from issue of shares of a subsidiary | | 226 | — |
| Capital contribution from the minority equity holder of a subsidiary | | 2,000 | — |
| Repayment to a shareholder | | — | (5,852) |
| Net cash inflow/(outflow) from financing activities | | 22,903 | (5,852) |
| INCREASE IN CASH AND CASH EQUIVALENTS | | 4,398 | 85 |
| Cash and cash equivalents at beginning of year | | 95 | 10 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | | 4,493 | 95 |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | | |
| Cash and bank balances | | 9,468 | 287 |
| Bank overdraft | | (4,975) | (192) |
| | | 4,493 | 95 |

# Balance Sheet

31st March, 2002

| | Notes | 2002 HK$'000 |
|---|---|---|
| NON-CURRENT ASSETS | | |
| Investments in subsidiaries | 16 | 13,172 |
| CURRENT ASSETS | | |
| Due from subsidiaries | 16 | 20,202 |
| Cash and cash equivalents | 18 | 6 |
| | | 20,208 |
| | | 33,380 |
| CAPITAL AND RESERVES | | |
| Issued capital | 21 | 15,000 |
| Reserves | 22 | 18,380 |
| | | 33,380 |

**Chiu Ting San**
*Director*

**Zhang Fulin**
*Director*

## 1. GROUP REORGANISATION

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 ``Group Reorganisation'') implemented on 18th October, 2001 to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Growth Enterprise Market (``GEM'') of The Stock Exchange of Hong Kong Limited (the ``Stock Exchange''), the Company became the holding company of the companies now comprising the Group. This was accomplished by the Company acquiring the entire issued share capital of Smart Time Development Limited (``STDL''), the then holding company of the subsidiaries listed in note 16 to the financial statements, in consideration for the allotment and issue of 2,500,000 shares of HK$0.05 each in the share capital of the Company, credited as fully paid, to the former shareholders of STDL. Further details of the Group Reorganisation are set out in note 21 to the financial statements and in the Company's prospectus dated 24th October, 2001.

The shares of the Company were listed on the GEM on 1st November, 2001.

The Company was incorporated on 7th June, 2001. Accordingly, no comparative amounts as at 31st March, 2001 have been presented in the Company's balance sheet.

## 2. CORPORATE INFORMATION

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, 2002, the ultimate holding company of the Company was Internet Appliances (Holdings) Limited (``IA Holdings'') which is incorporated in the British Virgin Islands.

The amount due from the ultimate holding company was unsecured, interest-free and was settled during the year ended 31st March, 2002.

## 3. IMPACT OF NEW AND REVISED HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE

The following relevant new and revised Hong Kong Statements of Standard Accounting Practice (``SSAPs'') are effective for the first time for the current year's financial statements:

- SSAP 9 (Revised) : ``Events after the balance sheet date''
- SSAP 14 (Revised) : ``Leases''
- SSAP 18 (Revised) : ``Revenue''
- SSAP 26 : ``Segment reporting''
- SSAP 28 : ``Provisions, contingent liabilities and contingent assets''
- SSAP 29 : ``Intangible assets''
- SSAP 30 : ``Business combinations''
- SSAP 31 : ``Impairment of assets''
- SSAP 32 : ``Consolidated financial statements and accounting for investments in subsidiaries''

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of those SSAPs, which have had a significant effect on the financial statements, are summarised as follows:

SSAP 14 (Revised) prescribes the basis for lessor and lessee accounting for finance and operating leases, and the required disclosures in respect thereof. Certain amendments have been made to the previous accounting measurement treatments, which may be accounted for retrospectively or prospectively, in accordance with the requirements of this SSAP. The revised SSAP requirements have not had a material effect on the amounts previously recorded in the financial statements, therefore no prior year adjustment has been required. The disclosure changes under this SSAP have resulted in changes to the detailed information disclosed for operating leases, which are further detailed in note 24 to the financial statements.

SSAP 26 prescribes the principles to be applied for reporting financial information by segment. It requires that management assesses whether the Group's predominant risks or returns are based on business segments or geographical segments and determines one of these bases to be the primary segment information reporting format, with the other as the secondary segment information reporting format. The impact of this SSAP is the inclusion of significant additional segment reporting disclosures which are set out in note 5 to the financial statements.

