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This circular appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities.

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Inworld Group Limited (the "**Company**"), you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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INWORLD GROUP LIMITED

活力世界控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

MAJOR AND CONNECTED TRANSACTIONS AND PROPOSED GRANT OF GENERAL MANDATES TO ISSUE AND REPURCHASE SHARES

Independent financial adviser to the independent board committee of the Company

第一亞洲

FIRST ASIA

FIRST ASIA FINANCE GROUP LIMITED

A notice convening an extraordinary general meeting of the Company to be held at Macau Jockey Club Golden Restaurant, First Floor, China Merchants Tower, Shun Tak Centre, 200 Connaught Road Central, Hong Kong at 11:00 a.m. on 22 August 2003 is set out on pages 92 to 96 of this circular. Whether or not you are able to attend the extraordinary general meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and deposit the same at the offices of Tengis Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the extraordinary general meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the extraordinary general meeting or any adjournment thereof should you so wish.

A letter from the independent board committee of the Company containing its recommendation to the independent shareholders of the Company is set out on page 25 of this circular. A letter of advice from First Asia Finance Group Limited to the independent board committee of the Company is set out on pages 26 to 34 of this circular.

This circular will remain on the GEM website at www.hkgem.com on the "Latest Company Announcements" page for at least seven days from the date of its posting and on the website of the Company at www.inworld.com.hk.

* *For identification purpose only*

5 August 2003

CHARACTERISTICS OF GEM

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.

CONTENTS

In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:

"Acquisition"	the acquisition by Wah Shui of 95% of the equity interests in Huaruiyuan from the Vendors subject to and upon the terms and conditions of the Share Transfer Agreement
"Announcement"	the announcement issued by the Company dated 15 July 2003 in respect of, among other things, the Acquisition and the Placing
"associates"	has the meaning ascribed to this term under the GEM Listing Rules
"Board"	the board of Directors
"CCASS"	the Central Clearing and Settlement System established and operated by Hongkong Clearing
"Company"	Inworld Group Limited, an exempted company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on GEM
"Completion"	completion of the Acquisition pursuant to the Share Transfer Agreement
"Cash Consideration"	the amount of HK$11,201,600 (representing approximately 49% of the Consideration) to be paid in cash by Wah Shui to satisfy part of the Consideration pursuant to the Share Transfer Agreement
"Conditions"	the conditions precedent to the Share Transfer Agreement
"Consideration"	the aggregate consideration in the sum of HK$22,800,000 payable by Wah Shui to the Vendors for the Acquisition pursuant to the Share Transfer Agreement
"Consideration Shares"	an aggregate of 263,600,000 new Shares to be allotted and issued to Ingen at the Issue Price, credited as fully paid, pursuant to the Share Transfer Agreement and as part of the Consideration
"Directors"	directors of the Company

"EGM"	the extraordinary general meeting of the Company to be convened and held to consider and, if thought fit, to approve, among other things, the Acquisition, the Placing and the grant of the General Mandate and the Repurchase Mandate, the notice of which is set out on pages 92 to 96 of this circular
"Enlarged Group"	the Group as enlarged immediately after Completion
"First Asia Finance"	First Asia Finance Group Limited, a deemed licensed corporation to carry out type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO, the independent financial adviser to the Independent Board Committee
"GEM"	the Growth Enterprise Market of the Stock Exchange
"GEM Listing Committee"	the listing sub-committee of the board of directors of the Stock Exchange with responsibility for GEM
"GEM Listing Rules"	the Rules Governing the Listing of Securities on GEM
"General Mandate"	the general mandate proposed to be granted to the Directors at the EGM to issue further new Shares not exceeding 20% of the issued share capital of the Company as enlarged by the allotment and issue of the Placing Shares and the Consideration Shares
"Group"	the Company and all of its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hongkong Clearing"	Hong Kong Securities Clearing Company Limited
"HKGAAP"	Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants and accounting principles generally accepted in Hong Kong
"Huaruiyuan"	Shenzhen Huaruiyuan Company Limited (深圳市華瑞源實業有限公司), a limited liability company established in the PRC, which is beneficially owned as to 90% by Ingen and as to 5% by each of Huang Shu-ying and Chen Hong before Completion and will be beneficially owned as to 95% by Wah Shui, as to 2.5% by each of Huang Shu-ying and Chen Hong immediately after Completion

"Independent Board Committee"	an independent board committee, comprising Mr. Ng Yat Cheung, a non-executive Director, and Mr. Leung Chun Cheng and Mr. Wong Shui Fun, both being the independent non-executive Directors, to advise the Independent Shareholders as to the fairness and reasonableness of the Placing and the transactions contemplated thereunder
"Independent Shareholders"	Shareholders other than Dynamate Limited, who is a management shareholder of the Company for the purpose of the GEM Listing Rules and the beneficial owner of 25.93% of the existing issued share capital of the Company, and its associates
"Ingen"	Shenzhen Ingen Technology Company Limited (深圳市穎臻技術股份有限公司), a joint stock limited liability company established in the PRC and principally engaged in the development and manufacture of tax-declaring products in the PRC, the equity interests of which are beneficially owned as to 25.40% by Chen Hong, as to 12% by Huang Shu-ying and as to the remaining 62.60% by nine third parties who are independent from and not connected with the directors, chief executive, substantial shareholders and management shareholders of the Company or any of its subsidiaries or any of their respective associates, and one of the Vendors
"Issue Price"	the issue price of HK$0.044 per Consideration Share
"Latest Practicable Date"	4 August 2003, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
"Mr. Koh"	Mr. Koh Tat Lee Michael, an executive Director, the chairman of the Company and the beneficial owner of the entire issued share capital of Dynamate Limited, which in turn beneficially owns 25.93% of the existing issued share capital of the Company
"Placing"	placing of the Placing Shares by the Company
"Placing Price"	the placing price of HK$0.04 per Placing Share under the Placing
"Placing Shares"	400,000,000 new Shares to be placed by the Company pursuant to the Placing

"PRC"	the People's Republic of China, and for the purposes of this circular only, excludes Hong Kong, the Macau Special Administrative Region of the People's Republic of China and Taiwan
"Pre-IPO Share Option Scheme"	the share option scheme approved and adopted by the Company on 14 December 2001, the principal terms of which are summarised in the paragraph headed "Summary of the terms of the Pre-IPO Share Option Scheme" in the section headed "Share Option Schemes" in appendix IV to the Prospectus
"Prospectus"	the prospectus of the Company dated 18 December 2001
"Repurchase Mandate"	the repurchase mandate proposed to be granted to the Directors at the EGM to repurchase up to 10% of the issued share capital of the Company as enlarged by the allotment and issue of the Placing Shares and the Consideration Shares
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	ordinary share(s) of HK$0.01 each in the share capital of the Company
"Shareholder(s)"	holder(s) of Share(s)
"Share Transfer Agreement"	the share transfer agreement dated 25 June 2003 and the supplemental agreement dated 15 July 2003 entered into between the Vendors and Wah Shui in respect of the Acquisition
"Share Option Scheme"	the share option scheme approved and adopted by the Company on 14 December 2001, the principal terms of which are summarised in the paragraph headed "Summary of the terms of the Share Option Scheme" in the section headed "Share Option Schemes" in appendix IV to the Prospectus
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers
"Vendors"	collectively, Ingen, Huang Shu-ying and Chen Hong

"Wah Shui" or "Purchaser"	Wah Shui Company Limited, an investment holding company incorporated in the British Virgin Islands and a wholly owned subsidiary of the Company, the purchaser under the Share Transfer Agreement
"HK$"	Hong Kong dollars, the lawful currency for the time being of Hong Kong
"RMB"	Renminbi, the lawful currency for the time being of the PRC
"%"	per cent.

For the purpose of this circular, unless otherwise specifies, conversions of Renminbi into Hong Kong dollars are based on the approximate exchange rate of RMB1.06 to HK$1.00.

INWORLD GROUP LIMITED
活力世界控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

Executive Directors:
Mr. Koh Tat Lee, Michael *(Chairman)*
Mr. Chu Siu Wah

Non-executive Director:
Mr. Ng Yat Cheung

Independent non-executive Directors:
Mr. Leung Chun Cheng
Mr. Wong Shui Fun

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

Head office and principal place of business in Hong Kong:
3rd Floor
Chinese Club Building
21-22 Connaught Road Central
Hong Kong

5 August 2003

To the Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTIONS AND PROPOSED GRANT OF GENERAL MANDATES TO ISSUE AND REPURCHASE SHARES

INTRODUCTION

On 15 July 2003, the Directors announced that Wah Shui, a wholly-owned subsidiary of the Company, entered into the Share Transfer Agreement on 25 June 2003 with Ingen, Huang Shu-ying and Chen Hong, pursuant to and subject to the terms and conditions thereof, Wah Shui has agreed to acquire an aggregate of 95% of the equity interests in Huaruiyuan for an aggregate consideration of HK$22,800,000. Upon Completion, Wah Shui will have an aggregate of 95% of the equity interests in Huaruiyuan and Huaruiyuan will become a subsidiary of the Company.

