



# Inworld Group Limited

## 活力世界控股有限公司

(Incorporated in the Cayman Islands with limited liability)



Annual Report 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 announcement in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM listed issuers.

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

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



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## Corporate Information

### BOARD OF DIRECTORS

#### Executive Directors

Mr. Ngai Kwok Kin, Kevin      Chairman  
Mr. Chan Wai Lun              CEO  
Mr. Mak Chee Yeong

#### Independent Non-Executive Directors

Mr. Cheng Koon Cheung  
Mr. Leung Chun Cheng

#### Qualified Accountant

Mr. Wang Chin Mong, AHKSA, ACCA

#### Company Secretary

Mr. Wang Chin Mong

#### Compliance Officer

Mr. Chan Wai Lun

#### Authorised Representatives

Mr. Ngai Kwok Kin, Kevin  
Mr. Chan Wai Lun

#### Audit Committee

Mr. Cheng Koon Cheung  
Mr. Leung Chun Cheng

#### Registered Office

P.O. Box 309  
Ugland House  
South Church Street  
George Town  
Grand Cayman  
Cayman Islands  
British West Indies

#### Head Office and Principal Place of Business

3/F, Chinese Club Building  
21-22 Connaught Road Central  
Central, Hong Kong

#### Principal Bankers

Standard Chartered Bank  
Bank of China (Hong Kong) Limited

#### Principal Share Registrar and Transfer Office

Bank of Butterfield International (Cayman) Ltd.  
Butterfield House, 68 Fort Street  
P.O. Box 705  
George Town  
Grand Cayman  
Cayman Islands  
British West Indies

#### Hong Kong Branch Share Registrar and Transfer Office

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

#### Auditors

Charles Chan, Ip & Fung CPA Ltd.  
Certified Public Accountants

#### Sponsor

Sun Hung Kai International Limited

#### Legal Advisers

As to Hong Kong Law:  
Sidley Austin Brown & Wood

As to Cayman Island Law:  
Maples and Calder Asia

#### Website

[www.inworld.com.hk](http://www.inworld.com.hk)

#### Stock Code

8100

## ➤ Chairman's Statement

Dear Shareholders,

It cannot be denied that both the global and Hong Kong economies suffered a hard time last year. Along with the volatile U.S. market, Hong Kong's unemployment rate reached the record high, deflation rate continued to deteriorate, GDP shrunken, etc. Many firms in Hong Kong feel the bite of the global economic recession on their businesses and thus worsen the competition in IT industry.

Notwithstanding the volatile market situation in mind, the Group is striving to uphold our competitive advantages in the market and smartly utilize our resources on growing business. In addition, we never stop exploring and developing potential business and markets in order to sustain our expectation of stable income and profit growth rate. Keeping pace with the latest technology, Inworld is able to become one of the companies that emerge from this downturn as a stronger and more competitive company and we have taken several key initiatives that we believe would bring a successful future for the Group:

### ➔ **Launching operations in the People's Republic of China (the "PRC")**

- Our Shanghai subsidiary have been opened and pursuing a number of existing and new businesses. In addition, we are going to establish a Beijing office to run system solutions, ASP and cyber cafe business. We believe, the establishment of offices in the PRC would help us to capture business opportunities that emerge after China's entry into the World Trade Organization ("WTO").



## Chairman's Statement

### → Engaging in prospective business in Macau

- Inworld has operated a subsidiary that targets to provide innovative services and technical support to various industries in Macau, especially for the traveling and cyber cafe industries. Through owning this subsidiary, the Group's business has been expanded from solely back-end support provider to more front-end service provider.

### → Developing application software

- Through dedicated product development efforts, the Group has created a number of application softwares with the intention of being able to deliver solutions to our clients more quickly, at a lower cost, and with lower project risk and earning a higher profit margin for the Group.

### → Implement marketing and promotion activities to arouse market awareness of the Group's products and services

- The Group has implemented various marketing and promotion activities to arouse market attention on our professional system solutions services through number of interactive marketing events. In addition, the Group's sales force has been strengthened and spending more and more efforts on understanding market needs and providing better after-sale services.



### → Focusing business in the Great China Region

- China has recorded a 7.3% GDP growth and has entered the WTO. As a result, industry experts anticipate that demand in the system solutions and network infrastructure services will experience a tremendous growth in Greater China in the coming future. With this in mind, the Group will pay more effort on exploring IT or computer-related industries in China in order to balance the shrinking market in Hong Kong.

I believe, the characteristic of the rocket-speed-like information technology industry would create a boundless and ceaseless demand on professional system solutions services accompany with our continuous effort on improving operation efficiency and capacity to provide better service would bring Inworld a brighter and more prospect future.

On behalf of the Group, I would like to take this opportunity to extend our gratitude to customers and shareholders for their continuous support and our staff for their invaluable dedication and contribution in the past year.

**Ngai Kwok Kin, Kevin**  
*Chairman*

Hong Kong, 20th September 2002



## ➤ Management Discussion and Analysis

### ➤ FINANCIAL REVIEW

#### Turnover

The turnover of the Group was approximately HK\$6,746,000, representing an increase of 4% compared to the previous year. Though the revenues from web page design and development and banner design and advertisement decreased by 13% and 54% respectively, the Group recorded a significant increase of 54% from IT infrastructure projects and this is the main reason for the rise in the revenue.

#### Operating expenses

After listing its shares on the GEM on 31st December 2001, the Group further expands its businesses. In order to comply with listing rule, the Group also incurred additional fee in this respect. As a result, both the administrative expenses and distribution cost increased significantly when compared to the previous year.

#### Loss for the year

The loss for the year amounted to HK\$4,442,000. This is mainly attributable to the write off of goodwill arising from an acquisition of a subsidiary during the year.

#### Liquidity, financial resources and gearing

The Group generally finances its operation with internally generated cash flow and a portion of the net proceeds from the New Issue (as defined in the prospectus of the Company (the "Prospectus") dated 18th December 2001).

As at 30th June 2002, shareholders' funds of the Group amounted to approximately HK\$27,213,000. Current assets amounted to approximately HK\$25,272,000, of which approximately HK\$16,415,000 were cash and bank deposits. Current liabilities of approximately HK\$1,858,000 mainly comprised of other payables and accruals.

The Group expresses its gearing ratio (if any) as a percentage of bank borrowing and long term debts over total assets. As at 30th June 2002 and to the date of this report the Group did not have any bank borrowing or long term debts.

The Directors believe that the Group has a healthy financial position and has sufficient resources to satisfy its capital expenditure and working capital requirement.



## Management Discussion and Analysis

### The capital structure, funding and treasury policies of the Group

Other than the 96,000,000 shares of the Company, which have been issued under the Share Offer (as defined in the Prospectus), the Group has no other type of capital instruments. The Group intends to finance its operation with its internal resources and net proceeds from the New Issue (as defined in the Prospectus).

During the year under review, the business activities of the Group were mainly denominated in Hong Kong dollars. As at 30th June 2002, the Group had bank balances of approximately USD1,703,000. By considering the stable exchange rate between United States dollars and Hong Kong dollars, the Directors do not consider that the Group is significantly exposed to any foreign currency exchange risk. It is the Group's treasury policy to manage its foreign currency exposure whenever its financial impact is material to the Group. The Group does not employ any financial instruments for the hedging purposes and does not engage in foreign currency speculative activities.

### Investment

As at 30th June 2002, the Group held 24,629,125 shares in a listed company on the GEM, and whose shares are suspended as at the date of this report. During the year under review, the Group did not receive any dividend from the listed security. The Group intends to hold the listed security as long term investment.

In June 2002, the Group established a wholly owned subsidiary in Shanghai, whose registered capital is USD200,000. The principal business of the subsidiary is to provide system solutions, ASP and computer products sourcing services. The Directors expect the subsidiary will generate positive contribution to the Group in the coming year.

### Details of material acquisitions and disposals of subsidiaries and affiliated companies in the course of the year under review

To expand its geographical presence, the Group acquired 72% interests in a Macau company in consideration of HK\$5,000,000 in March 2002 to provide online business service and cyber cafe business. Goodwill arising from the investment was written off during the year. The Group will continue to explore and identify investment and acquisition opportunities and intends to finance the expansion by the Group's internal resources and net proceeds from the New Issue (as defined in the Prospectus).

### Employees and remuneration policies

As at 30th June 2002, the Group had 34 employees, including directors of the Company. For the year under review, the remuneration of the Group amounted to approximately HK\$4,602,000. The Group's remuneration policies are in line with the prevailing market practice and are determined on the basis of the performance and experience. The Group also provides retirement schemes and medical insurance scheme for its employees. The Group has adopted a Pre-IPO Share Option Scheme pursuant to which the Group granted options to persons including executive director and employees of the Group to acquire shares of the Company.

### Details of charges on Group assets

During the year under review, no assets of the Group were pledged.

### Contingent liabilities

As at 30th June 2002, the Group had no contingent liabilities.



## Management Discussion and Analysis

### **BUSINESS REVIEW**

The Group's overall business objective is to become a leading system solutions provider and IT consultant targeting at the SMEs in the Asian Region with a primary focus in Hong Kong, the PRC and Singapore. The actual progress of these objectives for the year is summarized as follows:

#### **IT consultation and infrastructure project**

During the year under review, the Group has made every effort to enlarge the market shares in Hong Kong, Singapore, Macau and the PRC. Based on the Group's experience in developing IT solutions and from completed projects, IT consultation and infrastructure services have been accounted for a significant percentage of the Group's total revenue during the year. In addition, the Group has introduced a new infrastructure service namely "Wire Free office" to help SMEs to maximize office mobility.

#### **Internet-based applications**

The Group's R&D team has conducted research and development on new applications, namely, web to PDA transforming system, PIM system, Intranet system, ticketing system, HRM system, CRM system and hotel reservation system which are aimed to expand the product categories to maintain the Group's competitiveness. In addition, the technical team has dedicated effort to continuously improve functions and features of the online transaction system. Studies regarding data and security management have never been ceased to support continuous improvement on Inworld's service.

#### **ASP development**

A revised version of Inworld Marketplace has been rolled out in March 2002. The new Inworld Marketplace has been renewed as a supply-and-demand message platform which allows companies to explore business opportunities in Hong Kong, Singapore, PRC and other parts of the world. The Group intended to expand the ASP business in PRC and the Group is confident that the ASP development would provide a promising growth for the Group in the future.

