



Inworld Group Limited

活力世界控股有限公司

(Incorporated in the Cayman Islands with limited liability)



Interim Report
2002/2003

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 issuers.

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

The Directors collectively and individually accept full responsibility for this report which is given in compliance with the requirements (Rules Governing the Listing of Securities on the Growth Enterprise Market) of the Stock Exchange. The Directors confirm, having made all reasonable enquires, that to the best of their knowledge and belief, (i) the information contained in the report are accurate and complete in all material aspects and not misleading; (ii) there are no other facts the omission of which would make any statement herein misleading; and (iii) opinions expressed in this report have been arrived at after due and careful consideration on the basis and assumptions of reasonableness and fairness.

Highlights

- The Group recorded a turnover of approximately HK\$1,620,000 for the six months ended 31 December 2002, representing a decrease of 39% as compared to the corresponding period in 2001.
- Loss attributable to shareholders was approximately HK\$7,333,000 for the six months ended 31 December 2002.
- The Directors do not recommended an interim dividend for the six months ended 31 December 2002.

The directors (the "Directors") of Inworld Group Limited (the "Company") are pleased to announce the unaudited consolidated financial statements of the Company and its subsidiaries (together the "Group") for the six months and three months ended 31 December 2002 together with comparative figures for the corresponding periods in 2001 as follows:

CONSOLIDATED INCOME STATEMENT

	Notes	Six months ended 31 December		Three months ended 31 December	
		2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Turnover	2	1,620	2,657	327	1,333
Cost of services rendered		(2,587)	(1,205)	(1,388)	(565)
Gross (loss)/profit		(967)	1,452	(1,061)	768
Other revenues		124	94	12	83
Gain on disposal of investment securities		—	4,460	—	4,460
Distribution costs		(601)	(886)	(249)	(852)
Administrative expenses		(4,900)	(2,254)	(2,843)	(1,230)
Amortisation		(795)	—	(398)	—
Depreciation		(455)	(280)	(222)	(140)
(Loss)/profit before taxation		(7,594)	2,586	(4,761)	3,089
Taxation	4	—	—	—	—
(Loss)/profit after taxation		(7,594)	2,586	(4,761)	3,089
Minority interest		261	—	163	—
(Loss)/profit after taxation and minority interest		(7,333)	2,586	(4,598)	3,089
(Loss)/earnings per share					
— Basic (cents)	6	(1.27)	0.54	(0.79)	0.64
— Diluted (cents)	6	(1.26)	N/A	(0.79)	N/A

Net profits/(loss) for the six months and three months ended 31 December 2002 and the corresponding periods in 2001 are the sole component of the total recognized gains and losses.

CONSOLIDATED BALANCE SHEET

		At 31 December 2002 HK\$'000	At 30 June 2002 HK\$'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment	7	1,742	2,069
Investment in securities	8	4,902	1,802
		<u>6,644</u>	<u>3,871</u>
CURRENT ASSETS			
Intangible assets	9	795	1,590
Product development costs		4,298	2,271
Trade receivables	10	1,537	3,478
Tax recoverable		287	–
Deposits, prepayments and other receivables		2,823	1,518
Inventories		217	–
Cash and bank balances		3,417	16,415
		<u>13,374</u>	<u>25,272</u>
CURRENT LIABILITIES			
Trade payables	11	36	23
Other payable and accruals		264	1,835
		<u>300</u>	<u>1,858</u>
NET CURRENT ASSETS		<u>13,074</u>	<u>23,414</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		19,718	27,285
MINORITY INTERESTS		188	(72)
NET ASSETS		<u>19,906</u>	<u>27,213</u>
CAPITAL AND RESERVES			
Share capital	12	5,786	5,760
Reserves	13	14,120	21,453
		<u>19,906</u>	<u>27,213</u>