* *For identification purpose only*

The Consideration payable by Wah Shui pursuant to the Share Transfer Agreement is HK$22,800,000, of which HK$11,201,600 (representing approximately 49% of the Consideration) will be satisfied by cash and the remaining balance of HK$11,598,400 (representing approximately 51% of the Consideration) will be satisfied by the allotment and issue of 263,600,000 Consideration Shares to Ingen, one of the Vendors, at an issue price of HK$0.044 per Consideration Share. Based on the closing price of HK$0.049 per Share as quoted on GEM on 24 June 2003, being the last trading day before the date of the Share Transfer Agreement, the value of the Consideration is HK$24,118,000.

As the Consideration payable by Wah Shui to the Vendors pursuant to the Share Transfer Agreement represents approximately 80% of the net tangible assets value of the Group as shown in its audited consolidated financial statements made up to 30 June 2002 (as adjusted in accordance to Rules 19.13 and 19.14 of the GEM Listing Rules), the Acquisition constitutes a major transaction of the Company involving allotment and issue of Shares under Chapter 19 of the GEM Listing Rules. Therefore, the Acquisition is conditional upon approval by the Shareholders at the EGM, at which Shareholders and their associates who are interested in the Share Transfer Agreement and the transaction contemplated thereunder shall abstain from voting in respect of the relevant resolution at the EGM. The Directors confirm that they are not aware of any Shareholder who has interest in the Acquisition other than being a Shareholder. As such, the Directors believe that no Shareholder is required to abstain from voting on the relevant resolution in relation to the Acquisition.

On 15 July 2003, the Directors also announced that the Company entered into subscription agreements on 4 July 2003 with nine placees including Dynamate Limited, Mr. Leung, Dennis, the company secretary and qualified accountant of the Company, and seven investors who are independent of and not connected with any directors, chief executive, substantial shareholders and management shareholders of the Company or any of its subsidiaries or any of their respective associates and who are not the classes of persons as stated in Rule 10.12(4) of the GEM Listing Rules, pursuant to which the Company has agreed to place an aggregate of 400,000,000 Placing Shares to such placees at the Placing Price. There is no placing agent for the Placing.

Since the entire issued share capital of Dynamate Limited is beneficially owned by Mr. Koh, the Placing constitutes a one-off and non-exempted connected transaction on the part of the Company under Chapter 20 of the GEM Listing Rules and will be subject to, among other things, the approval by the Independent Shareholders at the EGM. Dynamate Limited and its associates will abstain from voting in respect of the relevant resolution approving the Placing at the EGM.

The Independent Board Committee comprising Mr. Ng Yat Cheung, a non-executive Director, and Mr. Leung Chun Cheng and Mr. Wong Shui Fun, both being the independent non-executive Directors, has been formed to advise the Independent Shareholders as to the fairness and reasonableness of the Placing. First Asia Finance has been appointed as the independent financial adviser to advise the Independent Board Committee in this regard.

The purpose of this circular is to provide you with further information in relation to the Acquisition, the Placing and the proposed grant of the General Mandate and the Repurchase Mandate, the letter from the Independent Board Committee to the Independent Shareholders containing its recommendation to the Independent Shareholders on the Placing, a letter from First Asia Finance containing its advice to the Independent Board Committee on the Placing and the notice of the EGM.

The Acquisition and the Placing are conditional. Accordingly, the Acquisition and/or the Placing may or may not proceed. Shareholders and public investors are advised to exercise caution when dealing in Shares.

SHARE TRANSFER AGREEMENT

Date	:	25 June 2003			
Parties	:	(1)	Vendors	:	Ingen Huang Shu-ying Chen Hong

Each of the Vendors and the ultimate beneficial owners of Ingen, being Huang Shu-ying, Chen Hong and nine third parties, (i) is independent of and not connected with the directors, chief executive, substantial shareholders and management shareholders of the Company or any of its subsidiaries or any of their respective associates; (ii) is independent of and not connected with each other; and (iii) is not acting in concert with any of the Shareholders.

		(2)	Purchaser	:	Wah Shui

Assets to be acquired

Pursuant to the Share Transfer Agreement, Wah Shui has conditionally agreed to acquire 95% of the equity interests in Huaruiyuan. As disclosed in the business licence of Huaruiyuan, Huaruiyuan is principally engaged in the design, development and sale of tax-declaring computer software and network in the PRC.

Huaruiyuan is currently a domestic entity established in the PRC with limited liability. As such, it must be converted into a foreign investment enterprise in order to give effect to the investment of the Group in it. It is one of the Conditions that Huaruiyuan be converted to a Chinese-foreign equity joint venture.

The PRC legal advisers to the Company has advised that the relevant PRC government authorities such as the State Administration for Industry and Commerce of the PRC and the Ministry of Foreign Trade and Economic Cooperation of the PRC will in normal practice approve the conversion of Huaruiyuan into a Chinese-foreign equity joint venture within 20 business days after receipt of all necessary documents. The Company's PRC legal advisers further advised that there are no legal impediments which may adversely affect the said conversion and that they have already contacted the relevant PRC government authorities and were informed that the said conversion would be approved. The Directors therefore anticipate that the relevant approval process will take about 20 business days. However, the exact time required for the said conversion will depend on the approval progress of the relevant PRC government authorities.

Upon Completion, Wah Shui will have an aggregate of 95% of the equity interests in Huaruiyuan and the remaining 5% of the equity interests in Huaruiyuan will remain to be owned as to 2.5% by each of Huang Shu-ying and Chen Hong. Huaruiyuan will then become a subsidiary of the Company.

According to the terms of the Share Transfer Agreement, the board of directors of Huaruiyuan will comprise of five directors upon Completion, of which Wah Shui shall be entitled to appoint four directors. Wah Shui intends to appoint Mr. Koh and Mr. Chu Siu Wah, both being executive Directors, to be the directors of Huaruiyuan upon Completion with the remaining two directors of Huaruiyuan to be recruited from experts in the tax industry.

Consideration

The aggregate consideration for the Acquisition is HK$22,800,000, of which:

(i) HK$11,201,600, being approximately 49% of the Consideration, will be satisfied by cash. The Cash Consideration will be funded by the net proceeds of the Placing.

The Cash Consideration shall be payable in the following manner:

(a) HK$10,001,600 shall be payable to Ingen within one year from the date of Completion without interest;

(b) HK$600,000 shall be payable to Huang Shu-ying within seven days after the fulfillment of all the Conditions; and

(c) HK$600,000 shall be payable to Chen Hong within seven days after the fulfillment of all the Conditions.

As the Cash Consideration will be financed by the net proceeds of the Placing, there will be no change in the use of proceeds as disclosed in the Prospectus.

(ii) HK$11,598,400, being approximately 51% of the Consideration, will be satisfied by way of allotment and issue of 263,600,000 Consideration Shares, credited as fully paid, at the Issue Price to Ingen.

The Issue Price represents:

(a) a discount of approximately 10.20% to the closing price of HK$0.049 per Share as quoted on GEM on 24 June 2003, being the last trading day before the date of the Share Transfer Agreement;

(b) a discount of approximately 10.20% to the average closing price of approximately HK$0.049 per Share as quoted on GEM for the last 10 consecutive trading days up to and including 24 June 2003;

(c) a discount of approximately 6.38% to the closing price of HK$0.047 per Share as quoted on GEM on the Latest Practicable Date;

(d) a discount of approximately 10.20% to the average closing price of approximately HK$0.049 per Share as quoted on GEM for the last 10 consecutive trading days up to and including the Latest Practicable Date; and

(e) the net tangible asset value of HK$0.044 per Share as shown in the Group's audited consolidated financial statements made up to 30 June 2002.

The Issue Price was arrived at after arm's length negotiations between the Company and Ingen after taking into account the dilution effect on the market price of the Shares and the dilution effect on the net tangible asset value represented by each Share after the allotment and issue of the Placing Shares and the Consideration Shares. The Directors consider that the Issue Price is fair and reasonable and in the interests of the Shareholders as a whole.

The Consideration Shares will be allotted and issued to Ingen within seven days after the fulfillment of all the Conditions, and which when allotted and issued, will rank pari passu in all respects with each other and with the Shares in issue on the date of allotment and issue of the Consideration Shares and will carry the same voting rights. No Consideration Shares will be subject to any restrictions on disposal.

The Consideration Shares represent approximately 45.53% of the existing issued share capital of the Company and approximately 21.21% of the issued share capital of the Company as enlarged by the allotment and issue of the Placing Shares and the Consideration Shares.

The EGM will be convened and held to consider and, if thought fit, to approve, among other things, the allotment and issue of the Consideration Shares to Ingen.