#### **Arouse market awareness**

The Group has been actively participated in promotion activities to arouse market awareness of the Group's system solution services. In March 2002, the Group had participated in Info and Infrastructure Expo 2002 to promote the Group's system solution and ASP businesses. In order to capture a larger market share for its existing business and to strengthen its market presence in other new established regions, the Group will implement series of marketing and promotion activities to promote its services.

#### **Expand the geographical presence**

In mid-March 2002, the Group has expanded its presence to Macau by acquiring 72% interest in a local company which is principally engaged in online hotel booking service, the Cyber Café and hotel online station service business, which allows clients to access the Internet in hotel by inserting coins to a web-connected vendor machine. The Directors believe that the expansion would sharpen the competitive edge of the Group's business and better utilization of its resources.

Other than Macau, the Group has set up a wholly owned subsidiary in Shanghai, PRC in June 2002 to provide system solutions, ASP and computer products sourcing services. The Directors expect that the expansion into PRC would help the Group to expose opportunities that bring from the China's entry to WTO.

## ➤ Management Discussion and Analysis

### Prospects

The Group will continue paying effort to capture larger market share and improve the service quality the Group provides. In addition, the Group intends to conduct research and studies regarding packaging generic application into a multi-function generic product catered for the SMEs and software houses.

Recently, the Group has finished the development of HRM and hotel reservation system and the HRM system (Phase 1) for Reebok Trading (Far East) Limited ("Reebok"). As a matter of fact, Inworld has won a 1-year system maintenance contract from Reebok and has been appointed as the solutions provider for Sports Federation & Olympic Committee of Hong Kong, China on committee's website enhancement and Busan Asian Games website projects. In addition, due to our excellent services provided in Phase 1, negotiations have been held between Reebok and the Group in respect of appointing the Group as Reebok's upcoming internal system enhancement projects solution provider and we are confident that the Group could gain more different clients in the future.

The PRC's accession into the WTO and hosting of the Olympic Games in 2008 presents a significant opportunity to the Group. To capitalize on this, the Group has established a wholly subsidiary in Shanghai in June 2002 and is now establishing a branch in Beijing to provide system solution, ASP services and Cyber cafe.

Other than system solutions and ASP business, the Group intends to derive benefit from the Group's existing resources, for example, business database and ICP business. Research and feasibility studies are being conducted so as to ensure that the capital will be productively used and the Group's shareholders' and investor's interest will be enhanced.

## ➤ Comparison of Business Objectives with Actual Business Progress

### According to the business objectives as stated in the prospectus for the relevant period

#### Revenue and business development

- ➔ To continue the business development activities from the previous period.
- ➔ To expand revenue derived from system solutions services as a result of the launching of the new product of the Intranet system and ticketing system which have been developed in the previous period.

- ➔ To continue to expand the proportion of revenues generated from the services provided by the Group in Hong Kong and Singapore, namely system solution services including web hosting and webpage design.

#### Product and services development

- ➔ To continue the product and service development activities from the previous period.
- ➔ To add new Internet-based applications, namely web to PDA transforming system and PIM system to its existing products for the SMEs in Hong Kong and Singapore.

### Actual business progress

- ➔ The Group has speeded up the research and development process and enhanced the project management process by allocating more internal resources to this area, such as equipment and human resources.

- ➔ The Group has spent most of the efforts on expanding the proportion of revenues generated by system solutions services by actively promoting the products to the market by participating in IT and Infrastructure Expo 2002 exhibition which was organized by the TDC council in March 2002, placing advertisement on various journals, sending promotional email to potential customers and fax promotion leaflets to targeted sectors.

- ➔ Development of Intranet and ticketing system has been finished and we have packaged Intranet with human resources system solutions into a more secured human resources application.
- ➔ Ticketing system is modified with online trading platform to provide online hotel reservation system for the traveling industry use and is now in use.
- ➔ Research and feasibility studies are being done on matching PDA transforming system and PIM system to potential products.

## ➤ Comparison of Business Objectives with Actual Business Progress

- ➔ To conduct research and feasibility studies of packaging generic application products under the brand name of Inworld into a multi-functions generic product catered for the SMEs and software house.
- ➔ To enhance the Group's ASP applications such as information flow security and online payment security for e-commerce in order to extend these services to companies in other regions in Asia such as Macau, the PRC, Singapore, Taiwan, Thailand and Vietnam.
- ➔ The Group has finished the development of traveling industry-focused software which targeted the traveling agency and hotel reservation agency in Hong Kong, Singapore, the PRC and Macau and is now for sale.
- ➔ E-commerce platform is further enhanced and its stability and security has improved and service was launched in February 2002.
- ➔ Localizing the E-commerce applications have been done in Singapore and the PRC in order to enter into the ASP markets of these regions.

### Marketing

- ➔ To implement a marketing program in Asian markets including Macau, Taiwan, Singapore, Thailand and major cities in the PRC in respect of the Group's IT system implementation services.
- ➔ To implement a roll out market planning for the launching of the Intranet and the ticketing system in Hong Kong, Singapore and major cities in the PRC.
- ➔ To implement a major marketing program to promote the Group's ASP services and IT outsourcing services with a main focus on the Group's capability to provide IT outsourcing services in the PRC, Hong Kong and Singapore.
- ➔ The Group has captured every opportunity to arouse market awareness by participating in IT and Infrastructure Expo 2002 exhibition which was organized by the Hong Kong Trade Development Council in March 2002, placing advertisement on various journals, sending promotional email to potential customers and fax promotion leaflets to targeted sectors.
- ➔ Promotional message and contents are contained on the Group's website.
- ➔ Latest information has been updated on the Group's website in order to attract traffic.
- ➔ The Group has built a customer database in February 2002 and promotional message have been sent through email and fax.

## ➤ Comparison of Business Objectives with Actual Business Progress

### Expansion and business alliance

- ➔ To continue the expansion and business alliance activities from the previous period.
- ➔ Subject to the setting up of the relevant joint venture(s) and the favourable findings of the feasibility studies regarding the market potential for ASP services, system solutions services, Internet content services or cyber cafe business, to establish branch offices in municipalities and major cities of the PRC, including Beijing, Guangzhou, Shenzhen, Shanghai, and Xian in north-western part of the PRC.
- ➔ To commence the design and implementation of networking and technical infrastructure at the Group's office in Hong Kong.
- ➔ To explore and identify investment and acquisition opportunities for Internet related ventures in Macau, Singapore, Taiwan, Hong Kong and major cities in the PRC to further expand the Group's portal networks and system solution business in the market.
- ➔ The Group has established its Shanghai subsidiary in June 2002 and is now establishing a branch in Beijing, the registration certificate of which is expected to be available in October 2002, to capture the opportunities of growing system solution services demand.
- ➔ The Group has upgraded one of our servers in order to provide better web hosting service in Hong Kong.
- ➔ Continuous evaluation on the Group's network securities and function stabilities have been done in order to secure the service quality.
- ➔ The Group has replaced and upgraded the network infrastructure in house in Hong Kong and Singapore so as to boost the work efficiency.
- ➔ Through acquisition, the Group owns a subsidiary in Macau to provide online hotel booking service, the cyber cafe and hotel online station service business.
- ➔ The Group never stops looking acquisition opportunities in Asian region for system solution business expansion by conducting feasibility studies, particularly in PRC.

## ➤ Comparison of Business Objectives with Actual Business Progress

### Use of proceeds

The net proceeds from the public listing had been applied in the following areas:

	Originally planned up to 30th June 2002 <i>HK\$ in million</i>	Actual amount up to 30th June 2002 <i>HK\$ in million</i>
Research and development of new applications and system solutions	0.40	0.51
Development of ASP business	0.60	1.52
Enhancement of e-commerce platform	0.35	0.73
Development of new and enhancement of existing Internet based applications	0.70	1.33
Marketing and promotion activity	0.52	1.33
Enhancement of the Internet infrastructure of the Group	0.30	0.73
Formation of strategic and business alliance	—	3.37
Development of cyber café	—	1.50
Working capital	1.00	1.17
<b>Total</b>	<b>3.87</b>	<b>12.19</b>

In despite of the global economic recession and continuous deflation in Hong Kong, the Directors consider that the Group can take the chance to expand its businesses and strengthen our competitive ability in the view that this strategy will yield future returns to the Group after the market condition improves. Therefore, the Group allocated more resources than planned to enhance its e-commerce platform and Internet infrastructure and develop new Internet based applications.

As stated in the Prospectus of the Company, the Group plans to use (i) HK\$1.5 million of the proceeds to develop the cyber cafe during the financial year ended 30th June 2003; (ii) HK\$3.0 million to form strategic and business alliances from the period from July 2002 to December 2003. In view of the development of the traveling industry in Macau, the Group seize the opportunity to expand its geographical presence by acquiring 72% interests in a company in Macau to develop cyber cafe business, to provide online hotel booking service and hotel online station service business. Other than the timing, the use of the proceeds is in line with the business plan as disclosed in the Prospectus, which is to develop the cyber cafe business and ASP business.

Though the actual amount of the use of proceeds varied from the originally planned, the Directors currently still intend to implement the business plan as disclosed in the Prospectus and will continue to explore and identify opportunities for business alliance. The balance of the unused proceeds was placed as bank deposits as at 30th June 2002.



## ➤ Directors, Senior Management and Staff

### DIRECTORS

#### Executive Directors

**Mr. NGAI Kwok Kin, Kevin**, aged 27, is the Chairman of the Company and a founder of the Group. He is responsible for the overall strategic planning of the Group and is also in charge of the R&D Department of the Group. Mr. Ngai obtained a high diploma in manufacturing engineering from the Hong Kong Polytechnic University and a master's degree in engineering business management from the University of Warwick in the United Kingdom. Mr. Ngai acquired substantial management skills and IT knowledge through his education and working experience with the Group.

**Mr. CHAN Wai Lun**, aged 26, is the Chief Executive Officer of the Company and a founder of the Group. Mr. Chan is primarily responsible for the sales and marketing as well as the daily operation of the Group. He is also in charge of the R & D Department of the Group. Prior to joining the Group in December 1999, he acted as a consultant to various hardware and software companies in Hong Kong. Mr. Chan holds a diploma in electronics and communications engineering from Lee Wai Lee Technical Institute in Hong Kong, and has over 4 years' experience in computer hardware and software. Mr. Chan had been a sales engineer for 6 months with a system engineering company which provides customers with network technical support in various hardware and software products such as Novell, Windows NT, Lotus. He also worked as a sales engineer for one year for a private company which is principally engaged in the trading of electronic products, and he was responsible for business planning and launching of new product design, coordinating new implementation projects with ISPs, customers and computer hardware and software suppliers. Prior to joining the Group, he was a sales engineer for New Technology Computer System Consultant, a computer system-consulting firm which provides consultation for networking system solution projects, Internet related system solutions such as web design and Internet server solution. Mr. Chan has gained over 2 years' experience in management by working for the Group since December 1999.