CONSOLIDATED CASH FLOW STATEMENT

	Six months ended	
	31 December	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(9,471)	(3,658)
NET CASH INFLOW FROM RETURN ON INVESTMENTS AND SERVING OF FINANCE	36	68
TAX PAID	(287)	—
NET CASH (OUTFLOW)/INFLOW FROM INVESTING ACTIVITIES	<u>(3,302)</u>	<u>4,975</u>
NET CASH (OUTFLOW)/INFLOW BEFORE FINANCING	(13,024)	1,385
NET CASH INFLOW FROM FINANCING	<u>26</u>	<u>24,020</u>
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(12,998)	25,405
CASH AND CASH EQUIVALENTS — at beginning of the period	<u>16,415</u>	<u>1,068</u>
— at end of the period	<u><u>3,417</u></u>	<u><u>26,473</u></u>
ANALYSIS OF BALANCE OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	<u><u>3,417</u></u>	<u><u>26,473</u></u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of presentation

The Company was incorporated in the Cayman Island under the Companies Law as an exempted company with limited liability on 30 July 2001. Pursuant to a group reorganisation (the "Reorganisation") for the listing of the Company's shares on GEM, the Company became the holding company of the Group on 24 September 2001. The shares of the Company were listed on GEM on 31 December 2001.

The Reorganisation involved companies under common control, and the Group resulting from the Reorganisation has been regarded as a continuing group. Accordingly, the Reorganisation has been accounted for on the basis of merger accounting, under which the consolidated financial statements of the Group have been prepared as if the Company had been the holding company of the Group throughout the respective financial periods.

All significant transactions and balances between companies now comprising the Group have been eliminated on consolidation. The interim financial statements are prepared in accordance with the requirements as set out in the GEM Listing Rules and the Statement of Standard of Accounting Practice 2.125 "Interim Financial Reporting" as issued by the Hong Kong Society of Accountant. The accounting policies and basis for the preparation of the unaudited consolidated interim financial statements of the Group are consistent with those used in the annual financial statements for the year ended 30 June 2002.

2. Turnover

	Six months ended		Three months ended	
	31 December		31 December	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
System solution service income				
IT projects				
— Consultation	720	1,200	13	600
— Infrastructure	531	949	22	465
Web page design and development	45	28	21	28
Banner design and advertisement	—	480	—	240
Online room reservation income	31	—	21	—
Cyber café income	72	—	32	—
Sales of computer periphery products	221	—	218	—
	<u>1,620</u>	<u>2,657</u>	<u>327</u>	<u>1,333</u>

3. Segment information

Business segment

The Group is principally engaged in the business as a system solutions provider. As per note 2 set out in this report, during the six months and three months ended 31 December 2002 and the corresponding periods in 2001, the Group's turnover consisted of IT consultation and infrastructure projects, web page design and development, banner design and advertisement, online room reservation income, cyber café income and sales of computer periphery products.

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

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

	At 31 December 2002	At 30 June 2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables		
IT projects consultation and infrastructure	–	1,350
Internet-based application	1,500	2,100
Web page design and development	13	14
Online room reservation income	13	–
Cyber café income	11	–
Membership income	–	14
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	1,537	3,478
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Geographical segment

An analysis of the Group's geographical segment results, assets and liabilities is as follows:

	Notes	Six months ended		Three months ended	
		31 December		31 December	
		2002	2001	2002	2001
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover					
• Hong Kong		1,263	2,657	31	1,333
• PRC		245	–	235	–
• Macau		105	–	54	–
• Singapore		7	–	7	–
		<u>1,620</u>	<u>2,657</u>	<u>327</u>	<u>1,333</u>
Other revenue and gain on disposal of investment securities					
• Hong Kong		120	4,554	10	4,543
• PRC		2	–	2	–
• Macau		2	–	–	–
• Singapore		–	–	–	–
		<u>124</u>	<u>4,554</u>	<u>12</u>	<u>4,543</u>
Total revenue		<u>1,744</u>	<u>7,211</u>	<u>339</u>	<u>5,876</u>
Segment results					
• Hong Kong		(4,870)	2,976	(3,093)	3,273
• PRC		(717)	–	(545)	–
• Macau		(931)	–	(583)	–
• Singapore		(1,076)	(390)	(540)	(184)
(Loss)/profit before taxation		<u>(7,594)</u>	<u>2,586</u>	<u>(4,761)</u>	<u>3,089</u>
Taxation	4	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
(Loss)/profit after taxation		<u>(7,594)</u>	<u>2,586</u>	<u>(4,761)</u>	<u>3,089</u>
Minority interest		<u>261</u>	<u>–</u>	<u>163</u>	<u>–</u>
(Loss)/profit after taxation and minority interest		<u><u>(7,333)</u></u>	<u><u>2,586</u></u>	<u><u>(4,598)</u></u>	<u><u>3,089</u></u>

