



**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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**ANNUAL REPORT 2004-2005**

## **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 of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed companies.

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## 2 Corporate Information

### Board of Directors

#### *Executive Directors*

Li Ting (Chairman)

Zhang Fulin (Deputy Chairman)

#### *Independent Non-executive Directors*

Leung Wai Ling, Wylie

Gui Gan

Guo Wen Hong

### Company Secretary

Lui Mui Ching, CPA (Aust.), HKICPA

### Qualified Accountant

Lui Mui Ching, CPA (Aust.), HKICPA

### Compliance Officer

Li Ting

### Authorised Representatives

Li Ting

Zhang Fulin

### Audit Committee

Leung Wai Ling, Wylie

Gui Gan

Guo Wen Hong

### Auditors

Baker Tilly Hong Kong Limited

*Certified Public Accountants*

### Legal Adviser

Vincent T.K. Cheung, Yap & Co.

### Principal Banker

Standard Chartered Bank (Hong Kong) Limited

### Registered Office

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

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

Units 1001-1004

10th Floor

238 Nathan Road

Kowloon

Hong Kong

### Principal Place of Business in China

中國深圳市福田區八卦一路

郵電大廈十三樓

### Share Registrars and Transfer Offices

#### *Principal registrar*

The Bank of Bermuda Limited

Bank of Bermuda Building

6 Front Street

Hamilton HM 11

Bermuda

#### *Branch registrar*

Tengis Limited

Ground Floor

Bank of East Asia Harbour View Centre

56 Gloucester Road

Wanchai

Hong Kong

### Stock Code

8047

On behalf of the board of directors (the "Board"), we hereby present the Annual Report of IA International Holdings Limited (the "Company") and its subsidiaries (together, the "Group") for the year ended 31st March, 2005 to our shareholders.

## Market Overview

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.

Due to the slower than expected development progress of the Group's IOD system, whilst the sales of internet appliances and related products decreased substantially during the year owing to intense competition in the electronic business and some quality problems, the Group recorded losses in the year under review. The Group's turnover amounted to approximately HK\$38.9 million, a decrease of approximately 59.9% from the previous corresponding year. Losses attributable to shareholders were approximately HK\$23.1 million as compared with a profit of approximately HK\$1.5 million in the previous corresponding year.

The Group completed the development of the IOD system for e-education segment, but market response was less than desirable. The Group's involvement in the e-Tax platform development in Shenzhen also encountered problems after the change of management in the Shenzhen Tax Bureau. Quality problems were encountered in some internet appliances developed by the Group. As a result of these, the Board reviewed the Group's position and will take conservative and cautious steps to seek more viable business opportunities and to improve the quality of the Group's products. The Group will undergo some business restructuring and diversify its products mix to aim to seek more stable revenue sources. Cost and quality controls are also areas that the Group will commit itself to.

## Financial Overview

The Group recorded a decline of approximately 59.9% in its turnover for the year ended 31st March, 2005 to approximately HK\$38.9 million compared to the previous corresponding year. The Group's turnover comprises turnover from the internet appliances and related products and income from the development of e-commerce platform and related services. Turnover from the internet appliances and related products segment recorded a decrease of approximately 57.8% in the current year compared to the previous corresponding year owing to intense competition and sales discounts. Income from the development of e-commerce platform and related services recorded a decrease of approximately 79.0% in the current year compared to the previous corresponding year. This was due to the decrease in services fee from the development of various internet platforms in the People's Republic of China ("PRC").

The Group recorded a gross loss in the current year owing to quality problems in some products developed, as a result, sales discounts were given. The Group also recorded a general decrease in selling prices due to intense competition. Gross profit margin of approximately 10.2% was recorded in the previous corresponding year.

## 4 Chairman's Statement

Net loss from ordinary activities attributable to shareholders for the year ended 31st March, 2005 amounted to approximately HK\$23.1 million (2004: net profit of approximately HK\$1.5 million). Losses during the year were mainly attributed to decrease in sales and gross profit, provision for impairment loss of investments, loss on disposals of fixed assets and provision for bad and doubtful debts.

### **Prospects and Appreciation**

The Group is cautiously optimistic about the prospects of the Group for the coming year owing to the expected upward trends in interest rates in the United States and the PRC, and the intense competition in the electronics business. Going forward, the Group will look for other opportunities to diversify its revenue base, explore new markets and develop new products. The Group will also continue to explore investment opportunities so as to optimize its shareholders' interests.

Finally, on behalf of the Board, I would like to take this opportunity to express my gratitude to all members of the Board and staff for their dedication and contribution to the Group and to those who have supported us. We will continue to make our best efforts in developing our businesses to produce good economic results and better return for our shareholders.

**Li Ting**

*Chairman*

Hong Kong, 10th June, 2005

## **Business Review**

### **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.

Due to the slower than expected development progress of the Group's IOD system, whilst the sales of internet appliances and related products decreased substantially during the year owing to intense competition in the electronic business and some quality problems, the Group recorded losses in the year under review.

The Group completed the development of the IOD system for e-education segment, but market response was less than desirable. The Group's involvement in the e-Tax platform development in Shenzhen also encountered problems after the change of management in the Shenzhen Tax Bureau. Quality problems were encountered in some internet appliances developed by the Group. As a result of these, the Board reviewed the Group's position and will take conservative and cautious steps to seek more viable business opportunities and to improve the quality of the Group's products. The Group will undergo some business restructuring and diversify its products mix to aim to seek more stable revenue sources. Cost and quality controls are also areas that the Group will commit itself to.

## **Financial Review**

### **Results**

The Group recorded a decline of approximately 59.9% in its turnover for the year ended 31st March, 2005 to approximately HK\$38.9 million compared to the previous corresponding year. The Group's turnover comprises turnover from the internet appliances and related products and income from the development of e-commerce platform and related services. Turnover from the internet appliances and related products segment recorded a decrease of approximately 57.8% in the current year compared to the previous corresponding year owing to intense competition and sales discounts. Income from the development of e-commerce platform and related services recorded a decrease of approximately 79.0% in the current year compared to the previous corresponding year. This was due to the decrease in services fee from the development of various internet platforms in the PRC.

The Group recorded a gross loss in the current year owing to quality problems in some products developed, as a result, sales discounts were given. The Group also recorded a general decrease in selling prices due to intense competition. Gross profit margin of approximately 10.2% was recorded in the previous corresponding year.



## 6 Management Discussion and Analysis

Net loss from ordinary activities attributable to shareholders for the year ended 31st March, 2005 amounted to approximately HK\$23.1 million (2004: net profit of approximately HK\$1.5 million). Losses during the year were mainly attributed to decrease in sales and gross profit, provision for impairment loss of investments, loss on disposals of fixed assets and provision for bad and doubtful debts.