## 4. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention.

### Basis of presentation and consolidation

The consolidated financial statements have been prepared using the merger basis of accounting as a result of the Group Reorganisation. Under this basis, the Company has been treated as the holding company of its subsidiaries for the financial years presented rather than from the date of their acquisition. Accordingly, the consolidated/combined results of the Group for the years ended 31st March, 2001 and 2002 include the results of the Company and its subsidiaries with effect from 1st April, 2000 or since their respective dates of incorporation, where this is a shorter period. The comparative combined balance sheet as at 31st March, 2001 has been prepared on the basis that the existing Group had been in place at that date.

In the opinion of the directors, the consolidated/combined 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 intercompany transactions and balances within the Group are eliminated in the preparation of the consolidated financial statements.

### Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The Company's investments in subsidiaries are stated at cost less any impairment losses.

### 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.

## 4. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Joint venture company (continued)

The joint venture agreement between the venturers 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 profits and losses from the joint venture company's operations and any distributions of 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.

### 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.

### 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 that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable 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 profit and loss account in the period in which it arises.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the 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 profit and loss account in the period in which it arises.

## 4. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used are as follows:

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

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

### Research and development costs

All research costs are charged to the profit and loss account 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. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

### Cash equivalents

For the purpose of the consolidated cash flow statement, 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. For the purpose of balance sheet classification, cash equivalents represent assets similar in nature to cash which are not restricted as to use.

### Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

### 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:

(a) from the sale of goods, 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

(b) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

4. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits 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.

Interim dividends are simultaneously proposed and declared because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

### Foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation/combination, the financial statements of overseas subsidiaries are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are dealt with in the exchange fluctuation reserve.

### 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.

## 4. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Pension scheme

The Group 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. The MPF Scheme has operated since 1st December, 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered 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.

## 5. SEGMENT INFORMATION

SSAP 26 was adopted during the year as detailed in note 3 to the financial statements. 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 appliances products segment provides Internet appliances developed by the Group; and

(b) the e-commerce platform segment provides an e-marketplace for content providers and their users with features such as security enhancements.

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.

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.

Group

| | Internet appliances products | | E-commerce platform | | Consolidated | |
|---|---|---|---|---|---|---|
| | 2002 HK$'000 | 2001 HK$'000 | 2002 HK$'000 | 2001 HK$'000 | 2002 HK$'000 | 2001 HK$'000 |
| Segment revenue | 49,330 | 37,136 | — | — | 49,330 | 37,136 |
| Segment results | 11,568 | 9,431 | (2,296) | — | 9,272 | 9,431 |
| Interest income | | | | | 531 | 12 |
| Net unallocated expenses | | | | | (5,015) | (2,608) |
| Profit from operating activities | | | | | 4,788 | 6,835 |
| Finance costs | | | | | (94) | — |
| Profit before tax | | | | | 4,694 | 6,835 |
| Tax | | | | | (817) | (1,166) |
| Profit before minority interests | | | | | 3,877 | 5,669 |
| Minority interests | | | | | (198) | — |
| Net profit from ordinary activities attributable to shareholders | | | | | 3,679 | 5,669 |

## 5. SEGMENT INFORMATION (continued)

### (a) Business segments (continued)

| | Internet appliances products | | E-commerce platform | | Consolidated | |
|---|---|---|---|---|---|---|
| | 2002 HK$'000 | 2001 HK$'000 | 2002 HK$'000 | 2001 HK$'000 | 2002 HK$'000 | 2001 HK$'000 |
| Segment assets | 14,844 | 13,416 | — | — | 14,844 | 13,416 |
| Unallocated assets | — | — | — | — | 30,822 | 4,327 |
| Total assets | | | | | 45,666 | 17,743 |
| Segment liabilities | 2,915 | 5,541 | — | — | 2,915 | 5,541 |
| Unallocated liabilities | — | — | — | — | 6,246 | 2,626 |
| Total liabilities | | | | | 9,161 | 8,167 |
| Other segment information: | | | | | | |
| Depreciation | | | | | | |
| — unallocated | — | — | — | — | 432 | 115 |
| Capital expenditure | | | | | | |
| — unallocated | — | — | — | — | 1,770 | 837 |

## 5. SEGMENT INFORMATION (continued)

### (b) Geographical segments

The following table presents revenue, certain assets and expenditure information for the Group's geographical segments.