Based on the closing price of HK$0.049 per Share as quoted on GEM on 24 June 2003, being the last trading day before the date of the Share Transfer Agreement, the value of the Consideration is HK$24,118,000. The Consideration was arrived at after arm's length negotiations between the parties to the Share Transfer Agreement. As at 31 May 2003, the net tangible asset value of Huaruiyuan was approximately HK$7,196,000. The Consideration represents a premium of approximately 217% over the net tangible asset value of Huaruiyuan as at 31 May 2003. The turnover and net profit of Huaruiyuan were approximately HK$2,415,000 and HK$592,200 respectively for the period from 6 May 2003, the date of establishment of Huaruiyuan, to 31 May 2003. Huaruiyuan usually offers its customers a credit period of 90 days for each billing. Up to the Latest Practicable Date, Huaruiyuan has not experienced any bad or doubtful debts. The account receivables of Huaruiyuan was approximately HK$2,223,000 as at 31 May 2003, of which approximately HK$700,000 has been subsequently settled thereafter up to the Latest Practicable Date. The remaining balance of approximately HK$1,523,000 will be settled within 25 days from the Latest Practicable Date.

The net tangible asset value, turnover, net profit and account receivables of Huaruiyuan disclosed above are based on the accountants' report on Huaruiyuan in Appendix II to the circular which is prepared in accordance with HKGAAP.

The Directors anticipate that the economic climate in the PRC will maintain its present upward trend which will lead to an enhancement of transportation network. Moreover, as the PRC government moves to tighten up the tax monitoring system to combat tax avoidance, the Directors expect that the demand for tax-declaring devices will increase substantially in the coming few years. Huaruiyuan is dedicated to research and development in order to enhance the sophistication of the system solutions services it provides in the tax-declaring system market. The Directors believe that research and development will further enhance Huaruiyuan's technological strength and business development. With Huaruiyuan's dedication in research and development and the government policy in combating tax avoidance in the PRC, the Directors believe that Huaruiyuan may become one of the active players in the tax-declaring system market.

After considering the following factors, the Directors consider that the Consideration is fair and reasonable and in the interests of the Group so far as the Shareholders are concerned:

(i) Huaruiyuan has achieved profits for merely a month's operation. Furthermore, Huaruiyuan has entered into new contracts with customers. Based on the new contracts signed, the Directors believe that the business of Huaruiyuan has a growth potential; and

(ii) the price to book ratio of the Acquisition is approximately 2.25 which is comparable to the price to book ratios of the acquisitions of businesses similar to that of Huaruiyuan by other companies listed on GEM.

The Directors further consider that the prospect of the business of Huaruiyuan and the performance of Huaruiyuan justify the premium that the Consideration represents over the net tangible asset value of Huaruiyuan.

Conditions of the Share Transfer Agreement

The Share Transfer Agreement is conditional upon, among other things, the following conditions having been fulfilled on or before 30 September 2003 or such later date as may be agreed by the parties to the Share Transfer Agreement in writing:

(i) the Shareholders passing at the EGM the necessary resolutions approving the Acquisitions and the allotment and issue of the Consideration Shares to Ingen, credited as fully paid;

(ii) Wah Shui having been satisfied with the results of the due diligence exercise to be carried out by it on Huaruiyuan;

(iii) the GEM Listing Committee having granted the listing of, and permission to deal in, the Consideration Shares;

(iv) Wah Shui having received a legal opinion covering such matter of the PRC laws relevant to the legality of the Acquisition in such form and substance to its satisfaction;

(v) the Independent Shareholders passing at the EGM the necessary resolutions approving the Placing;

(vi) the GEM Listing Committee granting the listing of, and permission to deal in, the Placing Shares;

(vii) Huaruiyuan having been converted into a Chinese-foreign equity joint venture, which conversion having been duly approved by the relevant authorities in the PRC; and

(viii) Huaruiyuan having obtained all relevant approvals and licences to carry out its business as a system solutions provider in the tax-declaring system market in the PRC.

The Directors confirmed that Wah Shui has already completed the due diligence exercise on Huaruiyuan and is satisfied with the results of the due diligence exercise and that Wah Shui has already received the PRC legal opinion regarding the legality of the Acquisition to its satisfaction. The Directors further confirmed that as at the Latest Practicable Date, Conditions (ii) and (iv) above have been fulfilled.

Completion

Completion is expected to take place within 20 business days after the fulfillment of all the Conditions on or before 30 September 2003 or such later date as may be agreed by the parties to the Share Transfer Agreement in writing. Otherwise, the Share Transfer Agreement shall cease and terminate. An announcement will be made by the Company upon Completion.

Upon Completion, Wah Shui will hold 95% of the equity interests in Huaruiyuan and the remaining 5% of the equity interests in Huaruiyuan will remain to be owned as to 2.5% by each of Huang Shu-ying and Chen Hong. According to the terms of the Share Transfer Agreement, the board of directors of Huaruiyuan will comprise of five directors upon Completion, of which Wah Shui shall be entitled to appoint four directors. Wah Shui intends to appoint Mr. Koh and Mr. Chu Siu Wah, both being executive Directors, to be the directors of Huaruiyuan upon Completion with the remaining two directors of Huaruiyuan to be recruited from experts in the tax industry. Huaruiyuan will become a subsidiary of the Company upon Completion.

Information on the Group

As disclosed in the Prospectus, the Company is an investment holding company and its subsidiaries are principally engaged in the business as a system solutions provider. The major system solutions services offered by the Group include information technology consultation and infrastructure services. By providing such services, the Group is engaged in, among other things, hardware and software design and installation, computer system integration, system programming, server collocation, server building, computer system building and computer network building.

Information on Huaruiyuan

Huaruiyuan is a limited liability company established in the PRC on 6 May 2003. The registered capital of Huaruiyuan is RMB10,000,000 (approximately HK$9,433,962), of which 90% (being RMB9,000,000, approximately HK$8,490,566) was contributed by Ingen and 5% (RMB500,000, approximately HK$471,698) was contributed in cash by each of Huang Shu-ying and Chen Hong. As at the date of the Announcement, the registered capital of Huaruiyuan has been fully contributed by the Vendors. It is one of the Conditions that Huaruiyuan be converted to a Chinese-foreign equity joint venture.

The Directors confirm that Ingen was introduced to Mr. Koh by a third party who is independent of and not connected with the directors, chief executive, substantial shareholders and management shareholders of the Company or any of its subsidiaries or any of their respective associates, at a social function in Shenzhen, the PRC in around January 2002. To the best knowledge of the Directors, Ingen has been principally engaged in the design, development and manufacture of tax-declaring products such as tax-declaring fuel filling machines and taxi meters, in the PRC since its establishment in February 1999. The tax-declaring fuel filling machine of Ingen and the embedded computer system as a single product was approved by the General Bureau of State Taxation of the PRC on 21 May 2001 and the General Bureau of State Quality Supervision Inspection and Quarantining of the PRC on 21 August 2001. The tax-declaring taxi meter of Ingen and the embedded computer system as a single product was approved by the General Bureau of State Taxation of the PRC on 6 June 2001 and the General Bureau of State Quality Supervision Inspection and Quarantining of the PRC on 28 June 2001. According to the "Notice in relation to the Installation of Tax-Declaring Units in Fuel Filling Machines" (「關於加油機安裝税控裝置的通告」) issued by the State Administration of Taxation of China on 8 May 2000, the tax-declaring fuel filling machine of Ingen and the embedded computer system as a single product is one of the 13 approved tax-declaring fuel filling machines in the PRC.

On 6 May 2003, Ingen, Huang Shu-ying and Chen Hong established Huaruiyuan to engage in the design and development of tax-declaring computer software and the integration of tax-declaring computer system and network. To the best knowledge of the Directors, Ingen has been engaged in the design and development of tax-declaring computer software and the integration of tax-declaring computer system and network and the design, development and manufacture of tax-declaring products since its establishment in February 1999. The technological knowhow involved in the design and development of tax-declaring computer software and the integration of tax-declaring computer system and network was transferred by Ingen to Huaruiyuan in the value of RMB1,500,000 (approximately 1,415,100) as part of Ingen's capital contribution to Huaruiyuan. The remaining balance of the capital contribution by Ingen to Huaruiyuan was made by Ingen as to RMB7,000,000 (approximately HK$6,603,774) by way of transfer of equipments and facilities used in the design, development and integration of tax-declaring computer software, system and network and as to RMB500,000 (approximately HK$471,698) by way of cash.