	At 31 December 2002	At 30 June 2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Segment assets		
• Hong Kong	15,620	24,502
• PRC	1,581	2,182
• Macau	2,010	1,329
• Singapore	807	1,130
	<u>20,018</u>	<u>29,143</u>
Segment liabilities		
• Hong Kong	101	202
• PRC	174	58
• Macau	17	848
• Singapore	8	750
	<u>300</u>	<u>1,858</u>

4. **Taxation**

No provision for Hong Kong profits tax has been made in the accounts as the Group had no assessable profits in Hong Kong for the six months and three months ended 31 December 2002 and the corresponding periods in 2001.

The Company's overseas subsidiaries are subject to the tax laws of those countries. No provision for overseas profit tax has been made in the accounts, as these subsidiaries had no assessable profits for the six months and three months ended 31 December 2002 and the corresponding periods in 2001.

5. **Interim dividend**

The Directors do not recommend the payment of an interim dividend for the six months ended 31 December 2002 (2001 - nil).

6. (Loss)/earnings per share

The calculation of the Group's basic (loss)/earnings per share for the six months and three months ended 31 December 2002 is based on the Group's (loss)/profit attributable to shareholders of approximately HK\$7,333,000 (loss) and HK\$4,598,000 (loss) respectively (six months and three months ended 31 December 2001: approximately HK\$2,586,000 (profit) and HK\$3,089,000 (profit) respectively) and the weighted average number of approximately 578,469,435 and 578,632,000 respectively for the six months and three months ended 31 December 2002 (six months and three months ended 31 December 2001: 480,000,000 shares) on the assumption that 480,000,000 shares had been in issue throughout the respectively periods.

The calculation of the Group's diluted loss per share for the six months and three months ended 31 December 2002 is based on the Group's loss attributable to shareholders of approximately HK\$7,333,000 and HK\$4,598,000 respectively and the weight average number of ordinary shares used in the calculation was approximately 581,804,973 and 581,733,754 respectively.

There were no diluted potential ordinary shares during the six months and three months ended 31 December 2001.

7. Property, plant and equipment

	Cost	Accumulated depreciation	Net book value
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
As at 31 December 2002			
Motor vehicle	185	50	135
Furniture and fixtures	101	43	58
Office equipment	172	92	80
Leasehold improvements	826	129	697
Computer hardware and software	2,080	1,308	772
	<u>3,364</u>	<u>1,622</u>	<u>1,742</u>
As at 30 June 2002			
Motor vehicle	185	27	158
Furniture and fixtures	146	75	71
Office equipment	256	147	109
Leasehold improvements	1,160	365	795
Computer hardware and software	2,076	1,140	936
	<u>3,823</u>	<u>1,754</u>	<u>2,069</u>

8. **Investment in securities**

	At 31 December 2002	At 30 June 2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted equity investment, at cost	3,100	–
Listed equity investment in Hong Kong, at cost	1,802	1,802
	<u>4,902</u>	<u>1,802</u>
Market value of listed securities	<u>11,550</u>	<u>17,487</u>

9. **Intangible assets**

	At 31 December 2002	At 30 June 2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Membership database	1,590	1,590
Accumulated amortisation	(795)	–
Net book value	<u>795</u>	<u>1,590</u>

10. **Trade receivables**

Customers are usually offered a credit period ranging from 7 days to 90 days. An ageing analysis of trade receivables at the reporting date is as follows:

	At 31 December 2002	At 30 June 2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 to 30 days	23	1,517
31 to 60 days	3	1,361
61 to 90 days	–	–
Over 91 days	1,661	600
	<u>1,687</u>	<u>3,478</u>
Less: Allowances for bad and doubtful debt	(150)	–
	<u>1,537</u>	<u>3,478</u>

11. Trade payables

The ageing analysis of trade payables is as follows:

	At 31 December 2002	At 30 June 2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 to 30 days	<u>36</u>	<u>23</u>

12. Share capital

	At 31 December 2002	At 30 June 2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Authorised:		
1,500,000,000 ordinary shares of HK\$0.01 each	<u>15,000</u>	<u>15,000</u>
Issued and fully paid:		
578,632,000 ordinary shares of HK0.01 each (as at 30 June 2002: 576,000,000 ordinary shares of HK\$0.01 each)	<u>5,786</u>	<u>5,760</u>

During the period under review, 2,632,000 shares option were exercised. For the detailed movement of share capital as at 30 June 2002, please refer to the annual report for the year ended 30 June 2002.