### Group

| | People's Republic of China (including Hong Kong, SAR) | | United States of America | | Middle East | | Others | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2002 HK$'000 | 2001 HK$'000 | 2002 HK$'000 | 2001 HK$'000 | 2002 HK$'000 | 2001 HK$'000 | 2002 HK$'000 | 2001 HK$'000 | 2002 HK$'000 | 2001 HK$'000 |
| Segment revenue | 22,395 | 19,851 | 24,439 | 9,953 | 1,560 | 7,332 | 936 | — | 49,330 | 37,136 |
| Other segment information: | | | | | | | | | | |
| Segment assets | 40,616 | 17,743 | 4,483 | — | — | — | 567 | — | 45,666 | 17,743 |
| Capital expenditure | 1,770 | 837 | — | — | — | — | — | — | 1,770 | 837 |

## 6. TURNOVER

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

## 7. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/(crediting):

| | 2002<br>HK$'000 | 2001<br>HK$'000 |
|---|---|---|
| Cost of inventories sold | 37,502 | 27,705 |
| Auditors' remuneration | 450 | 301 |
| Research and development costs* | 2,296 | 312 |
| Depreciation* | 432 | 115 |
| Staff costs (excluding directors' remuneration — note 9)*: | | |
| Salaries | 2,193 | 449 |
| Pension scheme contributions | 46 | 9 |
| | 2,239 | 458 |
| Minimum lease payments under operating leases for land and buildings* | 832 | 561 |
| Exchange losses, net | 18 | — |
| Interest income | (531) | (12) |

* *The research and development costs include HK$1,471,000 (2001: HK$192,000) relating to depreciation, staff costs and minimum lease payments under operating leases, 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 profit and loss account.*

## 8. FINANCE COSTS

| | Group | |
|---|---|---|
| | 2002<br>HK$'000 | 2001<br>HK$'000 |
| Interest expense on a bank overdraft wholly repayable within five years | 94 | — |

## 9. DIRECTORS' REMUNERATION

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 | |
|---|---|---|
| | 2002 | 2001 |
| | HK$'000 | HK$'000 |
| Fees: | | |
| Executive directors | — | — |
| Independent non-executive directors | 100 | — |
| | 100 | — |
| Other emoluments of executive directors: | | |
| Basic salaries, housing benefits, other allowances and benefits in kind | 960 | 340 |
| Pension scheme contributions | — | 3 |
| | 960 | 343 |

Each of the two (2001: Nil) independent non-executive directors received approximately HK$50,000 during the year ended 31st March, 2002. The four (2001: one) executive directors received individual emoluments of approximately HK$300,000, HK$240,000, HK$180,000 and HK$240,000 (2001: Nil, HK$343,000, Nil and Nil) during the year ended 31st March, 2002.

The remuneration of each director fell within the Nil–HK$1,000,000 band.

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

## 10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2001: one) directors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining one (2001: four) non-director, highest paid employee are set out as follows:

| | Group | |
|---|---|---|
| | 2002 HK$'000 | 2001 HK$'000 |
| Salaries, allowances and benefits in kind | 126 | 229 |
| Pension scheme contributions | 5 | 8 |
| | 131 | 237 |

The remuneration of each non-director, highest paid employee fell within the Nil–HK$1,000,000 band.

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 (2001: Nil).

## 11. TAX

Hong Kong profits tax has been provided at the rate of 16% (2001: 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.

| | Group | |
|---|---|---|
| | 2002 HK$'000 | 2001 HK$'000 |
| Provision for the year: | | |
| Hong Kong | 411 | 680 |
| Overseas | 412 | 486 |
| Overprovision in the prior year | (6) | — |
| | 817 | 1,166 |

Deferred tax has not been provided (2001: Nil) because the Company and the Group had no significant timing differences at the balance sheet date.

