



IA International Holdings Limited
毅興科技國際控股有限公司*
(incorporated in Bermuda with limited liability)

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INTERIM REPORT 2003

* For identification purposes only

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

FINANCIAL RESULTS

The board of directors (the "Board") of the Company announces the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six and three months ended 30th September, 2003 together with the comparative unaudited figures for the corresponding periods in 2002 respectively as follows:

	Notes	Six months ended 30th September,		Three months ended 30th September,	
		2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
Turnover	2	54,104	38,070	16,148	23,320
Cost of sales		(48,335)	(30,698)	(13,866)	(18,882)
Gross profit		5,769	7,372	2,282	4,438
Other revenue		3	17	–	9
Distribution costs		(559)	(531)	(288)	(201)
Administrative expenses		(1,590)	(2,701)	(734)	(1,225)
Other operating expenses		(1,553)	(1,776)	(748)	(725)
Profit from operating activities		2,070	2,381	512	2,296
Finance costs		(22)	(209)	(2)	(142)
Profit before taxation	3	2,048	2,172	510	2,154
Taxation	4	(524)	(245)	(152)	(242)
Profit before minority interests		1,524	1,927	358	1,912
Minority interests		89	(68)	31	(66)
Net profit from ordinary activities attributable to shareholders		1,613	1,859	389	1,846
Earnings per share	5				
– Basic (cent)		0.54	0.62	0.13	0.62
– Diluted (cent)		N/A	N/A	N/A	N/A

Consolidated Balance Sheet

	<i>Notes</i>	As at 30th September, 2003 (Unaudited) HK\$'000	As at 31st March, 2003 (Audited) HK\$'000
NON-CURRENT ASSETS			
Fixed assets		1,540	1,724
CURRENT ASSETS			
Accounts receivable	6	22,779	18,230
Prepayments, deposits and other receivables		5,276	4,581
Cash and bank balances		7,447	9,049
Time deposits		18,330	25,709
		53,832	57,569
CURRENT LIABILITIES			
Accounts payable	7	9,995	12,967
Accrued expenses and other payables		421	1,384
Taxes payable		2,836	2,341
Bank overdrafts – secured		–	2,005
		13,252	18,697
NET CURRENT ASSETS		40,580	38,872
TOTAL ASSETS LESS CURRENT LIABILITIES		42,120	40,596
MINORITY INTERESTS		(2,037)	(2,126)
		40,083	38,470
CAPITAL AND RESERVES			
Issued capital		15,000	15,000
Reserves		25,083	23,470
		40,083	38,470

Consolidated Statement of Changes in Equity

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Retained earnings <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st April, 2002	15,000	5,902	6,015	149	7,241	34,307
Net profit for the period	–	–	–	–	1,859	1,859
At 30th September, 2002	15,000	5,902	6,015	149	9,100	36,166
At 1st April, 2003	15,000	5,902	6,015	149	11,404	38,470
Net profit for the period	–	–	–	–	1,613	1,613
At 30th September, 2003	15,000	5,902	6,015	149	13,017	40,083

Condensed Consolidated Cash Flow Statement

	Six months ended 30th September, 2003 (Unaudited) HK\$'000	Six months ended 30th September, 2002 (Unaudited) HK\$'000
Net cash used in operating activities	(6,953)	(80)
Net cash inflow/(outflow) from investing activities	7,356	(114)
Net cash flow from financing activities	–	–
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	403	(194)
Cash and cash equivalents at beginning of period	7,044	4,493
CASH AND CASH EQUIVALENTS AT END OF PERIOD	7,447	4,299
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	7,447	17,146
Bank overdrafts	–	(8,000)
Trust receipt loan with maturity of less than three months when advanced	–	(4,847)
	7,447	4,299

Notes:

1. Basis of presentation

The interim financial statements have been prepared under historical cost convention in accordance with accounting principles generally accepted in Hong Kong, Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants and the disclosure requirements of Hong Kong Companies Ordinance and the GEM Listing Rules.

The accounting policies and methods of computation used in the preparation of the interim accounts are consistent with those used in the annual accounts for the year ended 31st March, 2003 except that the Group has adopted the revised SSAP 12 "Income Taxes" issued by the Hong Kong Society of Accountants which is effective for accounting periods commencing on or after 1st January, 2003.