**Mr. MAK Chee Yeong**, aged 31, is the Chief Operating Officer and a director of Inworld Singapore, an indirectly and wholly-owned subsidiary of the Company and is responsible for overseeing the overall operation of Inworld Singapore. He holds a bachelor's degree in computing from Monash University in Australia. Mr. Mak is an associate member of the Hong Kong Society of Accountants and the Chartered Association of Certified Accountants. He joined the Group in March 2000 and has over 3 years' experience in the field of information technology. Prior to joining the Group in March 2000, Mr. Mak was a senior IT executive for CWT Globelink Pte Ltd. and was responsible for system support mainly with Depot Management System and the development of Internet and Intranet systems. He also had 3 years' experience in the development of information strategy for a flight company in Singapore including the restructuring of the company's network system and the analysis and implementation of the new IT technologies for the company.

#### Independent Non-executive Directors

**Mr. CHENG Koon Cheung**, aged 36, is a director of various companies, which are principally engaged in the advertisement, design, printing and other investment business in Hong Kong. He holds a bachelor's degree in arts from Chu Hai College in Hong Kong. Mr. Cheng has over 10 years' experience in the press industry in Hong Kong, and was the managing editor of the financial information department of Oriental Press Group Limited, the shares of which are listed on the Stock Exchange. He was appointed as an independent non-executive Director on 13th December 2002.



## ➤ Directors, Senior Management and Staff

**Mr. LEUNG Chun Cheng**, aged 39, has extensive experience in the fields of electronics and telecommunication while working as an engineer in Companhia de Telecomunicacoes de Macau S.A.R.L. Mr. Leong obtained the Professional Certificate in E-Commerce from The Open University of Hong Kong and Higher National Diploma in Electronics & Communication Engineering from Business & Technician Education Council, United Kingdom. Mr. Leong is a director of various private companies. He was appointed as an independent non-executive Director on 31st January 2002.

### SENIOR MANAGEMENT

**Mr. WANG Chin Mong**, aged 31, is the financial controller of the Group and is responsible for the financial and company secretarial affairs of the Group. He holds a higher diploma in accountancy from the City University of Hong Kong. Mr. Wang is an associated member of the Association of Chartered Certified Accountants and the Hong Kong Society of Accountants. Prior to joining the Group in August 2001, Mr. Wang has over 6 years' experience in auditing and accounting.

**Mr. LEONG Chee Wai**, aged 31, is a director of Inworld Singapore and the senior marketing manager, of the Group. Mr. Leong is responsible for managing the Group's business development in Singapore. He holds a bachelors degree in engineering (electrical) from Nanyang Technological University in Singapore. Prior to joining the Group, Mr. Leong had been an account manager for 3 years with Web Office Pte Ltd, an IT system solutions company, and had accumulated over 3 years' experience in the field of sales and marketing prior to joining the Group in March 2000.

**Ms. LEE Wing On**, aged 24, is the marketing manager of the Group and is responsible for sales and marketing in Hong Kong. She holds a bachelor's degree in finance from the University of Hong Kong. Ms. Lee has gained experience in the field of marketing by working for the Group since July 2001.

**Mr. WONG Wai Lam**, aged 27, is the technical manager of the Group and is responsible for overseeing the organisation and development of the Group's IT team. He holds a bachelor's degree in information technology from the City University of Hong Kong. Prior to joining the Group, Mr. Wong worked as an IT officer for a year for Sales Mate Marketing Service Limited, a sales and marketing company, and as a part-time system engineer for various local organizations during the period from 1995 and 1999. He joined the Group in June 2001 and has over 3 years' experience in the field of information technology.

**Mr. CHIN Peng Phay**, aged 31, is a web designer of the Group and holds a bachelor's degree in applied science (computer engineering) from Nanyang Technological University in Singapore. Mr. Chin is responsible for the implementation of system solution projects. Mr. Chin had worked as a system engineer and analyst programmer for over 3 years for a system and computer engineering company. Prior to joining the Group, Mr. Chin was a system and network manager for a year for Reed Exhibition Companies which is engaged in the organisation of exhibition events. Mr. Chin joined the Group in March 2001, and has over 7 years' experience in consultancy, training as well as multimedia/web production.

**Mr. CHEUNG Chun Pong**, aged 24, is a senior Web designer of the Group and is responsible for the design and construction of websites for the Group's system solution projects. He holds a diploma in Toys and Jewellery design from Lee Wai Lee Technical Institute in Hong Kong. Mr. Cheung has gained experience in the field of website design by working for the Group since January 2000.

## Report of the Directors

The directors present herewith their annual report and the audited financial statements of Inworld Group Limited (“the Company”) and its subsidiaries (together with the Company, the “Group”) for the year ended 30th June 2002.

### **INCORPORATION AND LISTING ON THE GROWTH ENTERPRISE MARKET (THE “GEM”)**

The Company was incorporated in the name of “Inworld Group Limited” under the laws of the Cayman Islands on 30th July 2001. In preparation for the listing of the shares of the Company on the GEM of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the Group underwent a reorganisation to rationalise the corporate structure of the Group and the Company became the ultimate holding company of the Group. The Company’s shares were listed on the GEM of the Stock Exchange on 31st December 2001 (the “Listing Date”).

### **PRINCIPAL ACTIVITY**

The principal activity of the Company is investment holding. Details of the principal activities of the Group’s principal subsidiaries are set out in note 12 to the financial statements.

### **SEGMENT INFORMATION**

Details of segment information are set out in note 4 to the financial statements.

### **RESULTS AND APPROPRIATIONS**

The results of the Group for the year are set out in the consolidated income statement on page 23.

The state of affairs of the Group and the Company as at 30th June 2002 are set out in the consolidated balance sheet on page 24 and the balance sheet on page 25, respectively.

The directors do not recommend the payment of a dividend for the year ended 30th June 2002.

### **FINANCIAL SUMMARY**

A summary of the results of the Group for each of the three years ended 30th June 2002 and of the assets and liabilities as at 30th June 2000, 2001 and 2002 is set out on page 52.

### **PROPERTY, PLANT AND EQUIPMENT**

Details of movements in property, plant and equipment of the Group during the year are set out in note 11 to the financial statements.

### **SUBSIDIARIES**

Details of the Company’s principal subsidiaries as at 30th June 2002 are set out in note 12 to the financial statements.

### **SHARE CAPITAL**

Details of movements in share capital of the Company during the year are set out in note 18 to the financial statements.

### **RESERVES**

Details of movements in reserves of the Group and the Company during the year are set out in note 19 to the financial statements.

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## Report of the Directors

### RETIREMENT SCHEMES

Details of the Group's retirement schemes are set out in note 21 to the financial statements.

### DIRECTORS

The directors who held office during the year and up to the date of this report were:

#### Executive directors

Mr. Ngai Kwok Kin, Kevin	(appointed on 30/7/2001)
Mr. Chan Wai Lun	(appointed on 21/8/2001)
Mr. Mak Chee Yeong	(appointed on 13/12/2001)
Mapcal Limited	(first director appointed on 30/7/2001 and resigned on 30/7/2001)

#### Independent non-executive directors

Mr. Cheng Koon Cheung	(appointed on 13/12/2001)
Mr. Leung Chun Cheng	(appointed on 31/1/2002)
Mr. Loo Chung Keung, Steve	(appointed on 13/12/2001 and resigned on 31/1/2002)

In accordance with Article 99 of the Company's Articles of Association, all present directors shall hold office until next annual general meeting of the Company and shall then be eligible for re-election by ordinary resolution.

### DIRECTORS' INTERESTS IN CONTRACTS

Except for the directors' interests as disclosed in note 22 to the financial statements and management contracts as below, no other contracts of significance in relation to the Company's business to which the Company or any of its subsidiaries was a party and in which a director had interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

### DIRECTORS' INTERESTS IN SHARES

At 30th June 2002, the interests of the directors in the share capital of the Company as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interest) Ordinance (the "SDI Ordinance") were as follows:

Name of directors	Number of shares			Total
	Personal interests	Family interests	Corporate interests	
Mr. Ngai Kwok Kin, Kevin	Nil	Nil	150,163,200 <i>(Note 1)</i>	150,163,200
Mr. Chan Wai Lun	Nil	Nil	84,283,200 <i>(Note 2)</i>	84,283,200

## ➤ Report of the Directors

### Notes:

1. Mr. Ngai is the beneficial owner of the entire issued share capital of Dynamate Limited, which holds 150,163,200 shares, representing approximately 26.07% of the issued share capital of the Company. Therefore, Mr. Ngai is deemed to be interested in 150,163,200 shares, which are beneficially owned by and registered in the name of Dynamate Limited, under the SDI Ordinance.
2. Mr. Chan is the beneficial owner of the entire issued share capital of Joyview International Limited, which holds 84,283,200 shares, representing approximately 14.63% of the issued share capital of the Company. Therefore, Mr. Chan is deemed to be interested in 84,283,200 shares, which are beneficially owned by and registered in the name of Joyview International Limited, under the SDI Ordinance.

### **DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES**

Except for the share option scheme, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

### **SHARE OPTION SCHEME**

On 14th December 2001, the Company conditionally adopted the pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") and the share option scheme (the "Share Option Scheme"), the principal terms of which are set out in the Company's prospectus dated 18th December 2001.

#### **Pre-IPO Share Option Scheme**

The purpose of the Pre-IPO Share Option Scheme is to recognise the contribution of certain directors and employees of the Group to the growth of the Group and/or to the listing of the shares of the Company ("Shares") on the GEM. Under the Pre-IPO Share Option Scheme, 2 executive directors, a director of a subsidiary in Singapore and 15 full-time employees of the Group are granted options to subscribe 57,600,000 Shares (representing 10% of the issued share capital of the Company as at the Listing Date).

The options granted under Pre-IPO Share Option Scheme have a duration of 10 years from the Listing Date, but each shall lapse in accordance with the terms of the Pre-IPO Share Option Scheme if the relevant grantee ceases to be a director or an employee of the Group or on any grounds set out in the Pre-IPO Share Option Scheme. Pursuant to the options granted under the Pre-IPO Share Option Scheme, the subscription price for Shares is the nominal value of a Share. There is no maximum entitlement of each grantee in relation to the total number of Shares issuable to him upon the exercise of options granted under the Pre-IPO Share Option Scheme.