OUTSTANDING SHARE OPTIONS

As at 31 December 2002, options to subscribe for an aggregate of 54,338,000 shares of the Company granted pursuant to the Pre-IPO Share Option Scheme adopted by the Company on 14 December 2001 (as described in Appendix IV to the Company's prospectus (the "Prospectus") dated 18 December 2001) and were outstanding. Details of which were as follows:

(a) Pre-IPO Share Option Scheme

As at 31 December 2002, options to subscribe for an aggregate of 54,338,000 shares of the Company were outstanding and these options related to the options granted to 2 executive directors, a director of a subsidiary in Singapore and 12 full time employees who were employees of the Group at the date of grant. Details of which as at 31 December 2002 were as follows:

Date of grant	Outstanding	Exercised	Outstanding	Option	Subscription
	as at 1 July 2002	during the period	as at 31 December 2002		
14 December 2001	56,970,000	2,632,000	54,338,000	Note	HK\$0.01

Note:

Other than the Directors as disclosed under the section "Directors' right to acquire shares or debentures of the Company", each of the grantees will be entitled to exercise (i) one-third of the options granted to him/her (rounded down to the nearest whole number) after the expiry of 6 months after 31 December 2001; (ii) one-third of the options granted to him/her (rounded down to the nearest whole number) after the expiry of 12 months after the 31 December 2001; and (iii) the remaining options after the expiry of 18 months after 31 December 2001.

(b) Share Option Scheme

As at 31 December 2002, no options under the Share Option Scheme have been granted to any of the Directors or employees.

Valuation of share options

The options granted are not recognised in the financial statements until they are exercised. As there were no options granted during the period under review, no valuation of the option value can be determined.

13. Reserves

	Share Premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 July 2001	12,195	–	(4,167)	8,028
Issue of shares upon listing	29,760	–	–	29,760
Issuing expenses	(7,094)	–	–	(7,094)
Arising from Reorganisation	(12,195)	12,195	–	–
Capitalisation issue	–	(4,799)	–	(4,799)
Loss for the year	–	–	(4,442)	(4,442)
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At 30 June 2002	22,666	7,396	(8,609)	21,453
Loss for the period	–	–	(7,333)	(7,333)
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At 31 December 2002	<u>22,666</u>	<u>7,396</u>	<u>(15,942)</u>	<u>14,120</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Analysis of results

The unaudited consolidated turnover of the Group for the six months ended 31 December 2002 was approximately HK\$1,620,000, representing a 39% decrease as compared to the unaudited consolidated turnover of the Group of approximately HK\$2,657,000 for the corresponding period in 2001. The decrease was mainly attributable to the drop in IT projects consultation income and the Group recorded no revenue from banner design and advertisement for the period under review.

During the period under review, the Group did not have profit from the sale of investment security as the corresponding period in 2001. Also, resulting from Group's expansion and setting up its subsidiaries in the PRC and Macau, both administration expenses and distribution cost increased. Loss attributable to shareholders for the six months ended 31 December 2002 was HK\$7,333,000.

Liquidity, financial resources and gearing

The Group generally finances its operation with internally generated cash flow and net proceeds from the New Issue (as defined in the Prospectus).

As at 31 December 2002, shareholders' fund of the Group amounted to approximately HK\$19,906,000. Current assets amounted to approximately HK\$13,374,000, of which approximately HK\$3,417,000 were cash and bank deposits. Current liabilities of approximately HK\$300,000 mainly comprised of other payables and accruals.

The Group expresses its gearing ratio (if any) as a percentage of bank borrowing and long term debts over total assets. As at 31 December 2002 and to the date of this report the Group did not have any bank borrowing or long term debts.

In view of the liquidity position, the Directors believe that the Group has sufficient funding to meet its capital expenditure and working capital requirement.

The capital structure, funding and treasury policies of the Group

The Group remains a debt free capital structure and intends to finance its operation with its internal resources.