### **Liquidity, financial resources and capital structure**

As at 31st March, 2005, the Group had total assets of approximately HK\$29.9 million (2004: approximately HK\$54.4 million), including net cash and bank balances of approximately HK\$78,000 (2004: approximately HK\$9.3 million).

For the year ended 31st March, 2005, the Group financed its operations mainly with its own working capital and was granted general banking facilities of HK\$10 million (2004: HK\$10 million). Approximately HK\$8.2 million was utilised at the balance sheet date (2004: Nil). There was no charge on the Group's assets as at 31st March, 2004 and 2005.

As at 31st March, 2005, the gearing ratio (defined as the ratio between total bank borrowings and total assets) was 0.27 (2004: Zero). The Group had bank borrowings of approximately HK\$8.2 million as at 31st March, 2005 (2004: Nil). The Group had no borrowings stated at fixed interest rates at the balance sheet date (2004: Nil).

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

### **Segment information**

The revenue of the Group comprises the sales of internet appliances and related products and services fee from the provision of the development of e-commerce platforms and related services.

Revenue from the sales of internet appliances and related products decreased by approximately 57.8% to approximately HK\$36.9 million and that from the provision of the development of e-commerce platform and related services decreased to approximately HK\$2.0 million, a decrease of approximately 79.0% compared to the previous corresponding year.

As to the geographical segments, all sales of the Group were generated in the PRC market during the year ended 31st March, 2004 and 2005.

Please also refer to note 4 to the financial statements in this annual report for details of segment information.



## **New products and services**

The Group continued to develop new products to increase its products range and strengthen its competitive position during the year.

The Group also continued to receive services fee from the development of internet platforms for governmental agencies in the PRC during the year, in some cases, working hand in hand with a business partner in the PRC and will continue to promote the development of internet platforms to other governmental agencies in the PRC.

## **Significant investments**

As at 31st March, 2005, other than the investment in the listed securities of a company listed in Hong Kong detailed in note 15 to the financial statements in this annual report, the Group did not have any other significant investments. A provision of approximately HK\$8.2 million has been made for the impairment in value during the year.

## **Material acquisitions or disposals of subsidiaries and affiliated companies**

Other than the investments as described in note 16 to the financial statements in this annual report, there were no material acquisitions or disposals of subsidiaries and affiliated companies during the year.

## **Future plans for material investments and expected source of funding**

As at 31st March, 2005, the Group did not have any plan for material investment or acquisition of material capital assets. However, the Group is constantly looking for opportunities for investments or capital assets to enhance shareholders' value.

## **Contingent liabilities**

The Company had provided guarantees for the bank facilities granted to a wholly-owned subsidiary. Approximately HK\$8.1 million was utilised as at 31st March, 2005 (2004: Nil).

The Group had no other material contingent liabilities (2004: Nil).

## 8 Management Discussion and Analysis

### **Employees and remuneration policies**

As at 31st March, 2005, the Group had 32 (2004: 42) employees including directors. Total staff costs (excluding directors' emoluments) amounted to approximately HK\$2.5 million for the year ended 31st March, 2005 (2004: approximately HK\$3.8 million). 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.

## Executive Directors

*Li Ting*, aged 39, was appointed as the chairman of the Group on 1st June, 2004. He is also an executive director of the Company since June 2003. Mr. Li is responsible for business development in the PRC. Prior to joining the Group, Mr. Li worked for a private technology company as a general manager in the PRC. He graduated with a bachelor degree in economics in 1989 from Nanjing University in the PRC. He was appointed as an independent non-executive director on 3rd March, 2003 and was re-designated as an executive director with effect from 1st June, 2003.

*Zhang Fulin*, aged 38, was appointed as the deputy chairman of the Group on 1st June, 2004. He is also the Chief Executive Officer and Chief Technical Officer of the Group. He was appointed as a director in June 2001. Mr. Zhang is responsible for the design, research and development functions of the Group. He holds a degree in the design of telecommunication equipment from the South East University, the PRC. Prior to joining the Group in May 2000, Mr. Zhang worked as the general manager and head of system design and programming in a system design and engineering company in the PRC. Mr. Zhang has over ten years of experience in the system design, engineering and software programming.

## Independent Non-Executive Directors

*Leung Wai Ling, Wylie*, aged 38, holds a bachelor degree in business administration from the City University of New York in the US. She is currently an accounting and administration manager for an international trading and manufacturing company in Hong Kong. Ms. Leung has more than ten years of experience in accounting, audit and finance. She was appointed as the Company's independent non-executive director in June 2001.

*Gui Gan*, aged 38, holds a master degree of business administration in international management from American Graduate School of International Management. He has held various managerial positions in companies in the PRC and the US. He is currently a deputy general manager of an import/export company in the PRC. He was appointed as the Company's independent non-executive director on 16th September, 2003.

*Guo Wen Hong*, aged 36, holds a bachelor degree in Chinese history from Wuhan University in July 1989 and completed a course in business management in November 1997. She worked in various departments of a duty free company in Shenzhen during the period from April 1991 to September 2003 including personnel, training, and merchandise management department. She then worked in the advertisement department of a newspaper publication company in Shenzhen since September 2003. She is also an independent non-executive director and audit committee member of Vaso Digital International Holdings Limited since August 2004. She was appointed as the Company's independent non-executive director in September 2004.

## 10 Directors and Senior Management

### Senior Management

*Chiu Ting San*, aged 51, is an ex-director of the Company and co-founder of the Group. He resigned as an executive director of the Company effective from 31st December, 2003 so that he could allocate more time to his other private investments. He is now responsible for overseeing the production functions of the Group. Mr. Chiu holds a master of business administration degree from the University of Hull, United Kingdom. Mr. Chiu has over twenty years experience in production and management. Before founding the Group, Mr. Chiu was a director and general manager of an electronic manufacturing company in Hong Kong.

*Cheng Kwong Chung*, aged 40, is an ex-director of the Company and co-founder of the Group. He resigned as an executive director of the Company effective from 1st June, 2004 due to health reason. He is now responsible for the research, development and marketing of the IOD system solutions. Mr. Cheng holds a bachelor of engineering degree in electronics engineering from the Hong Kong Polytechnic University in Hong Kong. Mr. Cheng has over ten years experience in sales and marketing and over five years in software programming. Before founding the Group, Mr. Cheng worked as a general manager for an electronic trading company in Hong Kong.

*Lui Mui Ching*, aged 42, is the qualified accountant and company secretary of the Group. Ms. Lui is responsible for the financial management and accounting functions of the Group. She is a member of the Hong Kong Institute of Certified Public Accountants and the CPA Australia. Ms. Lui has more than twenty years experience in accounting and secretarial fields and prior to joining the Group in January 2004, she worked as an accountant in a private trading company in Hong Kong.