On adoption of the revised SSAP 12, deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred taxation is provided on temporary differences arising on investments in subsidiary companies, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

In prior periods, timing differences from the recognition for tax purposes of certain income and expenses in a different accounting period from that in which they are recognized in the financial statements. The tax effect of timing differences computed under the liability method is recognized as deferred taxation in the financial statements to the extent that it is probable that an asset or liability will crystallize in the foreseeable future.

The adoption of the SSAP 12 (revised) has had no material impact on the results of the Group for the current or prior accounting periods, no prior period adjustment is required.

All significant inter-company transactions and balances between group companies have been eliminated on consolidation.

2. Turnover and segment information

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

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

(a) Business segments

The following tables present revenue, results and certain assets, liabilities and expenditure information for the Group's business segments.

	Six months 30th September,					
	Internet appliances and related products		E-commerce platform and related services		Consolidated	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Turnover	51,536	36,089	2,568	1,981	54,104	38,070
Segment results	5,025	5,391	(809)	207	4,216	5,598
Other revenue					3	18
Net unallocated expenses					(2,149)	(3,235)
Profit from operating activities					2,070	2,381
Finance costs					(22)	(209)
Profit before taxation					2,048	2,172
Taxation					(524)	(245)
Profit before minority interests					1,524	1,927
Minority interests					89	(68)
Net profit from ordinary activities attributable to shareholders					1,613	1,859

	30th September,				Consolidated	
	Internet appliances and related products		E-commerce platform and related services			
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Assets						
Segment assets	26,835	15,635	-	988	26,835	16,623
Unallocated assets					28,537	38,550
Total assets					55,372	55,173
Liabilities						
Segment liabilities	9,995	6,529	-	-	9,995	6,529
Unallocated liabilities					3,257	10,212
Total liabilities					13,252	16,741
Other segment information:						
Depreciation – unallocated					210	317
Capital expenditure – unallocated					26	114

(b) Geographical segments

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

	Six months ended 30th September,							
	People's Republic of China ("PRC") (including Hong Kong)		United States of America ("US")		Others		Consolidated	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Segment revenue	54,104	33,913	-	4,157	-	-	54,104	38,070
Other segment information:								
Segment assets	55,372	55,173	-	-	-	-	55,372	55,173
Capital expenditure	26	114	-	-	-	-	26	114

3. Profit before taxation

The Group's profit before taxation is arrived at after charging the following:

	Six months ended 30th September,		Three months ended 30th September,	
	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
Interest on overdrafts and bank loans	22	209	2	142
Depreciation of fixed assets	210	317	105	163

4. Taxation

Hong Kong profits tax for the three months and six months ended 30th September, 2003 have been provided at 17.5% (three months and six months ended 30th September, 2002: 16%) on the estimated assessable profits arising in Hong Kong during the periods. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practice in respect thereof.

Deferred tax had not been provided for the Group because the Group had no significant temporary timing differences at the balance sheet date (31st March, 2003: Nil).

5. Earnings per share

The calculation of basic earnings per share is based on the unaudited net profit from ordinary activities attributable to shareholders for the three months and six months ended 30th September, 2003 of approximately HK\$389,000 and HK\$1,613,000, respectively, (three months and six months ended 30th September, 2002: approximately HK\$1,846,000 and HK\$1,859,000, respectively) and 300,000,000 shares in issue (three months and six months ended 30th September, 2002: 300,000,000 shares).

Diluted earnings per share is not presented as there were no diluting events existed during the three months and six months ended 30th September, 2003 and the corresponding periods in 2002.

6. Accounts receivable

The Group has a policy of allowing an average credit period of 31–90 days to its trade customers. The Group has strict control over its outstanding receivables to minimise credit risk and the overdue balance are reviewed regularly by senior management.