During the period under review, the Group's business activities and its assets or liabilities were denominated in Hong Kong dollars, Renminbi, Macau Pataca and Singapore dollars. By considering the stable exchange rate between these countries, the Directors do not consider that the Group is significantly exposed to any foreign currency exchange risk. It is the Group's treasury policy to manage its foreign currency exposure whenever its financial impact is material to the Group. The Group does not employ any financial instruments for the hedging purposes and does not engage in foreign currency speculative activities.

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

During the six months ended 31 December 2002, the Group had no material acquisitions and disposals of subsidiaries and affiliated companies.

Investment

As at 31 December 2002, the Group held 24,629,125 shares in a listed company, the shares of which are listed on the GEM, dealing in its shares were suspended on 7 August 2002 and resumed on 29 November 2002. Pursuant to the circular dated 3 January 2003 by that listed company, the listed company has carried out rights issue on the basis of one rights share for every existing share at the consideration of HK\$0.06 per share, the Group therefore entitles 24,629,125 rights shares. On 17 January 2003, the Group disposed its rights to subscribe for 19,258,250 rights shares thereof and subscribed the remaining balance. Upon completion of the rights issue, the listed company have further issued the shareholders on the basis of five bonus shares for every two shares.

Future plans for material investments or capital assets

The Group does not have any plan for material investments or capital assets in the near future.

Segmental information

During the period under review, about 82% of the Group's turnover was derived from system solutions services and online room reservation business.

The Group has set up its subsidiaries in Macau and the PRC in March and June 2002 respectively. As the subsidiaries are in their early stage of development, Hong Kong is still the main revenue resource of the Group, representing 78% of the total revenue of the Group during the period under review.

Order book and prospects for businesses

Please refer to the Business Review section for the Group's contracts under negotiation and its new services introduced.

Employees and remuneration policies

As at 31 December 2002, the Group had 81 employees, including 12 part time employees. For the period under review, the remuneration of the Group amounted to approximately HK\$2,374,000, representing 18% increase when compared to the corresponding period in 2001. The increase was due to the fact that more employees were recruited following the Group's business expansion. The Group's remuneration policies are in line with the prevailing market practice and are determined on the basis of the performance and experience. The Group also provides retirement schemes and medical insurance scheme for its employees. The Group has adopted a Pre-IPO Share Option Scheme and a Share Option Scheme pursuant to which the Group has granted and will grant options to persons including executive directors and employees of the Group to acquire shares of the Company.

Details of charges on Group assets

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

Contingent liabilities

As at 31 December 2002, the Group had no contingent liabilities.

BUSINESS REVIEW

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

IT infrastructure and consultation project

During the period under review, the Group has made every effort to capture more market attention on our IT infrastructure and consultation service in Hong Kong, Singapore, Macau and the PRC and the result was encouraging. During the period, we have provided the IT infrastructure and consultation service to a number of companies. Based on the Group's experience in developing IT solutions and experience from completed projects, IT consultation and infrastructure services have been accounted for a significant percentage of the Group's total revenue during the period. The Group has kept launching new infrastructure service to our customers in order to help clients keep pace with the latest technology movement.

Internet-based applications

During the period, the Group's R&D team has conducted various research and development on new online shopping and online catalogue applications which are aimed to improve functions and features of the online transaction system. In addition, the Group has the intention to pack various potential application's modules which have been built by the Group into generic application products under the brand name of Inworld and marketing them in the market. Furthermore, studies regarding data and security management have never been ceased to support continuous improvement on Inworld' service.

ASP development

After rolling out of the new Inworld Marketplace in March 2002, a number of users have been using our supply-and-demand message platform to explore business opportunities in Hong Kong, Singapore, PRC and other parts of the world. The Group intended to expand the ASP business in PRC and non-Asian countries in order to built a clearer image to companies in PRC and non-Asian countries that the Group is always the best partner for their overseas business. The Group is confident that through providing of the service, it will help building the Group's market awareness in foreign countries and provide a promising growth for the Group in the future.

Arouse market awareness

The Group has been actively participated in promotion activities to arouse market awareness of the Group's system solution services. During the period, the Group has revamped the system solution web pages in order to update product information to the customers. In addition, the Group has placed several advertisements in local magazines to promote the Group's system solutions service. With expanding business in existing and newly established region, the Group will implement series of marketing and promotion activities to promote the services.