*Feng Jian (馮劍)*, aged 31, is the project manager in the PRC. He is responsible for the research and development functions. He holds a bachelor degree in electronics and information science (計算機及應用) from Xian Petroleum institute (西安石油學院) in the PRC. Prior to joining the Group in February 2002, he was responsible for system analysis, design and development for a software technology company in the PRC. He has over six years experience in system analysis, design and development.

*Leung Kwok Shing, Norman*, aged 33, is the project manager of the Group in Hong Kong. He is responsible for the research and development functions of the Group in Hong Kong. He holds a bachelor of computer science degree from the Monash University in Australia and has more than ten years experience in research and development. Prior to joining the Group in December 2002, he worked as a technical manager in a software system company responsible for product development and customisation.

The directors herein present their annual report and the audited financial statements of IA International Holdings Limited (the "Company") and its subsidiaries (together, the "Group") for the year ended 31st March, 2005.

## **PRINCIPAL ACTIVITIES**

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 16 to the financial statements. There have been no changes in the nature of the Group's principal activities during the year.

## **SEGMENT INFORMATION**

An analysis of the Group's turnover and contribution to results by principal activity and geographical area of operations for the year ended 31st March, 2005 is set out in note 4 to the financial statements.

## **RESULTS AND DIVIDENDS**

The Group's loss for the year ended 31st March, 2005 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 20 to 48.

The directors do not recommend any dividends during the year.

## 12 Report of the Directors

### SUMMARY FINANCIAL INFORMATION

The following is a summary of the published results of the Group for each of the five years ended 31st March, 2005 and of the assets, liabilities and minority interests of the Group as at 31st March, 2005, 2004, 2003, 2002 and 2001 prepared on the basis set out in the note below.

#### Consolidated results

	Year ended 31st March,				
	2005	2004	2003	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	<b>38,864</b>	96,804	104,385	49,330	37,136
(Loss)/Profit before taxation	<b>(25,110)</b>	2,752	5,062	4,694	6,835
Taxation	<b>1,841</b>	(1,221)	(971)	(817)	(1,166)
(Loss)/Profit before minority interests	<b>(23,269)</b>	1,531	4,091	3,877	5,669
Minority interests	<b>126</b>	1	72	(198)	–
Net (loss)/profit from ordinary activities attributable to shareholders	<b>(23,143)</b>	1,532	4,163	3,679	5,669

#### Consolidated assets, liabilities and minority interests

	As at 31st March,				
	2005	2004	2003	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Total assets	<b>29,935</b>	54,432	59,293	45,666	17,743
Total liabilities	<b>(11,118)</b>	(11,065)	(18,697)	(9,161)	(8,167)
Minority interests	<b>(1,999)</b>	(2,125)	(2,126)	(2,198)	–
	<b>16,818</b>	41,242	38,470	34,307	9,576

Note: The summary of the combined results of the Group for the year ended 31st March, 2001 was extracted from the prospectus of the Company dated 24th October, 2001. Such summary was prepared as if the current Group structure had been in existence throughout the financial year. The results of the Group for the years ended 31st March, 2004 and 2005 are those set out on page 20 of the financial statements.

**FIXED ASSETS**

Details of movements in the fixed assets of the Group during the year are set out in note 14 to the financial statements.

**SHARE CAPITAL**

Details of movements in the Company's issued share capital are set out in note 20 to the financial statements.

**PRE-EMPTIVE RIGHTS**

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

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

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

**RESERVES**

Details of movements in the reserves of the Company and the Group during the year are set out in the statement of changes in equity on page 23 of and in note 21 to the financial statements.

**DISTRIBUTABLE RESERVES**

As at 31st March, 2005, the Company's reserves available for cash distribution and/or distribution in specie amounted to HK\$12,561,000 (2004: HK\$12,611,000), as computed in accordance with the Companies Act 1981 of Bermuda. In addition, the Company's share premium account with a balance of HK\$5,902,000 as at 31st March, 2005 (2004: HK\$5,902,000) may be distributed in the form of fully paid bonus shares.

**MAJOR CUSTOMERS AND SUPPLIERS**

During the year, sales to the Group's five largest customers accounted for 84% (2004: 90%) of the total sales for the year and sales to the largest customer included therein amounted to 24% (2004: 24%). Purchases from the Group's five largest suppliers accounted for 99% (2004: 98%) of the total purchases for the year and purchases from the Group's largest supplier included therein accounted for 75% (2004: 44%) of the total purchases for the year.

As far as the directors are aware, neither the directors of the Company, any of their associates nor any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interests in the Group's five largest customers and suppliers during the year.



## 14 Report of the Directors

### **DIRECTORS**

The directors of the Company during the year and up to the date of this report were:

#### **Executive directors:**

Li Ting (*Chairman*)

Zhang Fulin (*Deputy chairman*)

#### **Independent non-executive directors:**

Leung Wai Ling, Wylie

Gui Gan

Guo Wen Hong (appointed on 30th September, 2004)

In accordance with Bye-law 87 of the Company's bye-laws, Zhang Fulin will retire by rotation at the forthcoming annual general meeting and, being eligible, offer himself for re-election.

In accordance with Bye-law 86(2) of the Company's bye-law, Guo Wen Hong will hold office only until the forthcoming annual general meeting of the Company and, being eligible, offer herself for re-election.

The Company confirmed that it has received from each of its independent non-executive directors an annual confirmation of his/her independence pursuant to Rule 5.09 of the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "GEM Listing Rules") and it still considered them to be independent as at the date of this report.

### **DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES**

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 9 to 10 of the Company's annual report.

### **DIRECTORS' SERVICE CONTRACTS**

Li Ting and Zhang Fulin entered into directors' service contracts with the Company, for an initial term of two years commencing from 1st June, 2004, which will continue thereafter until terminated by either party giving not less than three months' notice in writing to the other party.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

### **DIRECTORS' INTERESTS IN CONTRACTS**

No director had a significant beneficial interest, either direct or indirect, in any contract of significance to the business of the Group to which the Company, its holding company or any of its subsidiaries was a party during the year.

## DIRECTORS' INTERESTS IN SHARES

As at 31st March, 2005, 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 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 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 5.46 to 5.67 of the GEM Listing Rules.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the heading "Directors' interests in shares" above, at no time since incorporation of the Company were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company or of any other body corporate granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, its holding company or any of its subsidiaries a party to any arrangement to enable the director, their respective spouse or children under 18 years of age to acquire such rights in any other body corporate.

## SUBSTANTIAL SHAREHOLDERS

As at 31st March, 2005, 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 10% or more of the nominal value of any class of share capital carrying rights to vote in 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%

## 16 Report of the Directors

*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.