Huaruiyuan is a system solutions provider in the tax-declaring system market in the PRC. The Directors confirm that Huaruiyuan has obtained all relevant approvals and licences to conduct its business as a system solutions provider in the tax-declaring system market in the PRC. As disclosed in the business licence of Huaruiyuan, Huaruiyuan is principally engaged in the design, development and sale of tax-declaring computer software and network in the PRC. Huaruiyuan has applied its tax-declaring software platform into products such as tax-declaring fuel filling machines and taxi meters so that such tax-declaring products can collect data and calculate the tax payable. Huaruiyuan is also engaged in the design and integration of the tax-declaring computer network and central computer system so that the data collected by the tax-declaring products can be transmitted to the central computer system owned by the users for processing, data polling and storage through the computer network. The central computer system designed and integrated by Huaruiyuan is compatible with the computer system of the PRC taxation authorities so that the PRC taxation authorities can collect the relevant data from the central computer system.

During the course of its business as a system solutions provider, Huaruiyuan provides customised solutions to its customers in accordance with their individual requirements and specifications and is involved in, among other things:

(i) the design, development and enhancement of computer software and technology used in tax-declaring products, the central computer system and the computer network;

(ii) the design and integration of tax-declaring computer system used for processing and storing the data collected by the tax-declaring products; and

(iii) the design, integration and setting-up of computer network through which the data collected by the tax-declaring products can be transmitted to the tax-declaring computer system.

By adopting the same terms as used in the Prospectus, Huaruiyuan is providing, among other things, hardware and software design and installation, system programming, computer system integration, computer system building and computer network building services in the tax-declaring system market. To the best knowledge of the Directors, due to the high level of technical sophistication involved in the tax-declaring system market, there are approximately 12 competitors in the tax-declaring system market. The Directors confirm that since the PRC government will not grant any new licence for new tax-declaring products and the embedded computer systems, there is entry barrier in the tax-declaring system market. Given the established relationship between Ingen and Huaruiyuan, Ingen has introduced its customers to Huaruiyuan for it to provide system solutions services for the tax-declaring products. As such, Huaruiyuan has approximately 600 customers which include the municipal governments of the PRC and certain major fuel and taxi companies in the PRC as at the Latest Practicable Date.

Besides engaging in the provision of system solutions services in tax-declaring system market, Huaruiyuan is exploring business opportunities which are in line with its principal business of system integration and software development. Specifically, Huaruiyuan is now exploring business opportunities in the customer care software market.

The Directors confirm that the Group will continue to provide its existing services and to carry on its existing businesses after the Acquisition. The Directors confirm that the Group will not change its business nature as disclosed in the Prospectus after the Acquisition.

Based on the accountants' report on Huaruiyuan set out in Appendix II to this circular, the turnover, the profit before taxation and the net profit of Huaruiyuan in accordance with HKGAAP for the period from 6 May 2003, the date of establishment of Huaruiyuan, to 31 May 2003 are as follows:

	HK$
Turnover	2,415,000
Profit before taxation	697,000
Net profit	592,000

Based on the accountants report on Huaruiyuan set out in Appendix II to this circular, the net tangible assets of Huaruiyuan in accordance with HKGAAP is approximately HK$7,196,000.

Huaruiyuan generally finances its operations through shareholders' funds and internally generated cashflow. As at 31 May 2003, Huaruiyuan had bank balances and cash amounted to approximately HK$1,607,000.

Huaruiyuan had about 71 full-time employees in the PRC as at 31 May 2003. Staff costs for the period from 6 May 2003, the date of establishment of Huaruiyuan, to 31 May 2003 amounted to approximately HK$221,000. No directors' remuneration was paid by Huaruiyuan during such period.

Save as disclosed in the accountants' report of Huaruiyuan set out in Appendix II to this circular, Huaruiyuan had no acquisitions and disposals of subsidiaries and affiliated companies since its establishment up to 31 May 2003. In addition, Huaruiyuan had no significant investments since its establishment up to 31 May 2003.

As at the close of business on 31 May 2003, Huaruiyuan had not obtained any bank facilities and had no material commitments and contingent liabilities.

Save as set out in Appendices I and II to this circular and apart from intra-group liabilities, none of the members in the Enlarged Group had, at the close of business on 31 May 2003, any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, changes, obligations under hire purchases or finance leases, guarantees or other material contingent liabilities.

Reasons for the Acquisition

As disclosed in the Prospectus, the Company is an investment holding company and its subsidiaries are principally engaged in the business as a system solutions provider. The Directors anticipate that the economic climate in the PRC will maintain its present upward trend which will lead to an enhancement of transportation network. Moreover, as the PRC government moves to tighten up the tax monitoring system to combat tax avoidance, the Directors expect that the demand for tax-declaring computer technology and system will increase substantially in the coming few years.

According to the "Notice in relation to the Installation of Tax-Declaring Units in Fuel Filling Machines" (「關於加油機安裝稅控裝置的通告」) issued by the State Administration of Taxation of China on 8 May 2000, all fuel filling machines are required to have a tax-declaring units installed. The said notice has already been implemented and the installation of tax-declaring units has already commenced.

According to the "Notice in relation to the Production and Use of Tax-Declaring Taxi Meters" (「關於生產使用出租汽車稅控計價器有關問題的通知」) issued by the Guangdong Local Tax Bureau and the Guangdong Quality Supervision Inspection Bureau on 9 May 2000, all taxis are required to install tax-declaring taxi meters. The said notice has already been implemented and the installation of tax-declaring taxi meters has already commenced.

In view of the government policy to combat tax avoidance in the PRC, the Directors expect that the business as a system solutions provider in the tax-declaring system market in the PRC has a growth potential.

The Directors consider that the Acquisition offers the Group a good business opportunity for expanding the Group's presence in related business with a growth potential. The Group also intends to explore the overseas market for tax-declaring products, thus creating an extent of business synergy. Therefore, the Directors believe that the Acquisition will enhance the future revenue-generating and business prospects of the Group.

As disclosed in the business licence of Huaruiyuan, Huaruiyuan is principally engaged in the design, development and sale of tax-declaring computer software and network in the PRC. The Directors consider that the business of Huaruiyuan falls within the category of "IT consultation and infrastructure projects", being one of the major system solution services offered by the Group as disclosed in the Prospectus. The Directors confirm that the Group will expand its system solutions services to the tax-declaring system market while continuing to provide its existing services after the Acquisition. The Directors consider that the Acquisition is in line with the Group's business objectives of becoming a leading system solutions provider with a primary focus in Hong Kong and the PRC as disclosed in the Prospectus.

The Directors (including the independent non-executive Directors) believe that they have fulfilled their duties under Rule 5.01 of the GEM Listing Rules. The Directors have conducted the following due diligence work:

(i) visited the office of Huaruiyuan in Shenzhen, the PRC to inspect and understand their operations and business, and discussed with the Vendors and the key management of Huaruiyuan in relation to the business and operations of Huaruiyuan;

(ii) obtained the necessary information of Huaruiyuan and evaluated the business prospects of Huaruiyuan based on the experience and knowledge of the management of the Group;

(iii) conducted meetings of the board of Directors to consider and approve the Acquisition;

(iv) obtained PRC legal opinion on the legality of the Acquisition;

(v) discussed, reviewed and analysed the Acquisition, taking into consideration of the business prospects and the past and prospective performance of Huaruiyuan; and

(vi) engaged auditors to conduct a financial due diligence review of Huaruiyuan.

PLACING

On 4 July 2003, the Company entered into subscription agreements with nine placees of which seven are investors, one is the company secretary and qualified accountant of the Company and the remaining one is a connected person of the Company under the GEM Listing Rules pursuant to which the Company has agreed to place an aggregate of 400,000,000 Placing Shares to such placees at the Placing Price. There is no placing agent for the Placing.

The Placees and their independence

The Placing Shares will be placed to nine placees of which seven are investors who are independent of and not connected with any of the directors, chief executive, substantial shareholders, management shareholders of the Company or any of its subsidiaries or any of their respective associates and who are not the classes of persons as stated in Rule 10.12(4) of the GEM Listing Rules, one is the company secretary and qualified accountant of the Company and the remaining placee, being Dynamate Limited, is a connected person of the Company under the GEM Listing Rules. Each of the placees of the Placing Shares is independent of and not connected with each other. The placees who is connected person of the Company for the purpose of the GEM Listing Rules and whose details are required to be disclosed under Rule 10.12(4) of the GEM Listing Rules are as follows:

Placees	No. of Placing Shares	Ultimate beneficial owner	Relationship with the Company
Dynamate Limited	220,000,000	Mr. Koh	Substantial shareholder of the Company and Mr. Koh is an executive Director and the chairman of the Company
Mr. Leung, Dennis	10,000,000	–	Company secretary and qualified accountant of the Company since 15 June 2003

The remaining 170,000,000 Placing Shares will be placed to the other seven investors who are independent of and not connected with any of the directors, chief executive, substantial shareholders and management shareholders of the Company or any of its subsidiaries or any of their respective associates and who are not the classes of persons as stated in Rule 10.12(4) of the GEM Listing Rules.