Expand the geographical presence

After setting up an office in Shanghai, PRC in June 2002, the Group has established a branch office in Beijing, PRC to run system solutions, ASP and computer products sourcing services business. The Directors expected that the expansion into PRC would sharpen the competitive edge of the Group's business and better utilization of its resources.

In addition, the Group has been doing feasibility studies on establishing branch or representative office in Australia where a region has shown economic recovery in the previous months.

Prospects

Other than continuing spending effort to capture larger market share, the Group will, under the economic bad time, diversify services or businesses in order to expand the profit earning capacity of the Group. In addition, the Group intends to conduct research and studies regarding packaging generic application into a multi-function generic product catered for the SMEs and software houses.

After setting up the Shanghai and Beijing offices, the Group will be more actively involved in variety of system solutions and computer products sourcing projects for corporations in the PRC. In addition, the Group's subsidiary in Macau has been focused on online reservation service and cyber café business.

During the six months ended 31 December 2002, the Group has been appointed by Sports Federation & Olympic Committee (SFOC) of Hong Kong, China as the system solutions provider for its annual Sports Stars Awards election and appointed by Faculty of Economic, University of Beijing as the Web Page and system developer. Phase 2 negotiation with Reebok Trading (Far East) Limited, ANZ gold, an international chocolate manufacturer have been also undergoing during the period.

The PRC's accession into the World Trade Organization and the boosting of the PRC's economy provides significant opportunities to the Group. To capitalize on this, the Group will more concentrate on the PRC's business and expand the PRC's market through the Shanghai subsidiary and Beijing branch.

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

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

According to the business objectives as stated in the

Prospectus for the relevant period

Actual business progress

Revenue and business development

- To continue the business development activities from the previous period
- To expand revenue derived from system solutions services as a result of the newly launched Web to PDA transformation system and the PIM system which have been developed in the previous period
- To continue to expand the proportion of revenues generated from the services provided by the Group in the PRC as a result of continuous efforts made in this market in the previous periods
- To generate revenue derived from the ASP business in Hong Kong, Singapore and major cities in the PRC.
- To start up the cyber café business in major cities such as Guangzhou, Shenzhen, Shanghai and Beijing, the PRC
- To generate revenue from the newly developed ASP services, namely mobile office
- After setting up of the Shanghai and Beijing offices, the Group has spent a lot of time on establishing the market shares in local regions and speeding up the business development activities.
- The Group has successfully gained contracts on the Web to PDA transformation system and the PIM system.
- Revenue generated by PRC offices has been increased in a satisfactory rate. The Group expected the proportion of revenues generated by PRC's offices would be further expanded in 2003.
- The Group decided to extend the free trail ASP service to users in Hong Kong, Singapore, the PRC and countries outside Asia in order to capture more user database before charging fee for the service.
- Negotiation and feasibility study is undergoing on setting up Cyber café in Beijing and Shenzhen
- Follow with the extension of doing research and feasibility studies of developing mobile office ASP service, there were no revenue generated for the service

Product and services development

- To continue the product and services development activities from the previous period
- To develop new applications for mobile office, which enables customers to centralize all messages from fax, e-mail, PDA, mobile and any portable devices into a single database which can be accessed at any time in any place
- To launch the generic multi-function Internet-based applications developed by the Group to the SMEs in Hong Kong, Singapore and other markets where the Group would have established branches (assuming that the feasibility study carried out in the previous period concluded positive results)
- To expand the Group's ASP services to the educational and medical industries in Hong Kong, Singapore, major cities in the PRC and other markets where the Group has established branches
- The Group has speeded up the development of computer product sourcing services and increases the service profile like wireless office networking service and value-added web design package.
- Research and feasibility studies of mobile office service timeline have been extended since it involves more resources to develop products that cope with fast moving telecommunication technology.
- Research and development have been done on developing multi-function applications service for educational section in Hong Kong, Singapore, major cities in the PRC.