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

	30th September, 2003 (Unaudited) HK\$'000	31st March, 2003 (Audited) HK\$'000
Within 30 days	10,996	15,787
31 to 60 days	110	2,443
61 to 90 days	2,658	–
91 to 120 days	9,015	–
	22,779	18,230

7. Accounts payable

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

	30th September, 2003 (Unaudited) HK\$'000	31st March, 2003 (Audited) HK\$'000
Within 30 days	9,995	12,632
31 – 60 days	–	–
Over 61 days	–	335
	9,995	12,967

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30th September, 2003 (six months ended 30th September, 2002: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

General

The Group is principally engaged in the research, development and provision of information-on-demand (“IOD”) system solutions and the provision of related products and services. An IOD system solution enables internet users to obtain and process information via the internet.

The Group, based on the developed e-commerce platform, is working on the specific features for the targeted e-education segment, and is also improving its capabilities to supply internet appliances and strengthening its research and development capabilities.

FINANCIAL REVIEW

Results

For the six months ended 30th September, 2003

The Group has achieved a growth of approximately 42% in its turnover to approximately HK\$54 million for the six months ended 30th September, 2003 as compared to the corresponding period in previous year. The increase was attributable to the increase in the sales of internet appliances and related products. The gross profit margin decreased to approximately 10.7% from approximately 19.4% as compared to the corresponding period in previous year. The decrease in gross profit margin was mainly attributed to a decrease in average selling price due to intense competition and poor market generally.

The net profit from ordinary activities attributable to shareholders for the six months ended 30th September, 2003 amounted to approximately HK\$1,613,000, representing a decrease of approximately 13% as compared to the corresponding period in previous year. The decrease was attributable to the decrease in gross profit margin. In fact, administrative expense decreased from approximately HK\$2,701,000 to approximately HK\$1,590,000 as a result of the decrease in directors' remunerations and rental expenses in an effort to reduce operating costs of the Company.

For the three months ended 30th September, 2003

During the three months ended 30th September, 2003, the Group's turnover decreased by approximately 31% to approximately HK\$16 million as compared to the corresponding period in previous year. The decrease in turnover was attributable to the decrease in the quantity of internet appliances and related products sold compared to the corresponding period in previous year. The gross profit margin also decreased to approximately 14% from approximately 19% as compared to the corresponding period in previous year due to intense competition and sluggish market condition in general.

During the same period, the Group's net profit from ordinary activities attributable to shareholders decreased by approximately 79% to approximately HK\$389,000 as compared to the corresponding period in previous year. The decrease was attributable to the decrease in turnover and gross profit margin, despite a decrease in administrative expenses during the period.

Liquidity, financial resources and capital structure

As at 30th September, 2003, the Group had total assets of approximately HK\$55.4 million (31st March, 2003: approximately HK\$59.3 million), including cash and cash equivalents of approximately HK\$25.8 million (31st March, 2003: approximately HK\$34.8 million).

During the six months ended 30th September, 2003, the Group financed its operations mainly with its own working capital. As at 30th September, 2003, there was no bank overdraft (31st March, 2003: approximately HK\$2 million). There was no charge on the Group's assets between 31st March, 2003 and 30th September, 2003.

As at 30th September, 2003, the gearing ratio (defined as the ratio between total bank borrowings and total assets) was zero (31st March, 2003: approximately 0.03) and the Group had no borrowings stated at fixed interest rates (31st March, 2003: Nil).

Most of the transactions of the Group are denominated in US Dollars, Hong Kong Dollars and Renminbi. As the exchange rate of US Dollars and Renminbi to Hong Kong Dollars are fairly stable, the Directors are of the view that the exposure to foreign currency exchange risk is minimal. Hence, no hedging or other arrangements to reduce the currency risk have been implemented.

The shares of the Company were listed on GEM on 1st November, 2001. There has been no change in the capital structure of the Company since that date.

Segment information

The revenue of the Group comprises mainly sales of internet appliances and related products and service fees for the provision of the development of e-commerce platform and related services.

Revenue from the sales of internet appliances and related products increased by approximately 43% from the corresponding period in previous year to approximately HK\$51.5 million and that from the provision of the development of e-commerce platform and related services increased to approximately HK\$2.6 million from approximately HK\$2 million in the corresponding period in previous year.