## Report of the Directors

The following table discloses the movements in the number of options granted under the Pre-IPO Share Option Scheme during the financial year ended 30th June 2002:

Director	Options granted	Cancelled during the year	Exercised during the year	Outstanding as at 30th June 2002
Mr. Ngai Kwok Kin, Kevin	19,580,000	—	—	19,580,000
Mr. Chan Wai Lun	19,230,000	—	—	19,230,000
Employees	18,790,000	630,000	—	18,160,000
	<u>57,600,000</u>	<u>630,000</u>	<u>—</u>	<u>56,970,000</u>

During the financial year ended 30th June 2002, three grantees ceased to be the employees of the Group and their options were cancelled accordingly. Subsequent to 30th June 2002, a total of 2,632,000 share options were exercised and the aggregate number of securities available for issue under the Pre-IPO Share Option Scheme is 54,338,000 Shares, equivalent to 9.39% of the issued share capital of the Company as at the date of this annual report.

### ***In respect of options granted to Mr. Ngai Kwok Kin, Kevin and Mr. Chan Wai Lun***

Each of Mr. Ngai Kwok Kin, Kevin and Mr. Chan Wai Lun will be entitled to exercise (i) two-thirds of the options granted to him (rounded down to the nearest whole number) after the expiry of 12 months from the Listing Date; and (ii) the remaining options after the expiry of 18 months after the Listing Date.

### ***In respect of options granted to grantees other than Mr. Ngai Kwok Kin, Kevin and Mr. Chan Wai Lun***

Each of the grantees other than Mr. Ngai Kwok Kin, Kevin and Mr. Chan Wai Lun will be entitled to exercise (i) one-third of the options granted to him/her (rounded down to the nearest whole number) after the expiry of 6 months after the Listing Date; (ii) one-third of the options granted to him/her (rounded down to the nearest whole number) after the expiry of 12 months after the Listing Date; and (iii) the remaining options after the expiry of 18 months after the Listing Date.

Save for the options which have been granted under the Pre-IPO Share Option Scheme in respect of 57,600,000 Shares, no further options were offered or granted under the Pre-IPO Share Option Scheme.

## ➤ Report of the Directors

### SHARE OPTION SCHEME

The purpose of the Share Option Scheme is to provide incentive and to recognise the contribution of the employees (whether in full-time or part-time employment) and directors (whether executive, non-executive or independent non-executive) of the Company and/or its subsidiaries (the “Eligible Participants”). The board of directors of the Company may, at their discretion, offer the Eligible Participants options to subscribe Shares in the Company.

The total number of Shares in respect of which options may be granted under the Share Option Scheme shall not exceed 10% of the issued share capital of the Company as at the date of this annual report. The number of Shares in respect of which options may be granted to any individual in any 12-month period up to the date of the grant is not permitted to exceed 1% of the issued share capital of the Company as at the date of the grant, unless approved by the shareholders of the Company in accordance with the Share Option Scheme.

Options may be exercised at any time from the date of the grant of the options to the date of expiry of the option as may be determined by the directors of the Company which shall not exceed ten years from the date of the grant. The exercise price of the options is determined by the directors of the Company, save that such price shall not be less than the highest of (i) the closing price of the Shares on the date of the grant; (ii) the average of the closing price per Share on the GEM for the five business days immediately preceding the date of the grant and (iii) the nominal value of the Shares. Upon acceptance of the offer, the grantee shall pay HK\$1.00 to the Company by way of consideration for the grant.

There is no general requirement on the minimum period for which an option must be held or the performance targets which must be achieved before an option can be exercised under the terms of the Share Option Scheme. However, at the time of granting any option, the Board may make such grant subject to such terms and conditions in relation to the minimum period of the options to be held and/or the performance targets to be achieved as the Board may determine at its absolute discretion.

Subject to earlier termination by shareholders’ resolution in the general meeting, the Share Option Scheme shall be valid and effective for a period of ten years commencing from 14th December 2001.

No options were granted by the Company during the year since the adoption of the Share Option Scheme.

### COMPETING INTEREST

None of the directors or management shareholders (as defined in the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “GEM Listing Rules”)) of the Company have any interest in any business which competes with or may compete with the business of the Group.



## Report of the Directors

### SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As at 30th June 2002, the following persons (other than the directors or chief executives of the Company whose interests are disclosed above) were recorded in the register kept by the Company under Section 16(1) of the SDI Ordinance as being directly or indirectly interested in 10% or more of the nominal value of the issued share capital of the Company.

Name of shareholder	Number of shares	% of issued share
City Lion Worldwide Limited ( <i>Note 1</i> )	187,012,800	32.47%
Styland (Overseas) Limited ( <i>Note 1</i> )	187,012,800	32.47%
Styland Holdings Limited ( <i>Note 1</i> )	187,012,800	32.47%
Dynamate Limited ( <i>Note 2</i> )	150,163,200	26.07%
Joyview International Limited ( <i>Note 3</i> )	84,283,200	14.63%

#### Notes:

1. City Lion Worldwide Limited is a company incorporated in the British Virgin Islands with limited liability which is a wholly-owned subsidiary of Styland (Overseas) Limited, and which is in turn a wholly-owned subsidiary of Styland Holdings Limited. Accordingly, Styland (Overseas) Limited and Styland Holdings Limited will have a deemed interest in the 187,012,800 shares held by City Lion Worldwide Limited under the SDI Ordinance.
2. Dynamate Limited is a company incorporated in the British Virgin Islands with limited liability which is legally and beneficially owned as to 100% by Mr. Ngai Kwok Kin, Kevin.
3. Joyview International Limited is a company incorporated in the British Virgin Islands with limited liability which is legally and beneficially owned as to 100% by Mr. Chan Wai Lun.

### PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

### MAJOR CUSTOMERS AND SUPPLIERS

The percentage of the aggregate turnover attributable to the Group's five largest customers is as follows:

	%
The largest customer	37
Five largest customers combined	97

Aggregate purchases attributable to the Group's five largest suppliers were less than 30% of total purchases.

Save as aforesaid, none of the directors, their associates or any shareholders (which to the knowledge of the directors owned more than 5% of the Company's issued share capital) had any interests in the Group's five largest customers or five largest suppliers.



## Report of the Directors

### **SPONSOR'S INTEREST**

None of the Company's sponsor, Sun Hung Kai International Limited ("Sun Hung Kai International"), its directors, employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interests in any class of securities of the Company or any other company in the Group (including options or rights to subscribe for such securities) as at 30th June 2002.

Pursuant to an agreement dated 17th December 2001 entered into between the Company and Sun Hung Kai International, Sun Hung Kai International has been retained to act as the Company's sponsor for the period from 31st December 2001 to 30th June 2004 in return for a monthly advisory fee.

### **PRE-EMPTIVE RIGHTS**

There are no provisions for pre-emptive rights under the Company's Bye-Laws, or the laws of the Cayman Islands.

### **MANAGEMENT CONTRACTS**

Each of the executive directors has entered into a service contract with the Company on 17th December 2001 with retrospective effect from 1st December 2001 for an initial fixed term of three years and thereafter be continuous until terminated by either party thereto giving to the other not less than three months' notice in writing, or otherwise in accordance with its terms.

None of the independent non-executive directors has entered into any service contract with the Group.

Save as disclosed, none of the directors has entered into any service agreements with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

### **BOARD PRACTICES AND PROCEDURES**

The Company has complied with board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules since listed on the GEM.

### **AUDIT COMMITTEE**

The Company established an audit committee with written terms of reference in compliance with the requirements as set out in Rules 5.23 and 5.24 of the GEM Listing Rules. The duties of the audit committee are to review and to provide supervision over the financial reporting process and internal control system of the Group. The audit committee comprises Mr. Leung Chun Cheng and Mr. Cheng Koon Cheung, independent non-executive directors of the Company.

### **AUDITORS**

The financial statements have been audited by Charles Chan, Ip & Fung CPA Ltd., Certified Public Accountants, who retire and being eligible, offer themselves for re-appointment. A resolution of the re-appointment of Charles Chan, Ip & Fung CPA Ltd. as auditors of the Company is to be proposed at the forthcoming annual general meeting.

On behalf of the board  
**Inworld Group Limited**  
**Ngai Kwok Kin, Kevin**  
*Chairman*

Hong Kong, 20th September 2002

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## ➤ Report of the Auditors



**Charles Chan, Ip & Fung CPA Ltd.**  
37th Floor, Hennessy Centre  
500 Hennessy Road  
Causeway Bay, Hong Kong

### **AUDITORS' REPORT TO THE SHAREHOLDERS OF INWORLD GROUP LIMITED**

*(Incorporated in the Cayman Islands with limited liability)*

We have audited the financial statements on pages 23 to 51 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 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 circumstances of the Company and the Group, 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 the Group as at 30th June 2002 and of the loss 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.

**Charles Chan, Ip & Fung CPA Ltd.**

*Certified Public Accountants*

Hong Kong

20th September 2002

**Chan Wai Dune, Charles**

Practising Certificate Number P00712

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## Consolidated Income Statement

Year ended 30th June 2002

	Note	2002 HK\$'000	2001 HK\$'000
TURNOVER	3	6,746	6,498
COST OF SALES		<u>(3,452)</u>	<u>(1,920)</u>
GROSS PROFIT		3,294	4,578
OTHER REVENUE	3	4,933	47
DISTRIBUTION COSTS		(1,420)	(992)
ADMINISTRATIVE EXPENSES		(6,942)	(3,550)
IMPAIRMENT OF GOODWILL	10	<u>(4,449)</u>	<u>—</u>
(LOSS)/PROFIT FROM OPERATIONS		(4,584)	83
FINANCE COSTS		<u>—</u>	<u>(32)</u>
(LOSS)/PROFIT BEFORE TAXATION	5	(4,584)	51
TAXATION	6	<u>—</u>	<u>—</u>
(LOSS)/PROFIT BEFORE MINORITY INTERESTS		(4,584)	51
MINORITY INTERESTS		<u>142</u>	<u>—</u>
(LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS	7 & 19	<u>(4,442)</u>	<u>51</u>
(LOSS)/EARNINGS PER SHARE	8		
- Basic		<u>(0.842) cents</u>	<u>0.011 cents</u>
- Diluted		<u>(0.842) cents</u>	<u>0.0089 cents</u>

Net (loss)/profit for the year is the sole component of the total recognised gains and losses.