Marketing

- To implement marketing plans to promote the Group's portal networks and undertake focused marketing activities to support the launch of system solutions service and the Group's Internet-based applications in other Asian regions such as Macau, Vietnam, Thailand, South Korea, India and the PRC
- To implement a roll-out market plan for the launching of the web to PDA transforming system and the PIM applications in other Asian regions such as Vietnam, Thailand, South Korea and the PRC
- To implement a marketing plan to promote the Group's corporate image as a comprehensive ASP and system solutions provider, and arouse the public awareness of the Group's products and services offered under the brand name of ***Inworld***
- To implement a marketing plan to promote the cyber café business
- The Group has captured every opportunity to arouse market awareness by placing advertisement on various journals, web pages and approach targeted customers by fax, email, web page and telephone.
- Promotional message and contents in respect of Inworld's products and services have been placed on the Group's website.
- The Group is successful in increasing numbers of customers to use our ASP services and numbers of contracts gained in the six months ended 31 December 2002 have been comparatively increased over the same period in the previous year.
- Leaflets were distributed in school areas to attract traffic to the Group's Cyber Café in Macau.

Expansion and business alliance

- To establish a branch office in the southern part of the PRC, such as Guangzhou, Xiamen, Fuzhou, Shenzhen and Zhongshan for system solutions, ASP and IT outsourcing services
- Subject to completion of the installation of the networking and infrastructure, establish a research and development center in the PRC where the cost of operating such center is expected to be lower than that of Hong Kong in order to better utilize the Group's internal resources to develop new products and services
- Establish a software modification center in the PRC where numerous professional experts are available, and the cost of operating such center is expected to be lower than that of Hong Kong
- To explore and identify opportunities in establishing branch offices and research and development centers in other Asian regions such as India, Japan, South Korea, Taiwan, Thailand and Vietnam in order to expand the Group's ASP business and enhance the Group's capability in developing new technologies and knowledge
- The Group never stops looking acquisition opportunities in Asian Region for system solution business expansion by conducting feasibility studies, particularly in PRC.
- Instead of establishing a research and development center of our own, after feasibility studies, the Group has decided to out-source the research and development jobs to an experienced and well-established company in Zhuhai.
- The Group will continuously explore and identify opportunities in establishing branch offices and research and development centers for enhancing the Group's capability in developing new services or products that cope with the fast-moving technology.

Use of proceeds

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

	Originally planned Up to 31 December 2002 <i>HK\$' in million</i>	Actual amount Up to 31 December 2002 <i>HK\$' in million</i>
Research and development of new Application and system solutions	0.60	2.37
Development of ASP business	0.90	2.18
Enhancement of e-commerce platform	0.50	1.12
Development of new and enhancement of Existing Internet based applications	1.10	2.14
Marketing and promotion activity	0.77	1.66
Enhancement of the Internet infrastructure of the Group	0.30	1.12
Formation of strategic and business alliance	1.50	6.47
Development of cyber café	1.00	1.43
Working capital	1.50	1.72
	<hr/>	<hr/>
	8.17	20.21
	<hr/> <hr/>	<hr/> <hr/>

It's the Group's strategy to expand its businesses during the duration of economic recession in the view that it will yield future returns to the Group after market condition improves. As a result, the Group applied more resources to respective areas as stated in the Prospectus. The Directors believe the schedule to implement the business objectives as disclosed in the Prospectus will depend on the progress of the recovery of market conditions, which will generate working capital for the Group or funding to support the Group's further business expansion. As at 31 December 2002, approximately HK\$3 million of the net proceeds from the New Issue remained unused, which has been placed as bank deposits.

DISCLOSURE OF INTERESTS IN SECURITIES OR DEBT SECURITIES OF THE ISSUER OR ANY ASSOCIATED CORPORATIONS

(1) DIRECTORS AND CHIEF EXECUTIVE

At 31 December 2002, the interests of the Directors in the share capital of the Company as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interest) Ordinance (the "SDI Ordinance") were as follows:

Name of directors	<i>Notes</i>	Number of shares	Type of interest
Mr. Ngai Kwok Kin, Kevin	1	150,163,200	Corporate
Mr. Chan Wai Lun	2	84,283,200	Corporate

Notes:

1. Mr. Ngai Kwok Kin, Kevin is the sole beneficial shareholder of Dynamate Limited which, in turn, is interested in 25.95% of the issued share capital of the Company.
2. Mr. Chan Wai Lun is the sole beneficial shareholder of Joyview International Limited which, in turn, is interested in 14.56% of the issued share capital of the Company. Mr. Chan resigned as executive director of the Company with effect from 31 January 2003.