As to the geographical segments, the Group only sold to the PRC market (including Hong Kong) during the six months ended 30th September, 2003 and sales to the PRC market have increased from approximately HK\$34 million in the six months ended 30th September, 2002 to approximately HK\$54 million in the six months ended 30th September, 2003. No sales to the US market was recorded in the six months ended 30th September, 2003 while approximately HK\$4 million was recorded in the six months ended 30th September, 2002.

Please also refer to note 2 in the section headed “Financial Results” to this report for the details of business and geographical segments.

New products and services

No new products were introduced during the three months ended 30th September, 2003. The Group continued to promote existing products and models and strengthen its ability to develop IOD system solution. The Group is developing an IOD system solution for a company in Hong Kong in the provision of various specialised courses in business operation and the prototype is expected to be developed around December 2003.

Significant investments

At 30th September, 2003, there was no significant investment held by the Group (31st March, 2003: Nil).

Material acquisitions or disposal of subsidiaries and affiliated companies

There were no material acquisitions or disposal of subsidiaries and affiliated companies in the course of the six months ended 30th September, 2003.

Future plans for material investments and expected source of funding

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

Contingent liabilities

The Company provided guarantees for the bank facilities granted to a wholly-owned subsidiary. Approximately HK\$9.6 million was utilised as at 30th September, 2003 (31st March, 2003: approximately HK\$12 million).

The Group had no other material contingent liabilities (31st March, 2003: Nil).

Employees and remuneration policies

As at 30th September, 2003, the Group had 48 (31st March, 2003: 51) full time employees. Total staff-costs (excluding directors' emoluments) amounted to approximately HK\$2 million for the six months ended 30th September, 2003. Remuneration is determined with reference to market terms and the performance, qualification and experience of individual employee. Year-end bonus based on individual performance will be paid to employees as recognition of and reward for their contributions. Other benefits include contributions to statutory mandatory provident fund scheme to its employees in Hong Kong and basic insurance for the elderly, basic medical insurance, work injury insurance and unemployment insurance to its employees in the PRC. To date, no share options have been granted to employees.

Prospects

For the six months ended 30th September, 2003, it was indeed challenging and difficult due to the outbreak of the Severe Acute Respiratory Syndrome ("SARS") in Hong Kong, Guangdong and Beijing in the PRC. As the outbreak of SARS is getting under control, the Group is cautiously optimistic about the prospects for the remaining of the financial year.

The Group will continue to explore new markets and develop new products and control its operating costs to stay competitive.

The Group will also continue to explore investment opportunities in the areas relating to the Group's existing operations so as to optimise the shareholders' interests.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

The following is a summary of the actual business progress of the Group compared with the business objectives set out in the prospectus of the Company dated 24th October, 2001 for the six months ended 30th September, 2003 (the "Review Period"):

BUSINESS OBJECTIVES AS STATED IN THE PROSPECTUS

ACTUAL BUSINESS PROGRESS/ CHANGE IN BUSINESS OBJECTIVES

1. Research and product development

Develop new models of Internet appliances which incorporates traditional electronic appliances with Internet related functions

- Portable iDVDs.
- Auto iDVDs.

Upgrade features of existing Internet appliance products

- Multiple disc functions for iDVDs.
- Wireless enhancement plug in module wireless Lan for iDVDs.

Develop the e-education application to be operated on the Group's e-commerce platform

- Programming to link e-commerce platform (education application) to Internet appliances.

The cost down version of iDVD has been developed for the prototype of the IOD System solution which will be rolled out in December, 2003. The Group continued to research and develop specifications for the portable iDVDs and the internet function for the auto DVDs.

The Group is continuing on the research and development of specifications for the multiple disc functions for iDVDs. Owing to some technical issues, the completion of the development has been delayed and is expected to be completed in late 2003.

The Group postponed the development of wireless enhancement plug in module wireless Lan for iDVDs so as to better allocate its human resources and minimize the operating costs. The postponement of the development has no material impact on the Group's operations.

The Group completed its initial programming work on the interface between the e-commerce platform (education application) to Internet appliances and trial run is being performed. The work is expected to be completed in December, 2003.