Save as disclosed above, as at 31st March, 2005, 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 Division 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 in 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 operates a share option scheme (the "Scheme") for the purpose of recognising significant contributions of the employees of the Group to the growth of the Group, by rewarding them with opportunities to obtain an ownership interest in the Company and to further motivate and give an incentive to these persons to continue to contribute to the Group's long term success and prosperity.

Eligible participants of the Scheme include any employees, consultants, suppliers or customers of the Company and its subsidiaries, including any independent non-executive directors of the Company. The Scheme became effective on 1st November, 2001 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period up to the date of grant, is limited to 1% of the shares of the Company in issue at that date of grant. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

The offer of a grant of share options may be accepted in writing within 21 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. Any share option may be exercised in accordance with the terms of the Scheme at any time during a period to be notified by the board of directors to an eligible participant but may not be exercised after the expiry of 10 years from the date of grant of the share option.

The exercise price of the share options is determinable by the board of directors, but may not be less than the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of offer of the option, which must be a business day, (ii) the average of the closing prices of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of offer of the option, or (iii) the nominal value of the Company's shares on the date of offer.

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

## **CORPORATE GOVERNANCE**

The Company has complied with the board's practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules of the Stock Exchange during the year.

The board's practices and procedures set out in Rules 5.35 to 5.45 of the GEM Listing Rules of the Stock Exchange were replaced by the Code on Corporate Governance Practices (the "CCGP") as set out in Appendix 15 of GEM Listing Rules of the Stock Exchange which has become effective for accounting periods commencing on or after 1st January, 2005. Appropriate actions are being taken by the Company for complying with the CCGP.

## **AUDIT COMMITTEE**

The Company set up an audit committee (the "Committee") on 18th October, 2001, with written terms of reference in compliance with the GEM Listing Rules, for the purpose of reviewing and providing supervision over the financial reporting process and internal control of the Group. The Committee currently comprises the three independent non-executive directors of the Company, namely, Ms. Leung Wai Ling, Wylie, Mr. Gui Gan and Ms. Guo Wen Hong (appointed with effect from 30th September, 2004). During the year, the audit committee held four meetings to review and supervise the financial reporting process, and to provide advice and recommendations to the board of directors. The financial statements of the Group for the year ended 31st March, 2005 have been reviewed by the Committee, who is of the opinion that such statements comply with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures have been made.

## 18 Report of the Directors

### **AUDITORS**

The financial statements have been audited by Baker Tilly Hong Kong Limited who will retire and being eligible, offer themselves for re-appointment at the forthcoming annual general meeting of the Company.

ON BEHALF OF THE BOARD

**Li Ting**

*Chairman*

Hong Kong

10th June, 2005

## **AUDITORS' REPORT TO THE MEMBERS OF IA INTERNATIONAL HOLDINGS LIMITED**

*(Incorporated in Bermuda with limited liability)*

We have audited the financial statements on pages 20 to 48 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

### **Respective responsibilities of directors and auditors**

The Hong Kong Companies Ordinance requires the directors to prepare 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 solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### **Basis of opinion**

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public 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 Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

### **Opinion**

In our opinion the financial statements give a true and fair view of the state of the affairs of the Company and of the Group as at 31st March, 2005 and of the Group's loss and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

## **BAKER TILLY HONG KONG LIMITED**

*Certified Public Accountants*

Hong Kong, 10th June, 2005

### **Chan Cheuk Chi**

Practising Certificate number P01137

# 20 Consolidated Income Statement

For the year ended 31st March, 2005

	Notes	2005 HK\$'000	2004 HK\$'000
<b>TURNOVER</b>	5	<b>38,864</b>	96,804
Cost of sales		<b>(42,035)</b>	(86,938)
Gross (loss)/profit		<b>(3,171)</b>	9,866
Other revenue	6	<b>250</b>	937
Distribution costs		<b>(626)</b>	(976)
Administrative expenses		<b>(4,033)</b>	(3,953)
Provision for bad and doubtful debts	7	<b>(3,093)</b>	(56)
Other operating expenses		<b>(2,085)</b>	(3,044)
<b>(LOSS)/PROFIT FROM OPERATING ACTIVITIES</b>	7	<b>(12,758)</b>	2,774
Loss on disposals of fixed assets	14	<b>(3,910)</b>	–
Provision for impairment loss of other investments	15	<b>(8,223)</b>	–
Finance costs	8	<b>(219)</b>	(22)
<b>(LOSS)/PROFIT BEFORE TAXATION</b>		<b>(25,110)</b>	2,752
Taxation	10	<b>1,841</b>	(1,221)
<b>(LOSS)/PROFIT BEFORE MINORITY INTERESTS</b>		<b>(23,269)</b>	1,531
Minority interests		<b>126</b>	1
<b>NET (LOSS)/PROFIT FROM ORDINARY ACTIVITIES</b>			
<b>ATTRIBUTABLE TO SHAREHOLDERS</b>	11	<b>(23,143)</b>	1,532
<b>DIVIDENDS</b>	12	–	–
<b>(LOSS)/EARNINGS PER SHARE</b>	13		
– Basic (cent)		<b>(7.71)</b>	0.51
– Diluted (cent)		<b>N/A</b>	N/A

The accompanying notes form an integral part of these financial statements.



# Consolidated Balance Sheet 21

As at 31st March, 2005

	Notes	2005 HK\$'000	2004 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Fixed assets	14	8,022	9,199
Other investments	15	1,377	10,800
Deferred tax assets, net	22	1,646	–
		<b>11,045</b>	19,999
<b>CURRENT ASSETS</b>			
Accounts receivable	17	12,175	23,268
Prepayments, deposits and other receivables		5,626	1,909
Tax refundable		927	–
Cash and bank balances		162	9,256
		<b>18,890</b>	34,433
<b>CURRENT LIABILITIES</b>			
Accounts payable	18	541	4,969
Bills payable	19	8,084	–
Accrued expenses and other payables		1,331	4,051
Taxes payable		1,078	2,045
Bank overdrafts – unsecured		84	–
		<b>11,118</b>	11,065
<b>NET CURRENT ASSETS</b>		<b>7,772</b>	23,368
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>18,817</b>	43,367
<b>MINORITY INTERESTS</b>		<b>(1,999)</b>	(2,125)
		<b>16,818</b>	41,242
<b>CAPITAL AND RESERVES</b>			
Issued capital	20	15,000	15,000
Reserves	21	1,818	26,242
		<b>16,818</b>	41,242

Li Ting  
Director

Zhang Fulin  
Director

The accompanying notes form an integral part of these financial statements.