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

The net loss from ordinary activities attributable to shareholders for the period from 7th June, 2001 (date of incorporation) to 31st March, 2002 dealt with in the financial statements of the Company was HK$469,000.

## 13. DIVIDEND

| | 2002<br>HK$'000 | 2001<br>HK$'000 |
|---|---|---|
| Interim dividend | — | 3,900 |

No dividend has been paid or declared by the Company since the date of its incorporation. An interim dividend of HK$3,900,000 was paid by one of the subsidiaries of the Company during the year ended 31st March, 2001 to its then shareholders prior to the Group Reorganisation, as detailed in notes 1 and 21 to the financial statements.

The dividend rate and the number of shares ranking for dividend are not presented as such information is not meaningful.

## 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$3,679,000 (2001: HK$5,669,000) and the weighted average number of 256,945,000 (2001: 225,000,000) ordinary shares of the Company.

The weighted average number of shares used to calculate the earnings per share for the year ended 31st March, 2001 includes the pro forma issued share capital of the Company, comprising the 1,000,000 shares issued nil paid on incorporation of the Company, the 1,000,000 shares issued as a result of the subdivision of 1 ordinary share of HK$0.10 each into 2 ordinary shares of HK$0.05 each, the 2,500,000 shares issued as consideration for the acquisition of the entire issued share capital of STDL and the capitalisation issue of 220,500,000 shares, as further detailed in note 21 to the financial statements. The weighted average number of shares used to calculate the earnings per share for the year ended 31st March, 2002 comprises the above shares and also includes the weighted average of the 400,000 shares issued to Everyday Investment Limited and Million Hero Investment Limited (collectively referred to as the ``Pre-IPO Investors''), the capitalisation issue of 19,600,000 shares to Pre-IPO Investors, and the 55,000,000 shares issued upon the listing of the Company's shares on GEM on 1st November, 2001.

Diluted earnings per share for the years ended 31st March, 2001 and 2002 have not been disclosed as no diluting events existed during those years.

## 15. FIXED ASSETS

### Group

| | Leasehold improvements HK$'000 | Furniture and fixtures HK$'000 | Computer and office equipment HK$'000 | Motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| Cost: | | | | | |
| At beginning of year | 543 | 92 | 202 | — | 837 |
| Additions | 131 | 90 | 1,023 | 526 | 1,770 |
| At 31st March, 2002 | 674 | 182 | 1,225 | 526 | 2,607 |
| Accumulated depreciation: | | | | | |
| At beginning of year | 90 | 8 | 17 | — | 115 |
| Provided during the year | 282 | 25 | 113 | 12 | 432 |
| At 31st March, 2002 | 372 | 33 | 130 | 12 | 547 |
| Net book value: | | | | | |
| At 31st March, 2002 | 302 | 149 | 1,095 | 514 | 2,060 |
| At 31st March, 2001 | 453 | 84 | 185 | — | 722 |

## 16. INVESTMENTS IN SUBSIDIARIES

| | 2002 HK$'000 |
|---|---|
| Unlisted shares, at cost | 13,172 |

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

## 16. INVESTMENTS IN SUBSIDIARIES (continued)

Particulars of the subsidiaries are as follows.

| Name | Place of incorporation/ registration and operations | Nominal value of ordinary share/ registered capital | Percentage of equity interest attributable to the Company Direct | Indirect | Principal activities |
|---|---|---|---|---|---|
| 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/Hong Kong | US$10,000 Ordinary | — | 100 | Dormant |
| Innotech Development Limited | British Virgin Islands | US$1,000 Ordinary | — | 100 | Dormant |
| Global Form Limited | British Virgin Islands | US$50,000 Ordinary | — | 100 | Dormant |
| 深圳毅興科技企業有限公司 (``IA Shenzhen'') note (a) | People's Republic of China | HK$20,000,000 | — | 90 | Provision of information-on-demand system solutions |

Note:

(a) IA Shenzhen was established by Internet Appliances (Hong Kong) Limited and a foreign partner as a sino-foreign equity joint venture for a period of 10 years commencing from the date of the issue of its business licence on 8th March, 2001.