Placing Price

The Placing Price represents (i) a discount of approximately 18.37% to the closing price of HK$0.049 per Share as quoted on GEM on 24 June 2003, being the last trading day before the date of the Share Transfer Agreement; (ii) a discount of approximately 18.37% to the average closing price of approximately HK$0.049 per Share as quoted on GEM for the last 10 consecutive trading days up to and including 24 June 2003; (iii) a discount of approximately 14.89% to the closing price of HK$0.047 per Share as quoted on GEM on the Latest Practicable Date; (iv) a discount of approximately 18.37% to the average closing price of approximately HK$0.049 per Share as quoted on GEM for the last 10 consecutive trading days up to and including the Latest Practicable Date; and (v) a discount of approximately 9.09% to the net tangible asset value of HK$0.044 per Share as shown in the Group's audited consolidated financial statements made up to 30 June 2002. The Placing Price was arrived at after arm's length negotiations between the Company and the placees. The Directors consider that the Placing Price (including the discount to the closing prices and the net tangible asset value as shown above) and all terms of the Placing and the relevant subscription agreements are fair and reasonable and in the interests of the Shareholders as a whole.

Rights

The Placing Shares, when issued and fully paid, will rank equally in all respects among themselves and with the Shares in issue on the date of allotment and issue of the Placing Shares and will carry the same voting rights.

Number of Placing Shares

The Placing Shares represent approximately 69.08% of the existing issued share capital of the Company, approximately 40.85% of the issued share capital of the Company as enlarged by the allotment and issue of the Placing Shares and approximately 32.19% of the issued share capital of the Company as enlarged by the allotment and issue of the Placing Shares and Consideration Shares.

Mandate to issue new Shares

The EGM will be convened and held to consider and, if thought fit, to approve, among other things, the allotment and issue of the Placing Shares to the placees under the Placing.

Use of proceeds

The net proceeds of the Placing of about HK$15,300,000 will be applied as to HK$11,201,600 to settle the Cash Consideration payable by Wah Shui to the Vendors pursuant to the Share Transfer Agreement, as to approximately HK$1,200,000 for the exploration of overseas market for tax-declaring products, as to approximately HK$800,000 for the purchase of facilities and equipments used for the development of tax-declaring computer software and technology, computer system and computer network and as to the remaining balance of approximately HK$2,098,400 as the general working capital of the Group.

Conditions of the Placing

The Placing is conditional upon:

(i) the approval of the Placing by the Independent Shareholders at the EGM; and

(ii) the GEM Listing Committee granting or agreeing to grant listing of, and permission to deal in, the Placing Shares.

The Placing is not conditional upon the completion of the Share Transfer Agreement and the conditions set out therein.

Completion

Completion of the Placing will take place within 14 business days after the conditions of Placing are satisfied. An announcement will be made by the Company upon completion of the Placing.

After the completion of the Placing and at all times thereafter, the Company is required to maintain not less than 25% of the enlarged issued share capital of the Company in public hands as required by Rule 11.23 of the GEM Listing Rules in relation to the minimum public float requirement. The Directors expect that there will be not less than 25% of the issued share capital of the Company in public hands immediately after the completion of the Placing.

Reasons for the Placing

The Directors believe that it is in the best interests of the Group to raise fund to finance the Acquisition and to raise further capital in the equity market by way of placing. The Directors consider that the terms of the Placing were arrived at after arm's length negotiations between the Company and the placees and are fair and reasonable so far as the Shareholders are concerned. The Directors also consider that the Placing will enlarge the shareholder base and the capital base of the Company and will strengthen the financial position of the Group.

EFFECTS OF THE ACQUISITION AND THE PLACING

Shareholding

The changes of the shareholding of the two largest Shareholders, City Lion Worldwide Limited and Dynamate Limited, and Ingen in the Company as a result of the Placing and the allotment and issue of the Consideration Shares are as follows:

Shareholders	As at the Latest Practicable Date and immediately before completion of the Placing	Immediately after completion of the Placing	Immediately after completion of the Placing and the allotment and issue of the Consideration Shares
City Lion Worldwide Limited *(Note 1)*	27.63%	16.34%	12.88%
Dynamate Limited *(Note 2)*	25.93%	37.81%	29.79%
Ingen *(Note 3)*	–	–	21.21%

Notes:

1. The entire issued share capital of City Lion Worldwide Limited is beneficially owned by Styland (Overseas) Limited, which is in turn a wholly owned subsidiary of Styland Holdings Limited. The issued shares of Styland Holdings Limited are listed on the main board of the Stock Exchange.

2. The entire issued share capital of Dynamate Limited is beneficially owned by Mr. Koh. Subject to the fulfillment of the conditions set out in the paragraph headed “Conditions of the Placing” above, a total number of 220,000,000 Shares will be placed to Dynamate Limited under the Placing.

3. Subject to the terms and conditions of the Share Transfer Agreement, an aggregate of 263,600,000 Consideration Shares will be allotted and issued to Ingen, credited as fully paid. The equity interests of Ingen are beneficially owned as to 25.40% by Chen Hong, as to 12% by Huang Shu-ying and as to the remaining 62.60% by nine third parties who are independent of and not connected with the directors, chief executives, substantial shareholders and management shareholders of the Company or any of its subsidiaries or any of their respective associates.

The Company presently does not have any controlling shareholder for the purpose of the GEM Listing Rules and it will not have any controlling shareholder for the purpose of the GEM Listing Rules after the allotment and issue of the Placing Shares and the Consideration Shares.

Earnings

As shown in the accountants’ report on Huaruiyuan set out in Appendix II to this circular, Huaruiyuan had achieved a profit from operation of approximately HK$592,000 for the period from 6 May 2003, the date of establishment of Huaruiyuan, to 31 May 2003. The Directors believe that Huaruiyuan will enhance the future revenue-generating and business prospects of the Group.

Net tangible assets

Set out in paragraph 1 of Appendix III to this circular is an unaudited pro forma statement of adjusted combined net tangible assets of the Enlarged Group. As shown in that paragraph, the unaudited pro forma adjusted combined net tangible assets of the Enlarged Group immediately upon completion of the Acquisition and the Placing will be approximately HK$28,250,000, equivalent to HK$0.023 per Share. The per Share value represents a decrease of approximately 48% as compared to the net tangible asset value per Share before the completion of the Acquisition and the Placing of HK$0.044 per Share based on the number of Shares in issues as at the Latest Practicable Date and the audited consolidated net tangible assets of the Group of approximately HK$25,623,000 as at 30 June 2002.

FUTURE PROSPECTS OF THE GROUP

As disclosed in the Prospectus, the Company is an investment holding company and its subsidiaries are principally engaged in the business as a system solutions provider. The Directors believe that developing businesses, which have synergy with the business of the Group as a system solutions provider, will be an effective way of sharpening the competitive edge of the Group and a better ulitisation of its resources.

In the future, the Group will continue to broaden its services as a system solutions provider and its business spectrums in order to enhance its profitability. The Group also intends to look for investment and acquisition opportunities in related businesses with growth potential and to expand its geographical presence by forming strategic and business alliances with local leading information technology companies and business partners in the PRC. In view of the rapidly changing technology and industry standards in the system solutions market, the Group will continue its dedication in research and development which the Directors believe to be critical to secure the Group's position in the changing marketplace.

GENERAL MANDATE AND REPURCHASE MANDATE

The Directors propose to seek the approval of the Shareholders at the EGM to the allotment and issue of the Consideration Shares to Ingen, and the approval of the Independent Shareholders to the allotment and issue of the Placing Shares to the placees under the Placing. At the EGM, the Directors also propose to seek the approval of the Shareholders to grant the General Mandate and the Repurchase Mandate.

General Mandate

At the EGM, an ordinary resolution will be proposed that the Directors be given an unconditional general mandate to allot, issue and deal with Shares or securities convertible into Shares, options, warrants or similar rights to subscribe for any Shares (other than by way of rights or pursuant to a share option scheme for employees or directors of the Company and/or any of its subsidiaries or pursuant to any scrip dividend scheme or similar arrangements or upon the exercise of rights of subscription or conversion under the terms of any securities or bonds convertible into Shares) or make or grant offers, agreements, options and warrants which might require the exercise of such power, of an aggregate nominal amount of up to 20% of the aggregate nominal amount of the issued share capital of the Company as enlarged by the allotment and issue of the Placing Shares and the Consideration Shares.

As at the Latest Practicable Date, the issued share capital of the Company comprised 579,008,000 Shares. Upon the allotment and issue of the Placing Shares and the Consideration Shares, the issued share capital of the Company will be 1,242,608,000 Shares.

Subject to the passing of the resolution for the approval of the General Mandate and on the basis that no further Shares are issued or repurchased between the Latest Practicable Date and the date of the EGM and that the Placing Shares and the Consideration Shares are duly allotted and issued pursuant to the Placing and the Share Transfer Agreement respectively, the Company would be allowed under the General Mandate to allot, issue and deal with a maximum of 248,521,600 Shares.