**BUSINESS OBJECTIVES AS STATED
IN THE PROSPECTUS**

Develop the e-entertainment application to be operated on the Group's e-commerce platform

- Programming to link e-commerce platform (entertainment application) to Internet appliances.

Upgrade several features of the Group's e-commerce platform such as payment system and security functions

- Programming to support payment using smart cards.
- Upgrading operation system to real time to enhance security functions.

Perform localization of the operation language according to the needs of the targeted market

- Developing applications in the Japanese language.

**ACTUAL BUSINESS PROGRESS/
CHANGE IN BUSINESS OBJECTIVES**

The Group has suspended the development of e-entertainment application as it was not commercially viable due to the high cost of royalties charged by entertainment content providers. The Directors do not expect the suspension to have material impact on the Group's operations. The Group was in the process of negotiation of the cost of royalties at the time of listing. As such, the level of the royalties costs could not be ascertained at the time of listing.

The Group is in the process of performing technical analysis for the interface between payment and security. The analysis is expected to be completed by the end of 2003.

To better utilise the limited human resources, the Group concentrated its resources on the development of applications using Chinese and English languages for the PRC and Hong Kong markets. The Group may reconsider developing applications in the Japanese language when the demand arises and resources are available in the future.

BUSINESS OBJECTIVES AS STATED IN THE PROSPECTUS

ACTUAL BUSINESS PROGRESS/ CHANGE IN BUSINESS OBJECTIVES

2. Business development

Negotiate and form alliances with content providers such as educational institutions and entertainment content providers in using the Group's Internet appliances products and e-commerce platform

- Japanese language institutions
- English language institutions
- Movie distributors
- Music distributors

Negotiate and form alliance with logistics service providers (e.g. transportation companies) for expanding service offering of the e-commerce platform.

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

3. Sales and marketing

Launch and promote the Group's Internet appliances

- Set-top box
- New and existing models of iDVDs
- Portable iDVDs
- Auto DVDs

Negotiate and form alliance, such as distributors with business partners for marketing and distribution of the Group's products.

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

The negotiation with an English and a Japanese language institution has been delayed as the agreement to the terms of the alliances have not been reached. The Group expects further time is required to negotiate and is scheduled to complete the negotiation before March, 2004. Negotiation with movie and music distributors have been suspended owing to the issues of royalties. The Directors do not expect the suspension to have material impact on the Group's operations.

In order to better allocate its human resources and minimize the operating costs, the Group postponed forming alliances with logistics service providers.

The Group is continuing to provide technical support for the operation of e-Tax platform.

The promotion and sales of set-top boxes, iDVDs and auto DVDs are continuing. Portable iDVDs are under development.

The Group has formed alliances with two customers in Hong Kong to market and distribute the Group's products to the PRC and overseas markets. The Group is continuing the negotiating work with potential business partners.

The Group continued to promote Internet appliance products through joint marketing with business partners in Hong Kong in the form of making presentations to and meetings with the Group's customers.

**BUSINESS OBJECTIVES AS STATED
IN THE PROSPECTUS**

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

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

Promote application of an Internet platform to governmental agencies in the PRC.

Launch and promote the e-education application of the Group's e-commerce platform to content providers such as educational institution.

**ACTUAL BUSINESS PROGRESS/
CHANGE IN BUSINESS OBJECTIVES**

The Group continues to introduce its existing products under the "IA" brandname to its existing customers through making sales presentations and seminars. No sales under "IA" brandname were made during the Review Period as all sales were made under customers' brand names. During the Review Period, the Group did not hold advertisements and trade exhibitions to promote the "IA" brandname as it was not cost effective to incur such costs due to the limited response from the customers. The Group considers making presentations and conducting seminars to introduce the "IA" brandname to be sufficient to test the market.

The Group and its business partner are continuing to promote the services of the e-Tax platform. However, due to the changes in personnel of the Shenzhen Tax Bureau, the implementation of the e-Tax platform was delayed. The e-Tax platform in Shenzhen has not been launched. Discussions with the business partner and the Shenzhen Tax Bureau are on-going. It is expected that the e-Tax platform will be launched by the end of the year. The Group has also used its expertise to assist the development of e-Tax platform for other governmental agencies in other parts of the PRC during the Review Period.