The notes on pages 27 to 51 form an integral part of these financial statements.

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## Consolidated Balance Sheet

30th June 2002

	Note	2002 HK\$'000	2001 HK\$'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Goodwill	10	—	—
Property, plant and equipment	11	2,069	925
Investment in an associate	13	—	—
Investments in securities	14	1,802	1,802
		<u>3,871</u>	<u>2,727</u>
<b>Current assets</b>			
Intangible assets		1,590	—
Product development costs		2,271	—
Deposits, prepayments and other receivables		1,518	872
Trade receivables	15	3,478	2,720
Investments in securities	14	—	1,098
Cash and bank balances		16,415	1,068
		<u>25,272</u>	<u>5,758</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade payables	16	23	—
Other payables and accruals		1,835	89
Due to a related company	17	—	367
		<u>1,858</u>	<u>456</u>
<b>Net current assets</b>		<u>23,414</u>	<u>5,302</u>
<b>Total assets less current liabilities</b>		<u>27,285</u>	<u>8,029</u>
<b>Minority interests</b>		<u>72</u>	<u>—</u>
<b>NET ASSETS</b>		<u>27,213</u>	<u>8,029</u>
<b>CAPITAL AND RESERVES</b>			
Issued capital	18	5,760	1
Reserves	19	21,453	8,028
		<u>27,213</u>	<u>8,029</u>

Approved by the board of directors on 20th September 2002

On behalf of the board

**Ngai Kwok Kin, Kevin**  
Director

**Chan Wai Lun**  
Director

The notes on pages 27 to 51 form an integral part of these financial statements.

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## Balance Sheet

30th June 2002

	Note	HK\$'000
<b>ASSETS</b>		
<b>Non-current assets</b>		
Investments in subsidiaries	12	<u>7,785</u>
<b>Current assets</b>		
Due from subsidiaries		22,591
Bank balances		<u>780</u>
		23,371
<b>LIABILITY</b>		
<b>Current liability</b>		
Accrual		<u>100</u>
<b>Net current assets</b>		<u>23,271</u>
<b>NET ASSETS</b>		<u>31,056</u>
<b>CAPITAL AND RESERVES</b>		
Issued capital	18	5,760
Reserves	19	<u>25,296</u>
		<u>31,056</u>

Approved by the board of directors on 20th September 2002

On behalf of the board

**Ngai Kwok Kin, Kevin**

*Director*

**Chan Wai Lun**

*Director*

The notes on pages 27 to 51 form an integral part of these financial statements.

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## Consolidated Cash Flow Statement

Year ended 30th June 2002

	Note	2002 HK\$'000	2001 HK\$'000
NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES	20(a)	(7,569)	3,840
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		169	27
Interest paid		—	(32)
NET CASH INFLOW/(OUTFLOW) FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		169	(5)
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(1,602)	(410)
Sales proceeds on disposals of property, plant and equipment		86	—
Acquisition of investment securities		—	(2,900)
Net proceeds on disposal of investment securities		5,558	—
Acquisition of a subsidiary	20(b)	(4,921)	—
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(879)	(3,310)
NET CASH (OUTFLOW)/INFLOW BEFORE FINANCING		(8,279)	525
FINANCING	20(c)		
Issue of ordinary shares		30,720	—
Share issue expenses		(7,094)	—
Capital element of a hire purchase contract repaid		—	(281)
NET CASH INFLOW/(OUTFLOW) FROM FINANCING		23,626	(281)
INCREASE IN CASH AND CASH EQUIVALENTS		15,347	244
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		1,068	824
CASH AND CASH EQUIVALENTS AT END OF YEAR		16,415	1,068
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		16,415	1,068

The notes on pages 27 to 51 form an integral part of these financial statements.

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## Notes to the Financial Statements

30th June 2002

### 1. GROUP REORGANISATION

The Company was incorporated in the Cayman Islands on 30th July 2001 under the Companies Law (2001 Revision) of the Cayman Islands as an exempted company with limited liability.

In preparation for the listing of the shares on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the companies comprising the Group underwent a reorganisation (the "Reorganisation") to rationalise the corporate structure of the Group. The Company acquired the entire issued capital of Inworld International Limited, the Group's former ultimate parent enterprise through a share swap arrangement and became the ultimate parent enterprise of Inworld International Limited and its subsidiaries. Details of the Reorganisation have been set out in the Company's prospectus dated 18th December 2001.

The Company's shares were listed on the GEM of the Stock Exchange on 31st December 2001 (the "Listing Date").

### 2. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with generally accepted accounting principles in Hong Kong and comply with Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants, the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the GEM of the Stock Exchange. The financial statements have been prepared under the historical cost convention.

#### a) BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 30th June. The Reorganisation referred to in note 1 above has been accounted for by using merger accounting.

Apart from the Reorganisation, the results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances between group enterprises are eliminated on consolidation.

#### b) SUBSIDIARIES

A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the issued share capital or controls more than half of the voting power, or where the Company controls the composition of its board of directors or equivalent governing body.

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.



## Notes to the Financial Statements

30th June 2002

### 2. PRINCIPAL ACCOUNTING POLICIES (continued)

#### c) ASSOCIATES

An associate is an enterprise over which the Group is in a position to exercise significant influence, through participation in the financial and operating policy decisions of the investee.

The consolidated income statement did not include the Group's share of the post-acquisition results of its associate for the year as the associate has not carried out any business since its acquisition. In the consolidated balance sheet, investment in an associate is stated at cost plus the premium paid on acquisition in so far as it has not already been written off/amortised/released to income, less any identified impairment loss.

#### d) REVENUE RECOGNITION

- i) Revenues from IT project, Internet-based applications and web page design and development are recognised when the services are rendered;
- ii) Interest income is recognised on a time-proportion basis, taking into account the principal amounts outstanding and the interest rates applicable;
- iii) Revenue from the sale of goods and services is recognised when the goods are delivered and the services are rendered, respectively;
- iv) Banner design and advertisement income is recognised on a time-proportion basis over the period that the related services are rendered; and
- v) Membership income is recognised when the rights to receive payment have been established.

#### e) BORROWING COSTS

Borrowing costs are interests and other costs incurred in connection with the borrowings of funds. All borrowing costs are charged to the income statement in the year in which the costs are incurred.

#### f) GOODWILL

Goodwill, which represents the excess of purchase consideration over the fair values ascribed to the separable net assets of subsidiaries, associates and jointly controlled entities acquired at the date of acquisition, is stated at cost less accumulated amortisation and impairment. Goodwill is amortised by equal annual instalments over its estimated useful economic life of 20 years. Negative goodwill is credited directly to reserves.

Unamortised goodwill is charged to the income statement upon disposal of the relevant subsidiaries, associates and jointly controlled entities.

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## Notes to the Financial Statements

30th June 2002

### 2. PRINCIPAL ACCOUNTING POLICIES (continued)

#### g) RESEARCH AND DEVELOPMENT COSTS

Research costs are recognised as expenses in the year in which they are incurred. Expenditure on development is charged as an expense in the year in which it is incurred except where a clearly defined project is undertaken and it is reasonably anticipated the development costs will be recovered through future commercial activity.

#### h) RETIREMENT BENEFIT COSTS

The Group's contributions to the Hong Kong Mandatory Provident Fund Scheme (the "MPF") are expensed as incurred.

The Group's contributions to the defined contribution retirement benefit scheme of the subsidiaries outside Hong Kong are expensed as incurred.

The assets of the schemes are held separately from those of the Group in independently administered funds.

#### i) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Property, plant and equipment are depreciated at rates sufficient to write off their cost over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Leasehold improvements	20% or over the lease term, if shorter
Office equipment	25%
Furniture and fixtures	20%
Computer hardware and software	33%
Motor vehicle	25%

Major costs incurred in restoring property, plant and equipment to their normal working condition are charged to the income statement. Improvements are capitalised and depreciated over their expected useful lives to the Group.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

#### j) OPERATING LEASES

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rental payables under such operating leases are accounted for in the income statement on a straight-line basis over the periods of the respective lease.

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## Notes to the Financial Statements

30th June 2002

### 2. PRINCIPAL ACCOUNTING POLICIES (continued)

#### k) INVESTMENTS IN SECURITIES

Security is a bond or share or other negotiable instrument evidencing debts or ownership which is distinguished between equity and debt securities, is classified as held-to-maturity securities, investment securities and other investments.

Debt securities intended to be held-to-maturity are stated at amortised cost, less provision for impairment losses. Investments in other than held-to-maturity debt securities are accounted for using the benchmark treatment. Long-term investment securities are stated at cost less any provision for impairment losses. Investments in other than held-to-maturity debt securities and long-term investment securities are accounted for as other investments and are stated at fair values with unrealised gains or losses included in the income statement.

Gain or loss on disposal of investments in securities, representing the difference between the net sales proceeds and the carrying amount of the securities, is recognised in the income statement in the period in which the disposal occurs.

#### l) RELATED PARTIES

Two 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.

#### m) TRADE RECEIVABLE

Provision is made against trade receivable to the extent that they are considered to be doubtful. Trade receivable in the balance sheet is stated net of such provision.

#### n) CASH EQUIVALENTS

Cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and which were within three months of maturity when acquired less advances from banks repayable within three months from the date of the advance. Cash equivalents include investments and advances denominated in foreign currencies provided that they fulfil the above criteria.

#### o) DEFERRED TAXATION

Deferred taxation is accounted for under the liability method in respect of significant timing differences between profit as computed for taxation purpose and profit as stated in the financial statements, to the extent that a liability or asset is expected with reasonable probability to crystallise in the foreseeable future. Deferred tax asset is not recognised unless its realisation is assured beyond reasonable doubt.

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## Notes to the Financial Statements

30th June 2002

### 2. PRINCIPAL ACCOUNTING POLICIES (continued)

#### p) TRANSLATION OF FOREIGN CURRENCIES

Transactions in foreign currencies during the year are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the income statement.

On consolidation, the financial statements of the Group's overseas subsidiaries translated at the exchange rates ruling on the balance sheet date. Exchange differences arising, if any, are included in the translation reserve in the shareholders' equity and are recognised as income or expenses in the period in which the subsidiary is disposed of.

#### q) PROVISIONS

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events and it is probable that an outflow of economic benefits which can be reasonably estimated will be required to settle such obligation.

#### r) CONTINGENT LIABILITIES AND CONTINGENT ASSETS

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When an inflow is virtually certain, an asset is recognised.