## 22 Balance Sheet

As at 31st March, 2005

	Notes	2005 HK\$'000	2004 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Investments in subsidiaries	16	13,172	13,172
<b>CURRENT ASSETS</b>			
Amounts due from subsidiaries	16	20,381	20,360
Cash and bank balances		5	6
		<b>20,386</b>	20,366
<b>CURRENT LIABILITIES</b>			
Accrued expenses and other payables		95	25
<b>NET CURRENT ASSETS</b>		<b>20,291</b>	20,341
<b>NET ASSETS</b>		<b>33,463</b>	33,513
<b>CAPITAL AND RESERVES</b>			
Issued capital	20	15,000	15,000
Reserves	21	18,463	18,513
		<b>33,463</b>	33,513

**Li Ting**  
*Director*

**Zhang Fulin**  
*Director*

The accompanying notes form an integral part of these financial statements.

# Statement of Changes in Equity of the Group and the Company 23

For the year ended 31st March, 2005

## Group

	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000	Exchange reserve HK\$'000	Capital reserve HK\$'000	Retained profit/ (Accumulated loss) HK\$'000	Total HK\$'000
Balance at 1st April, 2003	15,000	5,902	6,015	149	-	11,404	38,470
Arising on consolidation of a subsidiary company	-	-	-	40	-	-	40
Negative goodwill	-	-	-	-	1,200	-	1,200
Net profit for the year	-	-	-	-	-	1,532	1,532
Balance at 31st March, 2004	15,000	5,902	6,015	189	1,200	12,936	41,242
Arising on consolidation of a subsidiary company	-	-	-	(81)	-	-	(81)
Negative goodwill transfer to other investments (Note 15)	-	-	-	-	(1,200)	-	(1,200)
Net loss for the year	-	-	-	-	-	(23,143)	(23,143)
Balance at 31st March, 2005	15,000	5,902	6,015	108	-	(10,207)	16,818

## Company

	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000	Accumulated loss HK\$'000	Total HK\$'000
Balance at 1st April, 2003	15,000	5,902	12,947	(480)	33,369
Net profit for the year	-	-	-	144	144
Balance at 31st March, 2004	15,000	5,902	12,947	(336)	33,513
Net loss for the year	-	-	-	(50)	(50)
Balance at 31st March, 2005	15,000	5,902	12,947	(386)	33,463

The accompanying notes form an integral part of these financial statements.

## 24 Consolidated Cash Flow Statement

For the year ended 31st March, 2005

	2005 HK\$'000	2004 HK\$'000
(Loss)/Profit before taxation	(25,110)	2,752
Adjustments for:		
Depreciation	1,180	538
Loss on disposals of fixed assets	3,910	–
Provision for impairment loss on other investments	8,223	–
Provision for bad and doubtful debts	3,093	56
Interest expenses	219	22
Interest income	(5)	(209)
Operating cash flows before movements in working capital	(8,490)	3,159
Decrease/(Increase) in accounts receivable	8,000	(5,094)
(Increase)/Decrease in prepayments, deposits and other receivables	(3,717)	2,672
Increase/(Decrease) in accounts payable and bills payable	3,656	(7,998)
Decrease in accrued expenses and other payables	(2,720)	(818)
Cash used in operating activities	(3,271)	(8,079)
Interest paid	(219)	(22)
Hong Kong profits tax paid	(1,699)	(1,632)
<b>NET CASH OUTFLOW FROM OPERATING ACTIVITIES</b>	<b>(5,189)</b>	<b>(9,733)</b>
<b>INVESTING ACTIVITIES</b>		
Interest received	5	209
Decrease in time deposits	–	25,709
Sales proceeds from disposals of fixed assets	3,909	–
Purchases of fixed assets	(7,828)	(8,013)
Purchase of a subsidiary company	–	(6,000)
<b>NET CASH (OUTFLOW)/INFLOW FROM INVESTING ACTIVITIES</b>	<b>(3,914)</b>	<b>11,905</b>
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(9,103)</b>	<b>2,172</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>9,256</b>	<b>7,044</b>
<b>CHANGES IN FOREIGN EXCHANGE RATES</b>	<b>(75)</b>	<b>40</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>78</b>	<b>9,256</b>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Cash and bank balances	162	9,256
Bank overdrafts	(84)	–
	<b>78</b>	<b>9,256</b>

The accompanying notes form an integral part of these financial statements.

## 1. CORPORATION INFORMATION

The Company was incorporated in Bermuda on 7th June, 2001 as an exempted company with limited liability under the Companies Act 1981 of Bermuda. The shares of the Company were listed on the Group Enterprise Market ("GEM") on 1st November, 2001. Details of the group reorganisation are set out in the Company's prospectus dated 24th October, 2001.

The principal activity of the Company is investment holding. During the year, the Group was principally involved in the provision of research, development and information-on-demand ("IOD") system solutions and the provision of related products and services.

In the opinion of the directors, as at 31st March, 2005, the ultimate holding company of the Company was Internet Appliances (Holdings) Limited ("IA Holdings") which is incorporated in the British Virgin Islands.

## 2. BASIS OF PRESENTATION

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). They have been prepared under the historical cost convention.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1st January, 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31st March, 2005. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

## 3. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

### (a) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31st March. Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the members of the board of directors; or to cast majority of votes at the meeting of the board of directors.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or goodwill taken to reserves and which was not previously charged or recognised in the consolidated income statement.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

### (b) Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

**3. PRINCIPAL ACCOUNTING POLICIES (Continued)****(c) Negative goodwill**

Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisition.

Negative goodwill is transferred to the cost of acquisition when there are indications where there is a shortfall of the fair value of the Group's share of the net assets acquired over the cost of acquisition.

On disposals of investments in subsidiary companies, the attributable amount of negative goodwill previously credited to the reserve accounts is included in the determination of the profit or loss on disposals of the subsidiary companies and other investments.

**(d) Fixed assets**

Fixed assets are stated at cost less accumulated depreciation and any provisions for impairment losses required to reflect recoverable amounts. Cost represents the purchase price and any directly attributable costs of bringing the asset to its working condition for its intended use. Subsequent expenditure is capitalised when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the enterprise. All other subsequent expenditure, such as repairs and maintenance and overhaul costs, is recognised as an expense in the period in which it is incurred.

Depreciation is calculated to write off the cost of fixed assets over their estimated useful lives, on a straight-line basis, at the following annual rates:-

Leasehold improvements	Over the remaining lease terms
Furniture and fixtures	20%
Computer and office equipment	20%
Motor vehicles	10%
Plant and machinery	20%

The gain or loss arising from the retirement or disposals of fixed assets, representing the difference between the estimated net disposal proceeds and the carrying amount of the asset, is recognised in the income statement.



## 3. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (e) Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are amortised using the straight-line basis over the commercial lives of the underlying products of not exceeding five years, commencing from the date when the products are put into commercial production.