The Group promoted the application of Internet platform to governmental agencies by holding meetings and presentations and participated in the development of e-Tax platform for other governmental agencies in other parts of the PRC during the Review Period.

The Group is continuing to promote the e-education application to content providers by holding presentations to and meetings with content providers.

**BUSINESS OBJECTIVES AS STATED
IN THE PROSPECTUS**

Launch and promote the e-entertainment application of the Group's e-commerce platform to content providers such as movie distributors.

4. Geographical expansion

Negotiate with business partners in relation to operation in the PRC and other overseas markets.

Form jointly controlled entities or joint marketing/distribution arrangements with content providers in the PRC to promote both Internet appliances and e-commerce platform in the market.

Expansion into overseas markets such as the US and the Middle East by forming jointly controlled entities or joint marketing/distribution arrangements with distributors to promote both Internet appliances and e-commerce platform in the market.

5. Human resources deployment

Expand the research team by recruiting additional engineers.

**ACTUAL BUSINESS PROGRESS/
CHANGE IN BUSINESS OBJECTIVES**

The Group has suspended the promotion of e-entertainment applications as the e-entertainment application was not commercially viable due to the high cost of royalties charged by entertainment content providers. The Group was in the process of negotiation of the cost of royalties at the time of listing. As such, the level of the royalties costs could not be ascertained at the time of listing.

Negotiation is on-going and no plans have been agreed with any business partners in relation to the operation in the PRC and other overseas markets.

Negotiation is on-going with potential partners. No jointly controlled entities or joint marketing/distribution arrangements were formed as at 30th September, 2003 as the potential partners are in the process of conducting market feasibility studies for the PRC market.

To better allocate its resources and minimize the operating costs, the Group has suspended expansion into these markets. The Group may resume the expansion into these overseas markets when situations in the US and the Middle East improve further and the needs arise.

As at 30th September, 2003, the Group has 26 staff at the research and development department (31st March, 2003: 28). 22 and 4 are based in the PRC and Hong Kong offices, respectively.

**BUSINESS OBJECTIVES AS STATED
IN THE PROSPECTUS**

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

Set up branch offices in major cities in the PRC.

Set up sales team in main overseas markets such as the US and the Middle East.

**ACTUAL BUSINESS PROGRESS/
CHANGE IN BUSINESS OBJECTIVES**

As at 30th September, 2003, the Group has 8 staff at the sales and marketing department (31st March, 2003: 9). 4 and 4 are based in the PRC and Hong Kong offices, respectively. One sales staff left the PRC office and suitable replacement has yet been found.

In order to keep costs down, the Group is considering having representative offices or distributors in the PRC instead of setting up branch offices. As at 30th September, 2003, no representative offices were set up in the PRC. The Group considers that this would not have significant impact on the business operation.

To better allocate its resources and minimize the operating costs, the Group has suspended expansion into these markets. The Group may resume the expansion into these overseas markets when the situations in the US and the Middle East improve further and the needs arise.

USE OF PROCEEDS

The Company obtained net proceeds, after deducting related expenses, of approximately HK\$15 million from the placing of shares. During the periods from 1st April, 2003 to 30th September, 2003 and from 18th October, 2001 (Latest Practicable Date) to 30th September, 2003, the Group has applied the net proceeds as follows:

	1st April, 2003 to 30th September, 2003		18th October, 2001 to 30th September, 2003	
	Proposed <i>HK\$'000</i>	Actual <i>HK\$'000</i>	Proposed <i>HK\$'000</i>	Actual <i>HK\$'000</i>
Expenditure in relation to developing and enhancing the infrastructure of the Group's e-commerce platform, including upgrading existing equipment and purchasing new equipment	500	500	9,300	9,300
Expenditure in relation to marketing and brand building activities, including conducting seminars, direct marketing and advertising to promote the Group's overall image, services and products	500	500	3,000	3,000
Expenditure in relation to the research and development of the technology for developing Internet appliances and other relevant products	500	500	1,500	1,500
General working capital	–	–	700	700
Total	1,500	1,500	14,500	14,500