## Notes to the Financial Statements

30th June 2002

### 2. PRINCIPAL ACCOUNTING POLICIES (continued)

#### s) IMPAIRMENT

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the impairment loss is treated as a revaluation decrease under that SSAP.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the reversal of the impairment loss is treated as a revaluation increase under that other SSAP.

#### t) SEGMENT REPORTING

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Intra-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets (both tangible and intangible) that are expected to be used for more than one year.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interests.

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## Notes to the Financial Statements

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### 3. TURNOVER AND REVENUE

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Turnover		
System solutions services income		
IT projects		
- Consultation	1,200	1,173
- Infrastructure	2,425	1,573
Internet-based applications	2,500	2,590
Web page design and development	87	100
Banner design and advertisement income	480	1,050
Membership income	52	12
Online room reservation income	2	—
	<u>6,746</u>	<u>6,498</u>
Other revenue		
Sales of computer hardware and software	15	5
Social activities income	—	7
Interest income	169	27
Exchange gain	43	8
Rental income	9	—
Sundry income	237	—
Gain on disposal of investment securities	4,460	—
	<u>4,933</u>	<u>47</u>
Total revenue	<u>11,679</u>	<u>6,545</u>

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## Notes to the Financial Statements

30th June 2002

### 4. SEGMENT INFORMATION

#### Business segment

The Group is principally engaged in the business as a system solution provider. As per note 3 to the financial statements, the system solutions services offered by the Group consist of IT consultation and infrastructure projects, internet-based application, web page design and development and banner design and advertisement.

The major component of cost of services rendered for system solution is labour cost. In view of increasing efficiency and flexibility of labour force, the management of the Group did not assign certain employees to specific business segment. Similarly, all distribution costs and administrative expenses were incurred on a group basis; therefore no segment expenses were allocated to various business segments.

Segment assets to be allocated to business segments are as follows:

	2002 HK\$'000	2001 HK\$'000
Trade receivables		
IT projects consultation and infrastructure	1,350	130
Internet-based application	2,100	2,290
Banner design and advertisement	—	300
Web page design and development	14	—
Membership income	14	—
	<u>3,478</u>	<u>2,720</u>

#### Geographical segment

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets and capital expenditure are based on the geographical location of the assets.

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## Notes to the Financial Statements

30th June 2002

### 4. SEGMENT INFORMATION (continued)

#### Geographical segment (continued)

The Group's business is principally managed in Hong Kong and the Group's customers are mainly located in Hong Kong, Singapore and Macau.

	2002 HK\$'000	2001 HK\$'000
<b>Revenue from external customers</b>		
- Hong Kong	6,692	6,495
- Singapore	—	3
- Macau	54	—
Total revenue from external customers	<u>6,746</u>	<u>6,498</u>
Other revenue		
- Hong Kong	4,879	39
- Others	54	8
Total other revenue	<u>4,933</u>	<u>47</u>
Total operating revenue	<u>11,679</u>	<u>6,545</u>
<b>Segment results</b>		
- Hong Kong	1,412	754
- Singapore	(872)	(671)
- Macau	(507)	—
- The People's Republic of China (excluding Hong Kong)	(168)	—
Unallocated expense	<u>(4,449)</u>	<u>—</u>
(Loss)/profit from operations	<u>(4,584)</u>	83
Finance costs	—	(32)
Taxation	—	—
Minority interests	142	—
(Loss)/profit attributable to shareholders	<u>(4,442)</u>	<u>51</u>
<b>Depreciation</b>		
- Hong Kong	555	373
- Singapore	46	28
- Macau	90	—
	<u>691</u>	<u>401</u>

More than 90% of segment assets and capital expenditure are in Hong Kong at 30th June 2002 and 2001.

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## Notes to the Financial Statements

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### 5. (LOSS)/PROFIT BEFORE TAXATION

(Loss)/profit before taxation is stated after charging the following:

	2002 HK\$'000	2001 HK\$'000
Auditors' remuneration	126	24
Staff costs		
- Basic salaries and allowances	4,464	2,418
- Pension scheme contributions	138	58
Research expenses incurred	372	335
Exchange loss	11	16
Depreciation of		
- Owned assets	691	395
- Asset held under a hire purchase obligation	—	6
Operating lease rentals in respect of land and buildings	730	60
Interest on a hire purchase obligation wholly repayable within five years	—	32
Provision for doubtful debt	150	—
Loss on disposals of property, plant and equipment	109	—
Impairment of property, plant and equipment	230	—

### 6. TAXATION

No provision for Hong Kong profits tax has been made in the financial statements as the Group and its subsidiaries operating in Hong Kong have no assessable profits for the year.

Taxation on overseas profits is charged at the rates of taxation prevailing in the countries in which the companies operate. No provision for overseas taxation has been made in the financial statements as the subsidiaries operating outside Hong Kong have no assessable profits for the year.

	2002 HK\$'000	2001 HK\$'000
The potential deferred tax liability/(asset) not provided for in the financial statements amounts to:		
Accelerated depreciation allowances	88	131
Tax losses	(1,510)	(836)
	<u>(1,422)</u>	<u>(705)</u>

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## Notes to the Financial Statements

30th June 2002

### 7. (LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated (loss)/profit attributable to shareholders included a loss of approximately of HK\$355,000 which has been dealt with in the financial statements of the Company.

### 8. (LOSS)/EARNINGS PER SHARE

The calculation of the basic and diluted (loss)/earnings per share is based on the following data:

	2002	2001
	HK\$	HK\$
(Loss)/profit attributable to shareholders	<u>(4,442,237)</u>	<u>50,556</u>

Number of shares:

	2002	2001
Weighted average number of shares for the purpose of calculating (loss)/earnings per share		
- Basic	<u>527,868,493</u>	<u>480,000,000</u>
- Diluted	<u>527,868,493</u>	<u>576,000,000</u>

Since all share options granted can only be exercised after 30th June 2002, the computation of diluted loss per share is based on the same weighted average number of ordinary shares for the purposes of basic loss per share.

The calculation of the comparative diluted earnings per share is based on the profit attributable to shareholders of HK\$50,556 and the 576,000,000 shares comprising 480,000,000 shares in issue and 96,000,000 shares to be issued under the placing and public offer deemed to be in issue throughout the year ended 30th June 2001 on the assumption that the Reorganisation of the Group had been completed on 30th August 1999, taking no account of any shares which may be issued under the over-allotment option or upon any exercise of options which had conditionally been approved and adopted by the Company on 14th December 2001 under the share option scheme.

## Notes to the Financial Statements

30th June 2002

### 9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

i) Directors' emoluments

	2002 HK\$'000	2001 HK\$'000
Fees	—	—
Other emoluments		
- Basic salaries and other benefits-in-kind	875	629
- Bonus	—	53
	<u>875</u>	<u>682</u>
Retirement benefit costs	<u>59</u>	<u>29</u>

No directors waived any emoluments during the year. No incentive payment for joining the Group or compensation for loss of office was paid or payable to any director during the year.

ii) The emoluments of the directors fall within the following bands:

	Number of directors	
	2002	2001
Nil to HK\$1,000,000	<u>7</u>	<u>3</u>

iii) Details of emoluments paid to the five highest paid individuals (including directors and other employees) were as follows:

	2002 HK\$'000	2001 HK\$'000
Basic salaries, allowances and benefits-in-kind	1,386	974
Bonus	—	73
Retirement benefit costs	65	28
	<u>1,451</u>	<u>1,075</u>
Number of directors	<u>2</u>	<u>2</u>
Number of employees	<u>3</u>	<u>3</u>
	<u>5</u>	<u>5</u>

The number of the five highest paid individuals whose remuneration fall within the following bands were as follows:

	2002	2001
Nil to HK\$1,000,000	<u>5</u>	<u>5</u>

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## Notes to the Financial Statements

30th June 2002

### 10. GOODWILL

	2002 HK\$'000	2001 HK\$'000
Goodwill arising from acquisition of a subsidiary	4,449	—
Less: Impairment of goodwill	(4,449)	—
	<u>—</u>	<u>—</u>

### 11. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK\$'000	Office equipment HK\$'000	Furniture and fixtures HK\$'000	Computer hardware and software HK\$'000	Motor vehicle HK\$'000	Total HK\$'000
<b>Cost</b>						
At 1/7/2001	165	103	78	852	268	1,466
Additions	791	55	25	546	185	1,602
Acquisition of a subsidiary	248	98	50	678	—	1,074
Disposals	(44)	—	(7)	—	(268)	(319)
At 30/6/2002	<u>1,160</u>	<u>256</u>	<u>146</u>	<u>2,076</u>	<u>185</u>	<u>3,823</u>
<b>Accumulated depreciation</b>						
At 1/7/2001	43	35	20	354	89	541
Charge for the year	96	39	22	479	55	691
Acquisition of a subsidiary	92	43	15	266	—	416
Write back on disposals	(6)	—	(1)	—	(117)	(124)
Impairment loss recognised	140	30	19	41	—	230
At 30/6/2002	<u>365</u>	<u>147</u>	<u>75</u>	<u>1,140</u>	<u>27</u>	<u>1,754</u>
<b>Net book value</b>						
At 30/6/2002	<u>795</u>	<u>109</u>	<u>71</u>	<u>936</u>	<u>158</u>	<u>2,069</u>
At 30/6/2001	<u>122</u>	<u>68</u>	<u>58</u>	<u>498</u>	<u>179</u>	<u>925</u>

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## Notes to the Financial Statements

30th June 2002

### 12. INVESTMENTS IN SUBSIDIARIES

HK\$'000

Investments, at cost

Unlisted shares

7,785

Details of the Company's principal subsidiaries of 30th June 2002 are as follows:

Name	Country/ place of incorporation	Issued and fully paid share capital	Percentage of equity interest attributable to the Company		Principal activities
			Directly	Indirectly	
Inworld International Limited	British Virgin Islands	US\$328	100%	—	Investment holding
Inworld (Hong Kong) Limited	Hong Kong	HK\$3 Ordinary shares	—	100%	Provision of ASP and ICP services
Inworld System (HK) Limited	Hong Kong	HK\$3 Ordinary shares	—	100%	Provision of system solutions service
Inworld Internet Singapore Pte. Ltd.	Singapore	SGD101 Ordinary shares	—	100%	Provision of system solutions, ASP and ICP services
Sunny World Company Limited	Macau	MOP25,000 Ordinary shares	—	72%	Operation of cyber cafe and provision of online reservation services
活力世界 (上海) 網絡技術有限公司	The People's Republic of China	RMB1,655,480 Contributed capital	—	100%	Development and sale of internet application solution services

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## Notes to the Financial Statements

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### 13. INVESTMENT IN AN ASSOCIATE

	2002 HK\$'000	2001 HK\$'000
Investments, at cost		
Unlisted shares	4	—
Less: Provision for impairment loss	(4)	—
	<u>—</u>	<u>—</u>

Details of the associate of 30th June 2002 are as follows:

Name	Business structure	Place of incorporation and operation	Class of shares	Percentage of ownership	Principal activities
Styland Datareach Computer Technology Limited	Incorporated	Hong Kong	Ordinary	40%	Inactive

The associate was acquired on 25th August 2000. Since its acquisition, the associate has not carried out any business. In the opinion of the directors of the Company, the associate has no value to the Group. The associate applied for deregistration in May 2002.