Repurchase Mandate

At the EGM, an ordinary resolution will also be proposed that the Directors be given an unconditional general mandate to repurchase securities of the Company on GEM or any other stock exchange on which the Shares may be listed and recognised by the Securities and Futures Commission and the Stock Exchange for such purpose, of an aggregate nominal amount of up to 10% of the aggregate nominal amount of the issued share capital of the Company as enlarged by the allotment and issue of the Placing Shares and the Consideration Shares.

Subject to the passing of the resolution for the approval of the Repurchase Mandate and on the basis that no further Shares are issued or repurchased between the Latest Practicable Date and the date of the EGM and that the Placing Shares and the Consideration Shares are duly allotted and issued pursuant to the Placing and the Share Transfer Agreement respectively, the Company would be allowed under the Repurchase Mandate to repurchase a maximum of 124,260,800 Shares.

The General Mandate and the Repurchase Mandate shall continue in force during the period form the date of passing of the resolutions for the approval of the General Mandate and the Repurchase Mandate up to (i) the conclusion of the next annual general meeting of the Company; (ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable laws of the Cayman Islands to be held; or (iii) the revocation, variation or renewal of the General Mandate or the Repurchase Mandate (as the case may be) by ordinary resolution of the Shareholders in general meeting, whichever occurs first.

An explanatory statement in connection with the Repurchase Mandate is set out in Appendix IV to this circular. The explanatory statement contains all the information required under Rule 13.08 of the GEM Listing Rules to be given to the Shareholders to enable them to make an informed decision on whether to vote for or against the resolution approving the Repurchase Mandate.

EGM

A notice convening an extraordinary general meeting of the Company to be held at Macau Jockey Club Golden Restaurant, First Floor, China Merchants Tower, Shun Tak Centre, 200 Connaught Road, Hong Kong at 11:00 a.m. on 22 August 2003 is set out on pages 92 to 96 of this circular. Ordinary resolutions will be proposed at the EGM to approve the following matters:

(i) the Share Transfer Agreement and the transactions contemplated thereunder including without limitation the allotment and issue of the Consideration Shares to Ingen;

(ii) the Placing and the allotment and issue of the Placing Shares;

(iii) the grant of the General Mandate; and

(iv) the grant of the Repurchase Mandate.

Dynamate Limited and its associates will abstain from voting in respect of the resolution approving (ii) above.

A form of proxy for use at the EGM is enclosed. Whether or not you are able to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and deposit the same at the offices of Tengis Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the special general meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the extraordinary general meeting or any adjournment thereof should you so wish.

APPLICATION FOR LISTING AND ELIGIBILITY FOR CCASS

Application has been made to the GEM Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares and the Placing Shares.

Subject to the granting of the listing of, and permission to deal in, the Consideration Shares and the Placing Shares on GEM, the Consideration Shares and the Placing Shares will be accepted as eligible securities by Hongkong Clearing for deposit, clearance and settlement in CCASS with effect from the commencement dates of dealings in the Consideration Shares and the Placing Shares on GEM or such other dates as determined by Hongkong Clearing. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Investors should seek the advice of their licensed securities dealer or other professional adviser for details of those settlement arrangements as such arrangements may affect their rights and interests.

RECOMMENDATIONS

First Asia Finance has been appointed to advise the Independent Board Committee with regard to the Placing. First Asia Finance considers that the terms of the Placing to be fair and reasonable and in the interest of the Group so far as the Independent Shareholders as a whole are concerned. The text of the letter of advice from First Asia Finance containing its recommendation and the principal factors and reasons that it has taken into consideration in arriving at its recommendation are set out on pages 26 to 34 of this circular.

The Independent Board Committee, having taken into account the advice of First Asia Finance, considers that the terms of the Placing are fair and reasonable and are in the interest of the Group so far as the Independent Shareholders as a whole are concerned. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Placing. The text of the letter from the Independent Board Committee is set out on page 25 of this circular.

The Directors considers the Share Transfer Agreement was entered into upon normal commercial terms following arm's length negotiations between the parties to the Share Transfer Agreement and that the terms of the Share Transfer Agreement and the Placing and the proposed grant of the General Mandate and the Repurchase Mandate are fair and reasonable and are in the interest of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM.

FURTHER INFORMATION

Your attention is also drawn to the letter of advice from First Asia Finance, which contains its advice to the Independent Board Committee in connection with the Placing, the letter from the Independent Board Committee which sets out its recommendation to the Independent Shareholders in relation to the Placing, and the additional information set out in the Appendices to this circular.

Yours faithfully
For and on behalf of the Board of
Inworld Group Limited
Koh Tat Lee, Michael
Chairman

The following is the text of a letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders in relation to the Placing:

INWORLD GROUP LIMITED
活力世界控股有限公司*
(Incorporated in the Cayman Islands with limited liability)

5 August 2003

To the Independent Shareholders

Dear Sir or Madam,

CONNECTED TRANSACTION:
PLACING OF 400,000,000 NEW SHARES

We have been appointed to advise you in respect of the Placing. Details of the Placing are set out in the letter from the Board on pages 6 to 24 of this circular (the "**Circular**"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless specified otherwise.

We wish to draw your attention to the letter from the Board as set out on pages 6 to 24 of the Circular and the letter of advice from First Asia Finance as set out on pages 26 to 34 of the Circular.

Having taken into account the advice and recommendation of First Asia Finance, we consider the Placing is in the interest of the Group and the Independent Shareholders and the terms of the Placing are fair and reasonable so far as the Independent Shareholders as a whole are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Placing.

Yours faithfully
Independent Board Committee

Leung Chun Cheng	**Wong Shui Fun**	**Ng Yat Cheung**
Independent non-executive Director	*Independent non-executive Director*	*Non-executive Director*

* *For identification purpose only*

The following is the text of a letter of advice from First Asia Finance to the Independent Board Committee in relation to the Placing and prepared for the purpose of incorporation in this circular:

第一亞洲
FIRST ASIA

FIRST ASIA FINANCE GROUP LIMITED

Unit 1502, World Wide House
19 Des Voeux Road Central
Hong Kong

5 August 2003

To the Independent Board Committee of
Inworld Group Limited

Dear Sirs,

MAJOR AND CONNECTED TRANSACTIONS AND PROPOSED GRANT OF GENERAL MANDATES TO ISSUE AND REPURCHASE SHARES

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee in respect of the terms of the Placing, details of which are set out in the letter from the Board (the "Board Letter") contained in the circular of the Company dated 5 August 2003 (the "Circular") of which this letter forms part. Terms defined in the Circular shall have the same meanings in this letter unless the context of this letter otherwise requires.

On 4 July 2003, the Company entered into subscription agreements with nine placees including Dynamate Limited, Mr. Leung, Dennis, the company secretary and qualified accountant of the Company, and seven investors who are independent of and not connected with any directors, chief executive, substantial shareholders and management shareholders of the Company or any of its subsidiaries or any of their respective associates and who are not the classes of persons as stated in Rule 10.12(4) of the GEM Listing Rules, pursuant to which the Company has agreed to place an aggregate of 400,000,000 Placing Shares to such placees at the Placing Price. Since the entire issued share capital of Dynamate Limited is beneficially owned by Mr. Koh, the Placing constitutes a one-off and non-exempted connected transaction on the part of the Company under Chapter 20 of the GEM Listing Rules and will be subject to, among other things, the approval by the Independent Shareholders at the EGM.

In accordance with the GEM Listing Rules, Mr. Koh and his associates will abstain from voting on the resolutions to approve the Placing at the EGM. The Board has appointed the Independent Board Committee to consider whether the terms of the Placing are fair and reasonable so far as the Independent Shareholders are concerned. First Asia Finance has been appointed to advise the Independent Board Committee in this respect.

BASIS OF OUR ADVICE

In formulating our advice, we have relied upon the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations contained or referred to in the Circular and all information and representations which have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the date hereof. We have sought and received confirmation from the Directors that there are no other facts the omission of which would make any statement made in the Circular misleading.

We consider that the information reviewed by us is sufficient for the purpose of our advice set out in this letter and we have no reason to doubt the truth, accuracy, or completeness of the information provided to us by the Company or the Directors. We have not, however, conducted any form of independent verification of the information provided by the Directors, nor have we conducted an independent investigation into the business and affairs of the Group.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our recommendation in respect of the terms of the Placing, we have taken into consideration the following principal factors and reasons:

1. Background of and reasons for the Placing

Rationale of the Placing

As stated in the Board Letter, the Company has proposed to raise net proceeds of about HK$15,300,000 by way of Placing of 400,000,000 Placing Shares at a price of HK$0.04 per Placing Shares. The net proceeds of the Placing will be allocated as to (1) HK$11,201,600 to settle the Cash Consideration payable by Wah Shui to the Vendors pursuant to the Share Transfer Agreement; (2) approximately HK$1,200,000 for the exploration of overseas market for tax-declaring products; (3) approximately HK$800,000 for the purchase of facilities and equipments used for the development of tax-declaring computer software and technology, computer system and computer network; and (4) approximately HK$2,098,400 as the general working capital of the Group.