The remaining net proceeds as at 30th September, 2003 of approximately HK\$500,000 was placed on short-term interest bearing deposit with a bank in Hong Kong.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at 30th September, 2003, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) ("SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or as recorded in the register required to be kept by the Company under Section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealings by directors as referred to in Rules 5.40 to 5.58 of the GEM Listing Rules were as follows:

Director	Number of Shares					Total Interests
	Corporate Interests	Personal Interests	Family Interests	Other Interests		
Mr. Cheng Kwong Chung (Note)	225,000,000	-	-	-		225,000,000

Note:

These shares are registered in the name of Internet Appliances (Holdings) Limited. The issued share capital of Internet Appliances (Holdings) Limited is beneficially owned by Global Plus Ltd., Team Concept Limited, Perfect Chance Limited and IT Motion Corp. in the proportion of approximately 35%, 25%, 25% and 15% respectively. Global Plus Ltd. is wholly and beneficially owned by Mr. Cheng Kwong Chung.

Save as disclosed above, as at 30th September, 2003, none of the directors nor the chief executive of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be recorded in the register kept by the Company under Section 352 of the SFO, or otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDERS

As at 30th September, 2003, the interests and short positions of persons, other than a director or chief executive of the Company, in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote on all circumstances at general meetings of any other members of the Group, or substantial shareholders as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

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

Note:

These shares are registered in the name of Internet Appliances (Holdings) Limited. The issued share capital of Internet Appliances (Holdings) Limited is beneficially owned by Global Plus Ltd., Team Concept Limited, Perfect Chance Limited and IT Motion Corp. in the proportion of approximately 35%, 25%, 25% and 15% respectively. Global Plus Ltd. is wholly and beneficially owned by Mr. Cheng Kwong Chung.

Save as disclosed above, as at 30th September, 2003, the directors or chief executive of the Company were not aware of any other person (other than the directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote on all circumstances at general meetings of any other members of the Group, or any other substantial shareholders whose interests or short positions were recorded in the register required to be kept by the Company under section 336 of the SFO.

SHARE OPTION SCHEME

The Company adopted the Share Option Scheme under which share options to subscribe for the shares of the Company may be granted under the terms and conditions stipulated therein. As at 30th September, 2003, no share option was granted under the Share Option Scheme.

DIRECTORS' RIGHTS TO ACQUIRE SECURITIES

Apart from as disclosed under the heading "Directors' and chief executive's interests in securities" above, at no time since the incorporation of the Company was the Company or any of its subsidiaries a party to any arrangements to enable the directors and/or the chief executive of the Company to acquire benefits by means of the acquisition of shares in, or debt securities, including debentures, of the Company or any other body corporate and none of the directors nor chief executive of the Company or their spouses or children under the age of 18 had any rights to subscribe for the securities of the Company, or had exercised any such rights.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 30th September, 2003, there were no purchases, sales or redemptions of the Company's listed securities by the Company or any of its subsidiaries.

COMPETING INTERESTS

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

INTEREST OF SPONSOR

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

As notified by the Sponsor, as at 30th September, 2003, neither the Sponsor nor its directors or employees or associates, had any interests in the securities of the Company or any member of the Group, or any rights to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group.

COMPLIANCE WITH RULES 5.28 TO 5.39 OF THE GEM LISTING RULES

During the six months ended 30th September, 2003, the Company has complied with the Board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules.

AUDIT COMMITTEE

The Company established an audit committee on 18th October, 2001 with written terms of reference in compliance with the GEM Listing Rules. The primary duties of the audit committee are to review and to provide supervision over the financial reporting process and internal control system of the Group. Pursuant to the appointment of Mr. Gui Gan as an audit committee member on 16th September, 2003 and the resignation of Mr. Chung Tung San on 1st October, 2003, the audit committee now comprises two independent non-executive Directors, namely, Ms. Leung Wai Ling, Wylie and Mr. Gui Gan. The Group's unaudited results for the six months ended 30th September, 2003 have been reviewed by the audit committee who was of the opinion that the preparation of such results complied with the applicable accounting standards, the Stock Exchange and legal requirements and that adequate disclosures have been made.

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

Hong Kong, 7th November, 2003