Save as disclosed above, none of the Directors or their respective associates ("Associates") as defined in the Rules Governing the Listing of Securities on the GEM had, as at 31 December 2002, any interests in the shares of the Company or its associated corporations as recorded in the register required to be kept under Section 29 of the SDI Ordinance.

Directors' right to acquire shares or debentures of the Company

Pursuant to the terms of the pre-IPO Share Option Scheme adopted by the Company on 14 December 2001 options have been granted to two directors to subscribe for shares of the Company. Details of which are as follows:

Name of directors	Number of underlying shares
Mr. Ngai Kwok Kin, Kevin	19,580,000
Mr. Chan Wai Lun (<i>Note</i>)	19,230,000

Note:

Mr. Chan resigned as executive Director with effect from 31 January 2003. Pursuant to the terms of the Pre-IPO Share Option Scheme, his option has been lapsed and not be exercised from the date of his resignation.

Pursuant to the terms of the Pre-IPO Share Option Scheme, Mr. Ngai Kwok Kin, Kevin is entitled to exercise (i) two-third of the options granted to him (rounded down to the nearest whole number) after the expiry of 12 months from 31 December 2001; and (ii) the remaining options after the expiry of 18 months after 31 December 2001.

The exercise price for the options granted to the Directors equals to the nominal value of a share.

The Company has also adopted a Share Option Scheme on 14 December 2001, under which the Directors may be granted options to subscribe for shares of the Company. Other than the Pre-IPO Share Option Scheme, no options had been granted to the Directors or employees up to the date of this report.

Save as disclosed above, during the six months ended 31 December 2002, none of the Directors or their respective Associates was granted options to subscribe for shares of the Company, nor had exercised such rights.

Other than the share option schemes as described above, at no time during the period was the Company, any of its holding companies, fellow subsidiaries or subsidiaries a party to any arrangement to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate and none of the Directors, or their respective Associates, had any right to subscribe for the securities of the Company, or had exercised any such rights during the period.

(2) SUBSTANTIAL SHAREHOLDERS

As at 31 December 2001 the shareholders with an interest of 10% or more in the issued share capital of the Company recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance were as follows:

Name	Notes	Number of shares
City Lion Worldwide Limited	1	187,012,800
Styland (Overseas) Limited	1	187,012,800
Styland Holdings Limited	1	187,012,800
Dynamate Limited	2	150,163,200
Mr. Ngai Kwok Kin, Kevin	2	150,163,200
Joyview International Limited	3	84,283,200
Mr. Chan Wai Lun	3	84,283,200

Notes:

1. These shares are beneficially owned by and registered in the name of City Lion Worldwide Limited. City Lion Worldwide Limited is a wholly-owned subsidiary of Styland (Overseas) Limited, which is in turn a wholly-owned subsidiary of Styland Holdings Limited. Accordingly, Styland (Overseas) Limited and Styland Holdings Limited will have a deemed interest in the 187,012,800 shares held by City Lion Worldwide Limited under the SDI Ordinance.
2. These shares are beneficially owned by and registered in the name of Dynamate Limited, the entire issued share capital of which is wholly and beneficially owned by Mr. Ngai Kwok Kin, Kevin.
3. These shares are beneficially owned by and registered in the name of Joyview International Limited, the entire issued share capital of which is beneficially and wholly owned by Mr. Chan Wai Lun.

SPONSORS' INTEREST

None of the Company's sponsor, Sun Hung Kai International Limited, its directors, employees or associates had any interests in any class of securities of the Company or any other company in the Group.

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

COMPETING INTERESTS

None of the Directors or the management shareholders of the Company had an interest in a business which competes with the Company or may compete with the business of the Company.

AUDIT COMMITTEE

As required by Rule 5.23 of the GEM listing rules, the Company has established an audit committee with written terms of reference which deal clearly with its authority and duties. The audit committee's principal duties are the review and supervision of the Company's reporting process and internal control system.

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

There was no purchase, sales or redemption by the Company or any of its subsidiaries of the Company's listed securities during the six months ended 31 December 2002.

By order of the Board
Ngai Kwok Kin, Kevin
Chairman

Hong Kong, 13 February 2003