## 17. ACCOUNTS RECEIVABLE

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

| | Group | |
|---|---|---|
| | 2002 | 2001 |
| | HK$'000 | HK$'000 |
| Within 30 days | 5,050 | 7,917 |
| 31–60 days | 1,627 | — |
| Over 61 days | 2,668 | — |
| | 9,345 | 7,917 |

## 18. CASH AND CASH EQUIVALENTS

| | Group | | Company | |
|---|---|---|---|---|
| | 2002 | 2001 | 2002 | 2001 |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Cash and bank balances | 9,468 | 287 | 6 | — |
| Time deposits | 18,330 | — | — | — |
| | 27,798 | 287 | 6 | — |

## 19. ACCOUNTS PAYABLE

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

| | Group | |
|---|---|---|
| | 2002 | 2001 |
| | HK$'000 | HK$'000 |
| Within 30 days | 1,620 | 4,006 |

## 20. BANKING FACILITIES

At 31st March, 2002, the banking facilities of the Group were supported by corporate guarantee executed by the Company (2001: Nil).

## 21. SHARE CAPITAL

### Shares

| | 2002<br>HK$'000 |
|---|---|
| Authorised: | |
| 2,000,000,000 ordinary shares of HK$0.05 each | 100,000 |
| Issued and fully paid: | |
| 300,000,000 ordinary shares of HK$0.05 each | 15,000 |

The following changes in the Company's authorised and issued share capital took place during the period from 7th June, 2001 (date of incorporation) to 31st March, 2002:

(i) On incorporation, the authorised share capital of the Company was HK$100,000 divided into 1,000,000 shares of HK$0.10 each. On 13th June, 2001, 1,000,000 shares were allotted and issued nil paid to IA Holdings.

(ii) On 18th October, 2001, each of the shares of HK$0.10 each of the authorised and issued share capital of the Company was subdivided into 2 shares of HK$0.05 each. Accordingly, the Company's authorised and issued share capital were changed from 1,000,000 shares of HK$0.10 each to 2,000,000 shares of HK$0.05 each.

(iii) On 18th October, 2001, the authorised share capital of the Company was increased from HK$100,000 to HK$100,000,000 by the creation of a further 1,998,000,000 shares of HK$0.05 each.

(iv) On 18th October, 2001, as part of the Group Reorganisation set out in note 1, the Company issued an aggregate of 2,500,000 shares of HK$0.05 each, credited as fully paid to IA Holdings, in consideration for the acquisition of the entire issued share capital of STDL. The excess of the fair value of the shares of STDL, determined on the basis of the consolidated net assets at that date over the nominal value of the Company's shares issued in exchange therefor, amounting to HK$13,047,000 was credited to the Company's contributed surplus as set out in note 22.

## 21. SHARE CAPITAL (continued)

(v) On 18th October, 2001, an amount of HK$100,000, being a portion of the amount credited to the contributed surplus of the Company on the issue of shares in exchange for the shares of STDL as set out in (iv) above, was applied to pay up, in full at par value, the 1,000,000 shares allotted and issued nil paid on 13th June, 2001.

(vi) On 18th October, 2001, a total of 220,500,000 shares of HK$0.05 each were allotted as fully paid at par to IA Holdings.

(vii) On 18th October, 2001, the Company allotted and issued a total of 400,000 shares to the Pre-IPO Investors at a total consideration of HK$6,000,000.

(viii) On 18th October, 2001, a total of 19,600,000 shares of HK$0.05 each were allotted as fully paid at par to the Pre-IPO Investors.

(ix) The capitalisation shares, as stated in (vi) and (viii) above, were issued by way of capitalisation of the sum of a total of HK$12,005,000 standing to the credit of the share premium account of the Company. This allotment and capitalisation were conditional on the share premium account being credited as a result of the new shares issued to the public.

(x) On 31st October, 2001, 55,000,000 shares of HK$0.05 each were issued to the public at HK$0.40 each for a total cash consideration, before related issuing expenses, of HK$22,000,000.