### 14. INVESTMENTS IN SECURITIES

	2002 HK\$'000	2001 HK\$'000
Investment securities, at cost		
Unlisted	—	2,900
Listed in Hong Kong	1,802	—
	<u>1,802</u>	<u>2,900</u>
Less: Portion disclosed under current assets	—	(1,098)
	<u>1,802</u>	<u>1,802</u>
Market value	<u>17,487</u>	<u>—</u>

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## Notes to the Financial Statements

30th June 2002

### 15. TRADE RECEIVABLES

Customers are usually offered a credit period ranging from 7 days to 90 days. An ageing analysis of trade receivables after provision as at 30th June 2002 is as follows:

	2002 HK\$'000	2001 HK\$'000
0 to 30 days	1,517	420
31 to 60 days	1,361	830
61 to 90 days	—	—
Over 90 days	600	1,470
	<u>3,478</u>	<u>2,720</u>

### 16. TRADE PAYABLES

The ageing analysis of trade payables is as follows:

	2002 HK\$'000	2001 HK\$'000
0 to 30 days	23	—

### 17. DUE TO A RELATED COMPANY

The amount was unsecured, interest free and repaid on 4th February 2002.

## Notes to the Financial Statements

30th June 2002

### 18. ISSUED CAPITAL

	Authorised	
	Ordinary shares of HK\$0.01 each	
	Number of shares	Amount HK\$'000
At 1st July 2001	—	—
Upon incorporation of the Company and subdivision of shares	35,000,000	350
Increase of authorised share capital	1,465,000,000	14,650
	<u>1,500,000,000</u>	<u>15,000</u>

	Issued and fully paid	
	Ordinary shares of HK\$0.01 each	
	Number of shares	Amount HK\$'000
At 1st July 2001	—	—
Issued upon incorporation of the Company and subdivision of shares	100	—
Shares issued as consideration for acquisition of subsidiaries	39,900	1
Capitalisation issue	479,960,000	4,799
Issue of shares upon listing	96,000,000	960
	<u>576,000,000</u>	<u>5,760</u>

- (a) On incorporation, the authorised share capital of the Company was HK\$350,000 divided into 350,000 shares of HK\$1 each. One share of HK\$1 was issued and allotted, credited as fully paid, to the subscriber of the Company.
- (b) On 20th September 2001, the share capital of the Company was subdivided into 100 issued shares and 34,999,900 unissued shares of HK\$0.01 each.
- (c) Pursuant to a written resolution of all the shareholders of the Company passed on 12th December 2001, the authorised share capital of the Company was increased from HK\$350,000 to HK\$15,000,000 by the creation of additional 1,465,000,000 shares. Such new shares were to rank *pari passu* in all respects with the existing shares.
- (d) Pursuant to a written resolution of all the shareholders of the Company passed on 13th December 2001, the directors were authorised to capitalise the sum of HK\$4,799,600 standing to the credit of the contributed surplus account of the Company by applying such sum in paying up in full at par a total number of 479,960,000 shares for allotment and issue to holders of shares whose names appeared on the register of members of the Company as at the close of business on 13th December 2001 in proportion (as nearly as possible without involving fractions) to their then respective shareholdings in the Company.
- (e) On 27th December 2001, the share offer became unconditional and 96,000,000 shares were issued at HK\$0.32 each by way of placing and public offer.

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## Notes to the Financial Statements

30th June 2002

### 18. ISSUED CAPITAL (continued)

#### Options

Pursuant to a share option scheme (the "Share Option Scheme") adopted by the Company on 14th December 2001, the directors may at their discretion grant options to employees (whether in full-time or part-time employment) and directors (whether executive, non-executive or independent non-executive) of the Group to subscribe for ordinary shares in the Company subject to the terms and conditions stipulated in the Share Option Scheme. No share options were granted by the Company under the Share Option Scheme during the year.

Pursuant to the pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") adopted by the Company on 14th December 2001, 2 executive directors, a director of a subsidiary in Singapore and 15 full-time employees of the Group are granted to subscribe for 57,600,000 Shares in the Company (representing 10% of the issued share capital of the Company as at the Listing Date) at the nominal value of a Share. 630,000 Pre-IPO Options were cancelled during the year and 56,970,000 Pre-IPO Options were outstanding as at 30th June 2002. The Pre-IPO Share Options are exercisable in the following manners:

1st July 2002 to 31st December 2002

1st January 2003 to 30th June 2003

1st July 2003 to 13th December 2012

#### Percentage of the Pre-IPO Share Options exercisable

10.83%

66%

100%

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## Notes to the Financial Statements

30th June 2002

### 19. RESERVES

#### i) Group

	Share premium HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1/7/2000	—	—	(4,218)	(4,218)
Capitalisation of shareholders' loan	12,195	—	—	12,195
Net profit for the year	—	—	51	51
	<hr/>	<hr/>	<hr/>	<hr/>
At 30/6/2001 and 1/7/2001	12,195	—	(4,167)	8,028
Issue of shares upon listing	29,760	—	—	29,760
Issuing expenses	(7,094)	—	—	(7,094)
Arising from Reorganisation	(12,195)	12,195	—	—
Capitalisation issue	—	(4,799)	—	(4,799)
Net loss for the year	—	—	(4,442)	(4,442)
	<hr/>	<hr/>	<hr/>	<hr/>
At 30/6/2002	<u>22,666</u>	<u>7,396</u>	<u>(8,609)</u>	<u>21,453</u>
<b>ii) Company</b>				
Issue of shares upon listing	29,760	—	—	29,760
Issuing expenses	(7,094)	—	—	(7,094)
Contributed surplus arising from Reorganisation	—	2,985	—	2,985
Net loss for the year	—	—	(355)	(355)
	<hr/>	<hr/>	<hr/>	<hr/>
At 30/6/2002	<u>22,666</u>	<u>2,985</u>	<u>(355)</u>	<u>25,296</u>

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## Notes to the Financial Statements

30th June 2002

### 20. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

#### a) Reconciliation of (loss)/profit before taxation to net cash (outflow)/inflow from operating activities:

	2002 HK\$'000	2001 HK\$'000
(Loss)/profit before taxation	(4,584)	51
Depreciation	691	401
Gain on disposal of investment securities	(4,460)	—
Impairment of goodwill	4,449	—
Provision for doubtful debt	150	—
Impairment of property, plant and equipment	230	—
Loss on disposals of property, plant and equipment	109	—
Interest income	(169)	(27)
Interest expenses	—	32
Increase in intangible assets	(1,590)	—
Increase in product development costs	(2,271)	—
Increase in deposits, prepayments and other receivables	(615)	(736)
Increase in trade receivables	(858)	(2,720)
Decrease in trade payables	23	—
Increase in other payables and accruals	1,693	6,744
(Decrease)/increase in due to a related company	(367)	95
Net cash (outflow)/inflow from operating activities	<u>(7,569)</u>	<u>3,840</u>

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## Notes to the Financial Statements

30th June 2002

### 20. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (continued)

#### b) Acquisition of a subsidiary

	<i>HK\$'000</i>
Net assets acquired	
Property, plant and equipment	658
Trade receivables	50
Deposits, prepayments and other receivables	31
Cash and bank balances	79
Other payables	(53)
A minority shareholder	(214)
	<u>551</u>
Goodwill arising from acquisition	4,449
	<u>5,000</u>
Satisfied by	
Cash	<u>5,000</u>
Analysis of the net cash outflow in respect of the acquisition of the subsidiary:	
Cash consideration	(5,000)
Cash and bank balances acquired	79
	<u>(4,921)</u>

The subsidiary acquired during the year contributed HK\$47,000 to the Group's net operating cash flows and received HK\$6,000 from investing activities.

## Notes to the Financial Statements

30th June 2002

### 20. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (continued)

#### c) Analysis of changes in financing during the year:

	Share capital including premium HK\$'000	Contributed surplus HK\$'000	Obligation under a hire purchase contract HK\$'000
At 1st July 2000	1	—	281
Repayment during the year	—	—	(281)
Capitalisation of shareholders' loan (Note 20(d)(i))	12,195	—	—
At 30th June 2001	12,196	—	—
Issue of shares upon listing	30,720	—	—
Issuing expenses	(7,094)	—	—
Arising from Reorganisation (Note 20(d)(ii))	(12,195)	12,195	—
Capitalisation issue of shares to then Shareholders (Note 20(d)(iii))	4,799	(4,799)	—
At 30th June 2002	28,426	7,396	—

#### d) Non-cash transactions

- (i) On 27th June 2001 and 29th June 2001, the former shareholders of Inworld (Hong Kong) Limited, Inworld System (HK) Limited and Inworld Internet Singapore Pte. Ltd. (the "subsidiaries"), wholly-owned subsidiaries of the Group, agreed to allot 1 share in each of the subsidiaries by capitalising approximately HK\$12,195,000.
- (ii) Upon the share swap arrangement, the capitalisation of HK\$12,195,000 was converted into contributed surplus.
- (iii) The details are disclosed in note 18(d) to the financial statements.

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## Notes to the Financial Statements

30th June 2002

### 21. RETIREMENT BENEFIT COSTS

The Group has implemented a provident fund scheme for its staff in compliance with the requirements of the Mandatory Provident Fund Schemes Ordinance (the "MPF Ordinance") effective from 1st December 2000. The Group contributed according to the minimum requirements of the MPF Ordinance (i.e. 5% of staff's relevant income with upper monthly limit of HK\$1,000) and the contribution is charged to the income statement.

Under the Central Provident Fund (the "CPF") of Singapore, the Group contributed 16% of staff's relevant income and the contribution is charged to the income statement.