### (f) Other investments

Investment securities intended to be held for identified long-term purpose or strategic reason are included in the balance sheet under non-current assets and are carried at cost less provision. The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such investment will be reduced to its fair value. The impairment loss is recognised as an expense in the income statement and is written back to income statement when the circumstances and events that led to the write-down cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

### (g) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

### (h) Cash and cash equivalents

Cash and cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance.

### 3. PRINCIPAL ACCOUNTING POLICIES (Continued)

#### (i) Taxation

The charge for taxation is based on the results for the year as adjusted for items, which are non-assessable or disallowable. 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 is used to determine deferred taxation.

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

Deferred tax assets 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.

#### (j) Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (i) Revenue from the sales of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold and
- (ii) Revenue from the sales of e-commerce platform systems is recognised when the customer accepts the installation and that the system is operating satisfactorily.
- (iii) Revenue from provision of computer network setup service is recognised when the customer accepts the delivery and that the system is operating satisfactorily.
- (iv) Interest income is recognised on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable.

## 3. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (k) Dividends

Dividends proposed by the directors are classified as a separate allocation of retained earnings within capital and reserves in the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

### (l) Translation of foreign currencies

Transactions in foreign currency during the year are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Gains or losses arising on exchange are dealt with in the income statement.

On consolidation, the assets and liabilities of the Group's overseas subsidiaries are translated into Hong Kong dollars at exchange rate prevailing on the balance sheet date. Income and expense items are translated into Hong Kong dollars at the average exchange rate during the year. Exchange differences arising, if any, are dealt with in the exchange reserve.

### (m) Accounts receivable

Trade debtors which generally have credit terms of not more than 90 days, except for certain well established customers, where the terms are extended to not more than 180 days, are recognised and carried at original invoiced amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

### 3. PRINCIPAL ACCOUNTING POLICIES (Continued)

#### (n) Pension scheme

The Group, other than the subsidiary company in the People's Republic of China ("PRC") operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed to the MPF Scheme except for the Group's employer voluntary contributions, which will be refunded to the Group when the employee leaves employment prior to the contributions vesting fully in accordance with the rules of the MPF Scheme.

The PRC subsidiary company's contributions to a local municipal government retirement scheme in the PRC are expensed as incurred while the local municipal government in the PRC undertakes to assume the retirement benefit obligations of all existing and future retirees of the qualified staff in the PRC.

#### (o) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

#### (p) Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication an impairment loss previously recognised for an asset in prior years may no longer be required. An asset's recoverability amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the income statement in the period in which it arises.

## 3. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (p) Impairment of assets (Continued)

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the income statement in the period in which it arises.

### (q) 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 event 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, they 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 inflow is virtually certain, an asset is recognised.

#### 4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

- (a) the Internet appliance products segment provides Internet appliances and related products; and
- (b) the e-commerce platform segment provides an e-marketplace for content providers and their users with features such as security enhancements and related services.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers and assets are attributed to the segments based on the location of assets.

# 34 Notes to Financial Statements

31st March, 2005

## 4. SEGMENT INFORMATION (Continued)

### (a) Business segments

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

	Internet appliances and related products		E-commerce platform and related services		Consolidated	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
<b>TURNOVER</b>	<b>36,872</b>	87,311	<b>1,992</b>	9,493	<b>38,864</b>	96,804
<b>RESULTS</b>						
Segment results	<b>(5,513)</b>	6,503	<b>(280)</b>	917	<b>(5,793)</b>	7,420
Other revenue					<b>5</b>	209
Distribution costs					<b>(626)</b>	(976)
Administrative and other operating expenses					<b>(3,251)</b>	(3,823)
Provision for bad and doubtful debts					<b>(3,093)</b>	(56)
(Loss)/Profit from operating activities					<b>(12,758)</b>	2,774
Loss on disposals of fixed assets					<b>(3,910)</b>	-
Provision for impairment loss on other investments					<b>(8,223)</b>	-
Finance costs					<b>(219)</b>	(22)
(Loss)/Profit before taxation					<b>(25,110)</b>	2,752
Taxation					<b>1,841</b>	(1,221)
(Loss)/Profit before minority interests					<b>(23,269)</b>	1,531
Minority interests					<b>126</b>	1
Net (loss)/profit from ordinary activities attributable to shareholders					<b>(23,143)</b>	1,532
<b>BALANCE SHEET</b>						
<b>ASSETS</b>						
Segment assets	<b>20,230</b>	32,174	<b>963</b>	343	<b>21,193</b>	32,517
Unallocated assets					<b>8,742</b>	21,915
Total assets					<b>29,935</b>	54,432
<b>LIABILITIES</b>						
Segment liabilities	<b>8,731</b>	4,822	<b>334</b>	147	<b>9,065</b>	4,969
Unallocated liabilities					<b>2,053</b>	6,096
Total liabilities					<b>11,118</b>	11,065
Other segment information:						
Depreciation	<b>782</b>	130	-	-	<b>782</b>	130
Depreciation - unallocated					<b>398</b>	408
Capital expenditure	<b>7,819</b>	7,819	-	-	<b>7,819</b>	7,819
Capital expenditure - unallocated					<b>9</b>	194

**4. SEGMENT INFORMATION (Continued)****(b) Geographical segments**

No geographical analysis is presented for the years ended 31st March, 2004 and 2005 as substantially all the Group's turnover and contribution to results were derived from the PRC (including Hong Kong).

**5. TURNOVER**

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

	Group	
	2005 HK\$'000	2004 HK\$'000
Trading of internet appliances and related products	42,488	87,311
E-commerce platform and related services	1,992	9,493
Less: Sales discounts	(5,616)	–
	<b>38,864</b>	96,804

**6. OTHER REVENUE**

	Group	
	2005 HK\$'000	2004 HK\$'000
Interest income	5	209
Setup fee for computer networks and others	245	728
	<b>250</b>	937



# 36 Notes to Financial Statements

31st March, 2005

## 7. (LOSS)/PROFIT FROM OPERATING ACTIVITIES

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

	2005 HK\$'000	2004 HK\$'000
<b>Crediting:</b>		
Interest income	5	209
Exchange gain	81	–
<b>Charging:</b>		
Auditors' remuneration	240	270
Provision for bad and doubtful debts	3,093	56
Cost of inventories sold	42,035	86,938
Directors' remuneration	332	359
Depreciation of fixed assets	1,180	538
Exchange losses	–	139
Operating leases in respect of land and buildings	505	603
Research and development costs	2,085	2,894
Pension scheme contributions	127	132
Staff costs (excluding directors' remuneration)	2,421	3,650

During the year, one of the customers was in financial difficulties and is now being liquidated. As the balance due from this customer amounting to HK\$3,038,000 is not likely to be recoverable, the balance was provided in full amount.