## 21. SHARE CAPITAL (continued)

The following is a summary of the above movements in the authorised and issued share capital of the Company:

| | Notes | Number of authorised shares ('000) | Number of issued shares ('000) | Nominal value of shares issued HK$'000 |
|---|---|---|---|---|
| Shares allotted and issued nil paid on incorporation | (i) | 1,000 | 1,000 | — |
| Subdivision of 1 ordinary share of HK$0.10 each into 2 ordinary shares of HK$0.05 each | (ii) | 1,000 | 1,000 | — |
| Increase in authorised share capital | (iii) | 1,998,000 | — | — |
| Shares issued as consideration for acquisition of the entire issued share capital of STDL | (iv) | — | 2,500 | 125 |
| Application of contributed surplus to pay up nil paid shares issued on incorporation | (v) | — | — | 100 |
| Shares issued and credited as fully paid conditional on the share premium account of the Company being credited as a result of the share offer to the public | (vi) | — | 220,500 | — |
| Pro forma share capital as at 31st March, 2001 | | 2,000,000 | 225,000 | 225 |
| Issue of shares to the Pre-IPO Investors | (vii) | — | 400 | 20 |
| Shares issued to the Pre-IPO Investors and credited as fully paid conditional on the share premium account of the Company being credited as a result of the share offer to the public | (viii) | — | 19,600 | — |
| New issue on public listing | (x) | — | 55,000 | 2,750 |
| Capitalisation of the share premium account as set out above | (ix) | — | — | 12,005 |
| Balance at 31st March, 2002 | | 2,000,000 | 300,000 | 15,000 |

## 21. SHARE CAPITAL (continued)

### 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 at the date of approval of these financial statements, no share options had been granted under the Scheme.

## 22. RESERVES

### Group

| | Share premium account HK$'000 | Contributed surplus HK$'000 | Exchange fluctuation reserve HK$'000 | Retained profits HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| At 1st April, 2000 | — | 5,789 | — | 1,793 | 7,582 |
| Net profit for the year | — | — | — | 5,669 | 5,669 |
| Dividend | — | — | — | (3,900) | (3,900) |
| Pro forma balance at 31st March, and 1st April, 2001 | — | 5,789 | — | 3,562 | 9,351 |
| Issue of shares of a subsidiary | — | 226 | — | — | 226 |
| Issue of shares to the Pre-IPO Investors | 5,980 | — | — | — | 5,980 |
| Issue of shares to the public | 19,250 | — | — | — | 19,250 |
| Capitalisation on issue of shares (note 21) | (12,005) | — | — | — | (12,005) |
| Share issue expenses | (7,323) | — | — | — | (7,323) |
| Arising on consolidation of an overseas subsidiary | — | — | 149 | — | 149 |
| Net profit for the year | — | — | — | 3,679 | 3,679 |
| At 31st March, 2002 | 5,902 | 6,015 | 149 | 7,241 | 19,307 |

## 22. RESERVES (continued)

### Company

| | Share premium account HK$'000 | Contributed surplus HK$'000 | Accumulated loss HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| At 7th June, 2001 | — | — | — | — |
| Arising on acquisition of STDL | — | 13,047 | — | 13,047 |
| Applied in payment of 1,000,000 ordinary shares allotted nil paid on incorporation (note 21) | — | (100) | — | (100) |
| Issue of shares to the Pre-IPO Investors | 5,980 | — | — | 5,980 |
| Issue of shares to the public | 19,250 | — | — | 19,250 |
| Capitalisation on issue of shares (note 21) | (12,005) | — | — | (12,005) |
| Share issue expenses | (7,323) | — | — | (7,323) |
| Net loss for the period | — | — | (469) | (469) |
| At 31st March, 2002 | 5,902 | 12,947 | (469) | 18,380 |

The contributed surplus of the Group arose as a result of the Group Reorganisation as set out in note 1 to the financial statements 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 issued 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.