As disclosed in the Prospectus, the Company is an investment holding company and its subsidiaries are principally engaged in the business as a system solutions provider. The major system solutions services offered by the Group include information technology consultation and infrastructure services. By providing such services, the Group is engaged in, among other things, hardware and software design and installation, computer system integration, system programming, server collocation, server building, computer system building and computer network building.

The Directors consider the present deteriorating financial position of the Group is mainly a resultant effect from the fierce competition in the system solutions industry throughout the region. As such, the Group has initiated business consolidations and the exploration of investment and acquisition opportunities in related business with growth potential in order to broaden its services and business spectrums with an aim to enhance the Group's profitability.

As stated in the latest published third quarterly report of the Company for the three months ended 31 March 2003 and the nine months ended 31 March 2003, the Group was affected by fierce competition, turnover had dropped substantially and net loss had widened significantly. In addition, based on the unaudited management accounts, as at 31 May 2003, the Group held cash on hand and in bank of less than HK$330,000 and was under mild liquidity pressure with working capital amounting to approximately HK$1.59 million.

In view of the foregoing, we consider it prudent for the Company, given it has tight financial resources, to finance by way of equity to strengthen its capital base to provide the necessary funding for the Acquisition. Under the current market conditions, we consider the Placing will be able to finance the proposed acquisition.

Other financing alternatives

As advised by the Directors, they have considered alternate means of financing other than share placements, including a rights issue. A rights issue would have required an engagement of underwriters and the time frame would be much longer than share placements. The Directors confirmed that they had approached a number of securities brokers for their willingness to act as underwriters of a possible rights issue. However, the Directors only received lukewarm responses from the securities brokers.

As for debt financing or the issue of convertible bonds, the Directors consider it not an option for the Group taking into account of the current financial position of the Group as it will further increase the finance costs of the Group which is not in the interest of the Group. After due and careful assessment, the Directors considered that the overall market sentiment in the capital market is currently not favourable for fund raising via the means of rights issue and debt financing.

Having considered the above factors, we concur with the Directors' view that the Placing which provides quick and readily accessible source of funding is presently an appropriate and equitable means for the Company to raise funds to fund the Acquisition.

2. Principal terms of the Placing

Under the Placing, the placing price is HK$0.04 per Placing Share.

For the purpose of assessing the issue price level of the Placing, we tabulate below the highest and the lowest closing prices of the Shares traded on GEM in each of the six months from 2 January 2003 to 24 June 2003, being the last trading day prior to the suspension of trading of the Shares on 25 June 2003 and further up from 16 July 2003, being the first trading day after the resumption of the trading of the Shares to the Latest Practicable Date (the "Trading Period"):

Month	Highest closing price *(HK$)*	Lowest closing price *(HK$)*	Monthly trading volume *(million)*
2003			
January	0.098	0.045	11.6
February	0.045	0.035	1.9
March	0.066	0.040	59.6
April	0.057	0.040	57.9
May	0.063	0.028	156.8
June (up to 24 June)	0.056	0.046	106.5
July – August (from 16 July to the Latest Practicable Date)	0.061	0.042	108.3

During the Trading Period, the Shares were traded on GEM within a range of a highest closing price of HK$0.098 on 2 January 2003 to a lowest closing price of HK$0.028 on 16 May 2003.

As illustrated in the table above, the liquidity of the Shares during the Trading Period had been volatile with the highest volume of approximately 156.8 million Shares in May 2003 and the lowest volume of approximately 1.9 million in February 2003.

Given the volatile trading volume of the Shares especially the observation that the price range of the highest and the lowest closing prices tended to drift down as the monthly trading volume increased, it would be in our opinion difficult for the Company to raise equity funds at a price which does not represent a fairly substantial discount to the market price of the Shares.

The Placing Price represents (1) a discount of approximately 18.37% to the closing price of HK$0.049 per Share as quoted on GEM on 24 June 2003, being the last trading day before the date of the Share Transfer Agreement; (2) a discount of approximately 18.37% to the average closing price of approximately HK$0.049 per Share as quoted on GEM for the last 10 consecutive trading days up to and including 24 June 2003; and (3) a discount of approximately 9.09% to the net tangible asset value of HK$0.044 per Share as shown in the Group's audited consolidated financial statements made up to 30 June 2002.

The Placing Price was arrived at after arm's length negotiations between the Company and the placees. The Directors consider that the Placing Price (including the discount to the closing prices and the net tangible asset value as shown above) and all terms of the Placing and the relevant subscription agreements are fair and reasonable and in the interests of the Shareholders as a whole.

We have reviewed the terms of a total of eight share placements carried out by other listed companies in GEM so far as we are aware of from March 2003 to the Latest Practicable Date. We have tabulated below for comparison on the discount rates of these share placements for our analysis:

Company name (Stock code)	**Date of the announcement of the Share Placement (the "Press Announcement")**	**Subscription Price (the "Price") per placing share**	**Premium/ (Discount) of the Price to closing price of shares on the last trading day prior to the Press Announcement**
		HK$	*%*
Satellite Devices Corporation (8172)	10 March 2003	0.114	25.00
Leadership Publishing Group Limited (8010)	17 April 2003	0.400	(31.00)
Wanasports Holdings Limited (8020)	23 April 2003	0.100	(4.00)
Info Communication Holdings Limited (8082)	13 May 2003	0.032	3.00
Computech Holdings Limited (8081)	14 May 2003	0.300	50.00
Leadership Publishing Group Limited (8010)	26 June 2003	0.420	(35.38)
TOM.COM LIMITED (8001)	2 July 2003	2.535	(3.469)
Golden Meditech Company Limited (8180)	4 July 2003	2.000	61.00
Mean			**8.14**
Median			**(0.23)**
The Company (8100)	15 July 2003	0.040	(18.37)

The discount/premium rates of the Prices to the closing prices on the last trading day prior to the Press Announcements in relation to the eight share placements in GEM (the "Closing Price Range") ranged from discount of 35.38% to premium of 61%, with the mean and median of premium of 8.14% and discount of 0.23% respectively.

The discount rate of the Placing Price to the closing price of the Shares on the last trading day prior to the Announcement is higher than the mean and the median but falls within the Closing Price Range. We also note that the Placing Price represents a premium over the Group's unaudited consolidated net assets per Share.

We understand that in the current volatile stock markets, it is common for some companies listed in GEM to offer relatively higher discount rates for share placements in order to enhance the attractiveness. Taking into account of the Group's business nature and current financial position and decreasing consolidated net assets, we consider the consolidated net assets as a reasonable basis for determining the value of the Group as the Company's share price may not reflect the true value of the Group. Given that the discount rate of the Placing falls within the Closing Price Range and that the Placing Price represents a premium over the Group's unaudited consolidated net assets, we consider that the Placing Price is acceptable so far as the Independent Shareholders are concerned.

We therefore concur with the Directors that the Placing is in the best interests of the Company and Independent Shareholders as a whole as the Placing is an equitable method for all Shareholders as a whole to raise new equity capital for the Company and that the terms of the Placing are fair and reasonable.

3. Dilution of shareholding

The following table sets out the Company's shareholding structure immediately before and after the Placing.

Shareholders	**Current Shareholdings As at the Latest Practicable Date**		**New shareholdings**	
	Shares	*%*	*Shares*	*%*
City Lion Worldwide Limited *(Note 1)*	160,000,000	27.63	160,000,000	16.34
Dynamate Limited *(Note 2)*	150,135,000	25.93	370,135,000	37.81
Mr. Leung, Dennis	–	–	10,000,000	1.02
Placees	–	–	170,000,000	17.37
Public	268,873,000	46.44	268,873,000	27.46
Total	579,008,000	100.00	979,008,000	100.00

Notes:

1. The entire issued share capital of City Lion Worldwide Limited is beneficially owned by Styland (Overseas) Limited, which is in turn a wholly owned subsidiary of Styland Holdings Limited. The issued shares of Styland Holdings Limited are listed on the main board of the Stock Exchange.

2. The entire issued share capital of Dynamate Limited is beneficially owned by Mr. Koh. Subject to the fulfillment of the conditions set out in the paragraph headed "Conditions of the Placing" in the Board Letter, a total number of 220,000,000 Shares will be placed to Dynamate Limited under the Placing.

We note that the public Shareholders' shareholding would be diluted from approximately 46.44% to approximately 27.46%.

Having considered the following factors, we are of the view that the Placing is not prejudicial to the interest of the Independent Shareholders and thus the dilution effect mentioned above is acceptable:

- The improvement on the Group's unaudited pro forma adjusted consolidated net assets per Share;

- Given the unfavourable stock market sentiment in Hong Kong, it is rather difficult for the Group to secure underwriting for an equity fund raising exercise (such as rights issues); and

- The positive financial effect that the Placing would strengthen the Group's financial position, in particular, to provide additional working capital to the Group.