Research and development costs include HK\$1,720,000 (2004: HK\$2,520,000) relating to staff costs and pension scheme contributions, which are also included in the respective total amounts disclosed separately above for each of these types of expenses. Research and development costs are included as "Other operating expenses" in the income statement.

**8. FINANCE COSTS**

	Group	
	2005 HK\$'000	2004 HK\$'000
Interest on bank overdrafts and bills wholly repayable within five years	219	22

**9. DIRECTORS' REMUNERATION AND SENIOR EXECUTIVES**

(a) Details of directors' remuneration disclosed pursuant to the Rules Governing the Listing of Securities on GEM and Section 161 of the Hong Kong Companies Ordinance, are as follows:

	Group	
	2005 HK\$'000	2004 HK\$'000
Fees:		
Executive directors	-	-
Independent non-executive directors	132	180
	<b>132</b>	<b>180</b>
Other emoluments of executive directors:		
Basic salaries, housing benefits, other allowances and benefits in kind	200	179
Pension scheme contributions	-	-
	<b>200</b>	<b>179</b>

Three independent non-executive directors of the Group received individual emoluments of approximately HK\$120,000 (2004: HK\$120,000), HK\$Nil (2004: HK\$Nil), HK\$12,000 (appointed on 30th September, 2004) (2004: HK\$Nil) during the year ended 31st March, 2005 respectively. The independent non-executive director of the Group who has resigned on 1st October 2004 received HK\$60,000 during the year ended 31st March, 2005.

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31st March, 2005

## 9. DIRECTORS' REMUNERATION AND SENIOR EXECUTIVES (Continued)

(a) (Continued)

Emoluments of executive directors are as follows:

	Group	
	2005 HK\$'000	2004 HK\$'000
Executive director A, resigned	-	179
Executive director B	100	-
Executive director C	100	-

The emoluments of the Directors of the Company fell within the following bands:

	Number of directors	
	2005	2004
<b>Emolument bands</b>		
Nil to HK\$1,000,000	5	7

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2004: Nil).

(b) The five highest paid employees during the year included no (2004: Nil) director, details of whose remuneration are set out above. Details of the remuneration of the five (2004: five) highest paid employees are set out as follows:

	Group	
	2005 HK\$'000	2004 HK\$'000
Salaries, allowances and benefits in kind	1,307	1,455
Pension scheme contributions	60	60
	<b>1,367</b>	1,515

**9. DIRECTORS' REMUNERATION AND SENIOR EXECUTIVES (Continued)**

(b) (Continued)

The emoluments of each of the above five employees fall within the HK\$Nil – HK\$1,000,000 band.

During the year, no emoluments were paid by the Group to any of the directors or the highest paid employees as an inducement to join or upon joining the Group, or as compensation for loss of office (2004: Nil).

There was no arrangement under which any of the five highest paid employees waived or agreed to waive any remuneration during the year (2004: Nil).

**10. TAXATION**

No provision for taxation has been made (2004: 17.5%) as the Company has an estimated loss for Hong Kong profits tax purposes in the current year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

The amount of taxation in the consolidated income statement represents:

	2005 HK\$'000	2004 HK\$'000
Current tax – provision for Hong Kong profits tax		
Current year	–	470
Over provision in prior years	<b>(350)</b>	(369)
Under provision in prior years	<b>155</b>	1,120
	<b>(195)</b>	1,221
Deferred tax		
Temporary differences ( <i>Note 22</i> )	<b>(1,646)</b>	–
	<b>(1,841)</b>	1,221

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31st March, 2005

## 10. TAXATION (Continued)

The provision for the year can be reconciled from taxation based on the consolidated income statement as follows:

	2005 HK\$'000	2004 HK\$'000
(Loss)/Profit before taxation	<b>(25,110)</b>	2,752
Taxation (credit)/charge at the domestic tax rate of 17.5% (2004: 17.5%)	<b>(4,394)</b>	482
Effect of different tax rates of a subsidiary company operating in the PRC	<b>32</b>	–
Tax effect on non-deductible expenses	<b>2,479</b>	23
Tax effect of non-taxable revenue	–	(26)
Tax effect on accelerated depreciation allowance	<b>11</b>	(9)
Tax effect on unused tax losses not recognised	<b>1,872</b>	–
Recognition of deferred tax assets	<b>(1,646)</b>	–
Over provision in prior years	<b>(350)</b>	(369)
Under provision in prior years	<b>155</b>	1,120
Tax (credit)/charge for the year	<b>(1,841)</b>	1,221

Details of movement of the Group's deferred tax assets are set out in note 22 to the financial statements.

## 11. NET (LOSS)/PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

Net loss from ordinary activities attributable to shareholders for the year ended 31st March, 2005 dealt with in the financial statements of the Company was HK\$50,000 (2004: Net profit of HK\$144,000).

## 12. DIVIDENDS

No dividends have been paid or declared by the Company during the year (2004: Nil).

**13. (LOSS)/EARNINGS PER SHARE**

The calculation of basic (loss)/earnings per share is based on the net loss from ordinary activities attributable to shareholders for the year of HK\$23,143,000 (2004: net profit of HK\$1,532,000) and on the weighted average number of 300,000,000 (2004: 300,000,000) ordinary shares of the Company.

Diluted (loss)/earnings per share is not presented as there are no diluting events during the year.

**14. FIXED ASSETS****Group**

	Leasehold improvements HK\$'000	Furniture and fixtures HK\$'000	Computer and office equipment HK\$'000	Motor vehicles HK\$'000	Plant and machinery HK\$'000	Total HK\$'000
<b>Cost</b>						
At 1st April, 2004	928	183	1,433	526	7,819	10,889
Exchange translation differences	(1)	(1)	(4)	(2)	-	(8)
Additions	-	-	9	-	7,819	7,828
Disposals	-	-	-	-	(7,819)	(7,819)
At 31st March, 2005	927	182	1,438	524	7,819	10,890
<b>Accumulated depreciation</b>						
At 1st April, 2004	716	102	634	108	130	1,690
Exchange translation differences	3	-	(3)	(2)	-	(2)
Charge for the year	49	34	268	47	782	1,180
At 31st March, 2005	768	136	899	153	912	2,868
<b>Net book value</b>						
At 31st March, 2005	159	46	539	371	6,907	8,022
At 31st March, 2004	212	81	799	418	7,689	9,199

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31st March, 2005

## 14. FIXED ASSETS (Continued)

During the year, plant and machinery of HK\$7,819,000 was acquired from a third party. Due to the over-estimation of the production volume, this plant and machinery was idle. In order to ease the working capital, this was sold at a consideration of HK\$3,909,000. Accordingly, a loss of HK\$3,910,000 was incurred and this has been charged to the income statement during the year.