## 23. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

### (a) Reconciliation of profit from operating activities to net cash inflow from operating activities

| | 2002<br>HK$'000 | 2001<br>HK$'000 |
|---|---|---|
| Profit from operating activities | 4,788 | 6,835 |
| Interest income | (531) | (12) |
| Depreciation | 432 | 115 |
| Decrease/(increase) in accounts receivable | (1,428) | 12,909 |
| Increase in prepayments, deposits and other receivables | (35) | (4,854) |
| Decrease/(increase) in an amount due from the ultimate holding company | 2,832 | (2,832) |
| Decrease in accounts payable | (2,386) | (947) |
| Decrease in accrued liabilities and other payables | (1,163) | (552) |
| Exchange adjustment on translation of the financial statements of an overseas subsidiary | 149 | — |
| Net cash inflow from operating activities | 2,658 | 10,662 |

### (b) Analysis of changes in financing during the year

| | Issued capital and share premium account<br>HK$'000 | Contributed surplus<br>HK$'000 | Due to a shareholder<br>HK$'000 | Minority interests<br>HK$'000 |
|---|---|---|---|---|
| At 1st April, 2000 | 225 | 5,789 | 5,852 | — |
| Net cash outflow from financing | — | — | (5,852) | — |
| At 31st March, and 1st April, 2001 | 225 | 5,789 | — | — |
| Net cash inflow from financing | 20,677 | 226 | — | 2,000 |
| Share of profit for the year | — | — | — | 198 |
| At 31st March, 2002 | 20,902 | 6,015 | — | 2,198 |

## 23. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

### (c) Major non-cash transactions

(i) The reorganisation of the Group in preparation for the public listing of the Company's shares on GEM involved the acquisition of STDL by the issue of shares, further details of which are set out in notes 1 and 21 to the financial statements.

(ii) During the year, a portion of the Group's share premium account of HK$12,005,000 (2001: Nil) was capitalised into share capital.

## 24. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from 24 months to 51 months.

At 31st March, 2002, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | Group | |
|---|---|---|
| | 2002<br>HK$'000 | 2001<br>HK$'000 |
| | | (Restated) |
| Within one year | 418 | 737 |
| In the second to fifth years, inclusive | 551 | 198 |
| | 969 | 935 |

SSAP 14 (Revised), which was adopted during the year, requires lessees under operating leases to disclose the total future minimum operating lease payments, rather than only the payments to be made during the next year as was previously required. Accordingly, the prior year comparative amounts for operating leases as lessee above, have been restated to accord with the current year's presentation.

## 25. COMMITMENTS

Save for the operating lease commitments detailed in note 24 above, at the balance sheet date, neither the Group, nor the Company had any significant commitments.

## 26. CONTINGENT LIABILITIES

| | Company | |
|---|---|---|
| | 2002 | 2001 |
| | HK$'000 | HK$'000 |
| Guarantees provided for banking facilities utilised at the balance sheet date by a wholly-owned subsidiary | 4,975 | — |

The Group had no other significant contingent liabilities as at the balance sheet date (2001: Nil).

## 27. COMPARATIVE AMOUNTS

As further explained in notes 3 and 24 to the financial statements, due to the adoption of SSAP 14 (Revised) during the current year, the presentation of operating lease commitments in the financial statements has been revised to comply with the new requirements. Accordingly, the related comparative amounts have been revised to conform with the current year's presentation.

## 28. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 17 June 2002.

**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, 232 Nathan Road, Tsimshatsui, Kowloon, Hong Kong on Thursday, 1st August, 2002, at 11:00 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, 2002;

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 the following resolutions as ordinary resolutions of the Company:

4. ``**THAT**

   (i) subject to paragraph (iii) of this resolution, pursuant to the Rules Governing the Listing of Securities on the Growth Enterprise Market (``GEM'') on The Stock Exchange of Hong Kong Limited (The ``Stock Exchange''), 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 for this resolution is revoked or varied by an ordinary resolution in general meeting.

``Rights Issue'' means 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 GEM 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 Rules Governing the Listing of Securities on GEM or of any other stock exchange as amended from time to time, be and the same is hereby generally and unconditionally approved;

(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 an ordinary resolution 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 share capital 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.''

By order of the Board
**Wang Lee Lee**
*Company Secretary*

Hong Kong, 21st June, 2002

*Head Office and Principal Place of Business:*
Units 1001–1007
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, on a poll, 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 notarially 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 4th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong, not less than 48 hours before the time appointed for 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 and in such event, the instrument appointing a proxy shall be deemed to be revoked.