Under the MPF and the CPF, there is no forfeited contribution could be utilised to reduce the level of the contribution by the Group and therefore there was no such balance as at 30th June 2002.

### 22. RELATED PARTY TRANSACTIONS

During the year, the Group had the following significant transactions with related parties:

	Notes	2002 HK\$'000	2001 HK\$'000
Styland (Hong Kong) Limited	(i), (ii)		
- Management fee		144	456
- Rent and rates		312	—
Styland (Hong Kong) Limited	(ii), (iii)		
- Sale of computer software		—	173
- Banner design and advertisement income		—	200
- Services income from IT project consultation		—	3
New Great China Technology Holdings Limited	(iv)		
- Information cost on advanced internet-based application and professional opinion on website design		—	90
Cyber World Technology Limited	(v)		
- Banner design and advertisement income		—	100
Ever-Long Securities Company Limited	(vi)		
- Service income from IT project infrastructure		—	12

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## Notes to the Financial Statements

30th June 2002

### 22. RELATED PARTY TRANSACTIONS (continued)

Notes:

- (i) Management fee is paid for rental, share of office equipment and office expenditure. The rental charge is based on the share of the office area physically occupied by the Group on the sub-lease portion at rental rate paid by the head-tenant. Office equipment is based on the share of depreciation by reference to actual consumption. The office expenditure is charged on the share of the expenses on cost basis. The monthly charge is HK\$38,000.
- (ii) Styland Holdings Limited is a major shareholder of the Company and also holds 100% interest of Styland (Hong Kong) Limited.
- (iii) Advertising income on www.inworld.com.hk from December 2000 to March 2001 amounted to HK\$50,000 per month. The charge was the same as those charged to third parties customers.

Sale of computer software to Styland (Hong Kong) Limited was conducted as handling income with 2.39% gross profit margin.

The charge of the service income from IT project consultation was the same as those charged to third parties customers.

- (iv) The fee paid to New Great China Technology Holdings Limited, of which Mr. Chan Wai Lun was a director in last year, was for the provision of the information of advanced internet-based applications, professional opinion on web page design and development and the recruitment of members. The fee paid was previously agreed by Mr. Ngai Kwok Kin, Kevin and Mr. Chan Wai Lun on normal commercial terms and was deemed to be non-recurring in nature.
- (v) Cyber World Technology Limited was a wholly-owned subsidiary of Riverhill Holdings Limited in last year. Global Eagle Investments Limited, a wholly-owned subsidiary of Styland Holdings Limited, a major shareholder of the Company, holds approximately 28.63% interests in the issued share capital of Riverhill Holdings Limited, the shares of which are listed on the GEM. The charge was the same as those charged to third parties customers.
- (vi) Styland Holdings Limited also holds indirectly 100% interest of Ever-Long Securities Company Limited. Service income was charged for the provision of services rendered for IT infrastructure. In the opinion of the directors of the Company, the selling price was the same as those charged to third parties.

In the opinion of the directors of the Company, these transactions were conducted on normal commercial terms in normal course of business.

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## Notes to the Financial Statements

30th June 2002

### 23. COMMITMENTS

#### a) Capital commitments

As at 30th June 2002, the Group had the following capital commitments:

	2002 HK\$'000	2001 HK\$'000
Acquisition of property, plant and equipment		
- Contracted but not provided for	1,200	—
- Authorised but not contracted for	—	47
	<u>1,200</u>	<u>47</u>

The contracted amount was fully settled in July 2002.

#### b) Operating leases commitments

At the balance sheet date, the Group had commitments for future minimum lease payments in respect of land and buildings under non-cancellable operating leases which fall due as follows:

	2002 HK\$'000	2001 HK\$'000
Within one year	1,174	159
Within the second to the fifth year	1,000	145
	<u>2,174</u>	<u>304</u>

## Financial Summary

Results	Year ended 30th June		
	2000 HK\$'000	2001 HK\$'000	2002 HK\$'000
Turnover	209	6,498	6,746
(Loss)/profit from operations	(4,210)	83	(4,584)
Finance costs	(6)	(32)	—
(Loss)/profit before taxation	(4,216)	51	(4,584)
Taxation	—	—	—
(Loss)/profit before minority interests	(4,216)	51	(4,584)
Minority interests	—	—	142
(Loss)/profit attributable to shareholders	(4,216)	51	(4,442)
Assets and liabilities	2000 HK\$'000	2001 HK\$'000	2002 HK\$'000
Total assets	1,877	8,485	29,143
Total liabilities	(6,093)	(456)	(1,858)
Minority interests	—	—	(72)
Shareholders' funds	(4,216)	8,029	27,213

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## ➤ Notice of Annual General Meeting

**NOTICE IS HEREBY GIVEN THAT** an annual general meeting of the shareholders of Inworld Group Limited (the "Company") will be held at 3/F, Chinese Club Building, 21-22 Connaught Road Central, Central, Hong Kong on 23rd October 2002 at 11:00 a.m. for the purpose of considering and, if thought fit, passing the following resolutions as ordinary resolutions of the Company:

1. To receive and consider the audited financial statements and the reports of the Directors and auditors of the Company for the year ended 30th June 2002.
2. To re-elect retiring Directors and authorize the board of Directors to fix their remuneration.
3. To appoint auditors and authorize the Directors to fix their remuneration.
4. By way of special business, to consider and, if thought fit, pass with or without alterations, the following resolutions ("Resolutions") as ordinary resolutions:

**(1) THAT:**

- (a) subject to paragraph (c) below, pursuant to the Rules Governing the Listing of Securities on The Growth Enterprise Market of the Stock Exchange of Hong Kong Limited, the exercise by the Directors during the Relevant Period of all the powers of the Company to allot, issue and deal with unissued shares in the capital of the Company, securities convertible into such shares in the capital of the Company or securities convertible into such shares options, warrants or similar rights to subscribe for any shares or convertible securities and to make or grant offers, agreements and options which might require the exercise of such powers be and the same is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) above shall authorize 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;
- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to options or otherwise) by the Directors pursuant to the approval in paragraph (a) above, otherwise than pursuant to (i) a Rights Issue; or (ii) the grant of exercise of any option under the share option schemes of the Company or any other option, scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of the subsidiaries of shares or rights to acquire Shares; or (iii) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of dividend on shares in accordance with the memorandum and articles of association of the Company in force from time to time; or (iv) any issue of shares in the Company upon the exercise of rights of subscription or conversion under the terms of any warrants of the Company or any securities which are convertible into shares of the Company, shall not exceed the aggregate of:
  - (aa) 20% of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this Resolution; and

## ➤ Notice of Annual General Meeting

(bb) (if the Directors are so authorized by a separate ordinary resolution of the shareholders of the Company) the nominal amount of any share capital of the Company repurchased by the Company subsequent to the passing of this Resolution (up to a maximum equivalent to 10% of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this Resolution)

and the authority pursuant to paragraph (a) of this Resolution shall be limited accordingly; and

(d) for the purpose of this Resolution:

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

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the memorandum and articles of association of the Company, the Companies Law (2001 Second Revision) of the Cayman Islands to be held; and
- (iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the Directors by this resolution.

“Right Issue” means an offer of shares in the Company, or offer or issue of warrants, options or other securities giving rights to subscribe for shares open for a period fixed by the Directors to holders of shares in the Company on the register on a fixed record date in proportion to the holdings of shares (subject to such exclusion or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements, or having regard to any restrictions or obligations under the laws of, or the requirements of, or the expense or delay which may be involved in determining the existence or extent of any restrictions or obligations under the laws of, or the requirements or, any jurisdiction outside Hong Kong or any recognized regulatory body or any stock exchange outside Hong Kong).

### (2) THAT:

- (a) the exercise of the Directors during the Relevant Period of all powers of the Company to purchase its shares on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited or any other stock exchange on which the shares of the Company may be listed and recognized by the Securities and Futures Commission and The Stock Exchange of Hong Kong Limited for such purpose, and otherwise in accordance with the rules and regulations of the Securities and Futures Commission, The Stock Exchange of Hong Kong Limited, the memorandum and articles of association of the Company, the Companies Law (2001 Second Revision) of the Cayman Islands and all other applicable laws in this regard, be and the same is hereby generally and unconditionally approved;

## ➤ Notice of Annual General Meeting

- (b) the aggregate nominal amount of shares of the Company which may be purchased by the company pursuant to the approval in paragraph (a) during the Relevant Period shall not exceed 10% of the aggregate nominal amount of the issued share capital of the Company as at the date of the passing of this Resolution and the authority pursuant to paragraph (a) of this Resolution shall be limited accordingly; and
- (c) for the purpose of this Resolution, "Relevant Period" means the period from the date of the passing of this Resolution until whichever is the earliest of:
  - (i) the conclusion of the next annual general meeting of the Company;
  - (ii) the expiration of the period within which the next annual general meeting of the Company is required by the memorandum and articles of association of the Company, the Companies Law (2001 Second Revision) of the Cayman Islands to be held; and
  - (iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the Directors of the Company by this Resolution.

**(3) THAT** the Directors of the Company be and they are hereby authorized to exercise the authority referred to in paragraph (a) of Resolution no. 4(1) above in respect of the share capital of the Company referred to in subparagraph (bb) of paragraph (c) of such Resolution.

By Order of the Board  
**Inworld Group Limited**  
**Wang Chin Mong**  
*Company Secretary*

Hong Kong, 30th September 2002

*Head office and principal place of business:*  
3/F, Chinese Club Building  
21-22 Connaught Road Central  
Central, Hong Kong

*Register office:*  
P.O. Box 309  
Ugland House  
South Church Street  
George Town  
Grand Cayman  
Cayman Islands  
British West Indies



## ➤ Notice of Annual General Meeting

*Notes:*

1. A shareholder of the Company entitled to attend and vote at the meeting is entitled to appoint a person or persons (if he holds two or more Shares) as his proxy or proxies to attend and vote instead of him. A proxy need not be a shareholder of the Company.
2. To be valid, a form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power of attorney or authority must be deposited with the branch share registrar of the Company in Hong Kong, Tengis Limited, 4th Floor, Hutchison House, 10 Harcourt Road, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjourned meeting and in default thereof the form of proxy shall not be treated as valid. No instrument appointing shall be valid after the expiry of 12 months from the date of its execution.
3. Delivery of an instrument appointing a proxy shall not preclude a shareholder from attending and voting in person at the meeting if the shareholder so desires and in such event the instrument appointing a proxy shall be deemed to be revoked.