## 15. OTHER INVESTMENTS

Other investments represent an investment, at cost, in a company listed in Hong Kong.

	Group	
	2005 HK\$'000	2004 HK\$'000
Listed equity securities, at cost	10,800	10,800
Transfer from capital reserve account	(1,200)	–
Provision for impairment loss	(8,223)	–
	1,377	10,800
Market value	1,377	11,520

Provision for impairment loss during the year amounting to HK\$8,223,000 is determined based on the market value of the shares listed on GEM as at 31st March, 2005.

Details of other investments held by the Group as at 31st March, 2005, are as follows:

Name	Place of incorporation	Class of shares	Percentage holding	Nature of business
MP Logistics International Holdings Limited	Cayman Islands	Ordinary	3%	Provision of logistics services

**16. INVESTMENTS IN SUBSIDIARIES AND AMOUNTS DUE FROM SUBSIDIARIES**

	Company	
	2005 HK\$'000	2004 HK\$'000
Unlisted shares, at cost	13,172	13,172
Amounts due from subsidiaries	20,381	20,360
	<b>33,553</b>	33,532

Amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment. Details of subsidiary companies are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of ordinary share/ registered capital	Percentage of attributable equity interest		Principal activities
			Direct	Indirect	
Smart Time Development Limited	British Virgin Islands	US\$800,000 Ordinary	100	–	Investment holding
Internet Appliances (Hong Kong) Limited	Hong Kong	HK\$1,000,000 Ordinary	–	100	Trading of internet appliances
Shencai (Hong Kong) Holding Limited	British Virgin Islands	US\$10,000 Ordinary	–	100	Dormant
Innotech Development Limited	British Virgin Islands	US\$1,000 Ordinary	–	100	Holding of fixed assets
Global Form Limited	British Virgin Islands	US\$50,000 Ordinary	–	100	Investment holding
深圳毅興科技企業有限公司	PRC	HK\$20,000,000	–	90	Provision of IOD system solutions



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31st March, 2005

## 16. INVESTMENTS IN SUBSIDIARIES AND AMOUNTS DUE FROM SUBSIDIARIES (Continued)

Name	Place of incorporation/ registration and operations	Nominal value of ordinary share/ registered capital	Percentage of attributable equity interest		Principal activities
			Direct	Indirect	
IA Enterprise Limited	Hong Kong	HK\$1,000,000 Ordinary	-	100	Trading of internet appliances
Sunny Sky Investments Management Limited	British Virgin Islands	US\$1 Ordinary	-	100	Investment holding

## 17. ACCOUNTS RECEIVABLE

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

	Group	
	2005 HK\$'000	2004 HK\$'000
Within 30 days	3,430	5,745
31-60 days	2,421	6,194
Over 61 days	6,324	11,329
	<b>12,175</b>	23,268

**18. ACCOUNTS PAYABLE**

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

	Group	
	2005 HK\$'000	2004 HK\$'000
Within 30 days	405	4,867
31-60 days	-	-
Over 61 days	136	102
	<b>541</b>	4,969

**19. BANK BORROWINGS**

At 31st March, 2005, the Group has general banking facilities available of HK\$10,000,000 (2004: HK\$10,000,000). The facilities provided to the subsidiary of the Company were guaranteed by the Company.

**20. SHARE CAPITAL****(a) Shares**

	2005 HK\$'000	2004 HK\$'000
Authorised:		
2,000,000,000 ordinary shares of HK\$0.05 each	100,000	100,000
Issued and fully paid:		
300,000,000 ordinary shares of HK\$0.05 each	15,000	15,000

There have been no movements in share capital during the years ended 31st March, 2004 and 31st March, 2005.

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31st March, 2005

## 20. SHARE CAPITAL (Continued)

### (b) Share options

The Company operates a share option scheme (the "Scheme"), further details of which are set out under the heading "Share option scheme" in the Report of the Directors.

At the balance sheet date and the date of approval of these financial statements, no share options had been granted under the Scheme.

## 21. RESERVES

The movements of reserves of the Group and Company are set out under the statement of changes in equity.

The contributed surplus of the Group arose as a result of the group reorganisation for the listing of the Company's shares on GEM and represents the difference between the nominal value of the aggregate share capital of the subsidiaries acquired under the group reorganisation, over the nominal value of Company's shares in exchange therefor.

The contributed surplus of the Company arose as a result of the same group reorganisation and represents the excess of the then combined net assets of the subsidiaries acquired, over the nominal value of the Company's shares issued in exchange therefor.

Under the Companies Act 1981 of Bermuda, the Company's contributed surplus is available for cash distribution and/or distribution in specie under certain circumstances.

## 22. DEFERRED TAX ASSETS

The Company had no significant unrecognised deferred taxation at the balance sheet date.

At the balance sheet date, the Group had recognised deferred taxation assets as follows:

- (a) deferred tax assets of HK\$1,683,000 (2004: unrecognised deferred assets of HK\$9,000) were recognised on tax losses in the current year; and
- (b) deferred tax liabilities amounting to HK\$37,000 (2004: unrecognised deferred tax liabilities of HK\$26,000) were provided on temporary differences arising from accelerated depreciation difference.

**22. DEFERRED TAX ASSETS (Continued)**

The Group's unrecognised deferred tax assets as at 31st March, 2004 is as follows:

	<b>Group</b>
	2004
	HK\$'000
<hr/>	
Taxation effect of temporary differences arising as a result of:	
Tax losses available to set off against future assessable profits	9
Excess of depreciation charged in the financial statements over depreciation allowance claimed for tax purposes	(26)
	<hr/>
	(17)
<hr/>	

The Group's unrecognised deferred tax credit for the year ended 31st March, 2004 is as follows:

	<b>Group</b>
	2004
	HK\$'000
<hr/>	
Taxation effect of timing differences arising as a result of:	
Tax losses arising	2
Excess of depreciation allowance claimed for tax purposes over depreciation charged in the financial statements	(17)
	<hr/>
	(15)
<hr/>	

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31st March, 2005

## 23. OPERATING LEASE ARRANGEMENTS

During the year, the Group leased certain of its office properties under operating lease arrangements which are negotiated for terms ranging 12 months to 24 months.

At 31st March, 2005, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2005 HK\$'000	2004 HK\$'000
Within one year	84	213
In the second to fifth years, inclusive	-	-
	84	213

## 24. COMMITMENTS

Save for the operating lease commitments detailed in note 23 above, at the balance sheet date, neither the Group, nor the Company had significant commitments.

## 25. CONTINGENT LIABILITIES

	Company	
	2005 HK\$'000	2004 HK\$'000
Guarantee provided to a subsidiary company for its utilised banking facilities at the balance sheet date	8,084	-

## 26. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 10th June, 2005.