We wish to draw the attention of the Independent Shareholders that the Placing is not conditional upon the completion of the Share Transfer Agreement. Should the Placing proceed successfully but the Share Transfer Agreement fails to complete, Dynamate Limited and its associates will be obliged to make a general offer under Rule 26.1 of the Takeovers Code as a result of and/or in connection with the Placing.

4. Financial effects

The effect on the audited consolidated net tangible asset value of the Group as a result of the Placing is summarized as follows:

		Per Share
	HK$'000	*HK$*
Audited consolidated net tangible assets of the Group as at 30 June 2002 *(Note 1)*	25,623	0.0443
Unaudited consolidated results of the Group for the nine months ended 31 March 2003	(12,219)	
Proceeds from Shares issued on exercise of share option	30	
Unaudited amortisation of intangible assets of the Group for the nine months ended 31 March 2003	1,193	
Unaudited adjusted combined net tangible assets of the Group as at 31 March 2003 *(Note 1)*	14,627	0.0253
Estimated net proceeds from the Placing	15,300	
Unaudited pro forma adjusted consolidated net tangible assets of the Group, following the completion of the Placing *(Note 2)*	29,927	0.0306

Notes:

1. Based on 579,008,000 Shares in issue as at the Latest Practicable Date.

2. Based on 979,008,000 Shares in issue as enlarged by the issue of 400,000,000 Placing Shares following the completion of the Placing, assuming no option is exercised on or before the Record Date.

As illustrated in the above summary, the unaudited pro forma adjusted consolidated net tangible assets of the Group and the unaudited pro forma adjusted consolidated net tangible assets per Share will improve immediately after completion of the Placing.

Taking into account of the improvement in the financial position of the Group, we are of the view that the Placing is in the interests of the Group and the Independent Shareholders as a whole.

RECOMMENDATION

Having considered the above principal factors and reasons, we consider that the terms of the Placing to be fair and reasonable and in the interest of the Group so far as the Independent Shareholders as a whole are concerned. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Placing.

Yours faithfully,
For and on behalf of
FIRST ASIA FINANCE GROUP LIMITED
Albert Li
Executive Director

1. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date and immediately after the allotment and issue of the Placing Shares and the Consideration Shares were Acquisition and will be as follow:

Authorised:

Number of shares		Amount *HK$'000*
1,500,000,000	Shares at the Latest Practicable Date	15,000

Issued and to be issued, fully paid or credited as fully paid:

Number of shares		Amount *HK$'000*
579,008,000	Shares in issue at the Latest Practicable Date	5,790
400,000,000	Placing Shares to be issued pursuant to the Placing	4,000
263,600,000	Consideration Shares to be issued pursuant to the Share Transfer Agreement	2,636
1,242,608,000		12,426

As at the Latest Practicable Date, all existing Shares ranked pari passu in all respects including as to dividends, voting and interests in capital. The Placing Shares and Consideration Shares, when allotted and issued, will rank pari passu in all respects with the Shares in issue on the date of allotment and issue of the Placing Shares and the Consideration Shares (as the case may be), including as to dividends, voting and interests in capital.

There was no alteration in the capital of any member of the Group since 30 June 2002, the date to which the latest published audited consolidated financial statements of the Group were made up, up to the Latest Practicable Date.

Share Options

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

Pursuant to the pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") adopted by the Company on 14 December 2001, 2 executive Directors, a director of a subsidiary of the Company in Singapore and 15 full-time employees of the Group were granted options to subscribe for an aggregate of 57,600,000 Shares (representing 10% of the issued share capital of the Company as at the date on which dealings in the Shares commenced on GEM) at the nominal value of the Share.

As at the Latest Practicable Date, no options granted under the Pre-IPO Share Option Scheme were outstanding.

2. SUMMARY OF AUDITED CONSOLIDATED RESULTS OF THE GROUP FOR EACH OF THE THREE YEARS ENDED 30 JUNE 2002

Set out below is a summary of the audited consolidated income statement of the Group for each of the three years ended 30 June 2000, 2001 and 2002 extracted from the audited financial statements of the Group for the relevant years.

CONSOLIDATED INCOME STATEMENT

	Year ended 30 June		Period from 30 August 1999 to 30 June
	2002	**2001**	**2000**
	HK$'000	*HK$'000*	*HK$'000*
TURNOVER	6,746	6,498	354
COST OF SALES	(3,452)	(1,920)	(1,070)
GROSS PROFIT	3,294	4,578	(716)
OTHER REVENUE	4,933	47	1
DISTRIBUTION COSTS	(1,420)	(992)	(1,935)
ADMINISTRATIVE EXPENSES	(6,942)	(3,550)	(1,560)
IMPAIRMENT OF GOODWILL	(4,449)	–	–
(LOSS)/PROFIT FROM OPERATIONS	(4,584)	83	(4,210)
FINANCE COSTS	–	(32)	(6)
(LOSS)/PROFIT BEFORE TAXATION	(4,584)	51	(4,216)
TAXATION	–	–	–
(LOSS)/PROFIT BEFORE MINORITY INTERESTS	(4,584)	51	(4,216)
MINORITY INTERESTS	142	–	–
(LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS	(4,442)	51	(4,216)
(LOSS)/EARNINGS PER SHARE			
– Basic – HK cents	(0.842)	0.011	(0.88)
– Diluted – HK cents	(0.842)	0.0089	(0.73)

3. SUMMARY OF AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR EACH OF THE TWO YEARS ENDED 30 JUNE 2002

Set out below is a summary of the audited consolidated financial statements of the Group for each of the two years ended 30 June 2001 and 2002 together with the relevant notes to financial statements extracted from the audited financial statements of the Group for the year ended 30 June 2002.

CONSOLIDATED INCOME STATEMENT

Year ended 30 June 2002

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

CONSOLIDATED BALANCE SHEET

30 June 2002

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

BALANCE SHEET
30 June 2002

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

CONSOLIDATED CASH FLOW STATEMENT
Year ended 30 June 2002

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

NOTES TO THE FINANCIAL STATEMENTS

30 June 2002

1. GROUP REORGANISATION

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

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

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

2. PRINCIPAL ACCOUNTING POLICIES

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

(a) Basis of consolidation

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

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

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

(b) Subsidiaries

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

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

(c) Associates

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

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

(d) Revenue recognition

(i) Revenues from IT project, Internet-based applications and web page design and development are recognised when the services are rendered;

(ii) Interest income is recognised on a time-proportion basis, taking into account the principal amounts outstanding and the interest rates applicable;

(iii) Revenue from the sale of goods and services is recognised when the goods are delivered and the services are rendered, respectively;

(iv) Banner design and advertisement income is recognised on a time-proportion basis over the period that the related services are rendered; and

(v) Membership income is recognised when the rights to receive payment have been established.

(e) Borrowing costs

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

(f) Goodwill

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

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

(g) Research and development costs

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

(h) Retirement benefit costs

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

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

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

(i) Property, plant and equipment

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

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

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

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

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

(j) Operating leases

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

(k) Investments in securities

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

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

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

(l) Related parties

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

(m) Trade receivable

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

(n) Cash equivalents

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

(o) Deferred taxation

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

(p) Translation of foreign currencies

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

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

(q) Provisions

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

(r) Contingent liabilities and contingent assets

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

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

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

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

(s) Impairment

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

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

(t) Segment reporting

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

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

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

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

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

3. TURNOVER AND REVENUE

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

4. SEGMENT INFORMATION

Business segment

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

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

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

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

Geographical segment

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

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

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

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

5. (LOSS)/PROFIT BEFORE TAXATION

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

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

6. TAXATION

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

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

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

7. (LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS

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

8. (LOSS)/EARNINGS PER SHARE

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

	2002	2001
	HK$	*HK$*
(Loss)/profit attributable to shareholders	(4,442,237)	50,556

Number of shares:

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

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

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

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(i) Directors' emoluments

	2002	2001
	HK$'000	*HK$'000*
Fees	–	–
Other emoluments		
– Basic salaries and other benefits-in-kind	875	629
– Bonus	–	53
	875	682
Retirement benefit costs	59	29

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

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

	Number of directors	
	2002	2001
Nil to HK$1,000,000	7	3

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

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

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

	2002	**2001**
Nil to HK$1,000,000	5	5

10. GOODWILL

	2002	**2001**
	HK$'000	*HK$'000*
Goodwill arising from acquisition of a subsidiary	4,449	–
Less: Impairment of goodwill	(4,449)	–
	–	–

11. PROPERTY, PLANT AND EQUIPMENT

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

12. INVESTMENTS IN SUBSIDIARIES

	HK$'000
Investments, at cost	
Unlisted shares	7,785

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

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

13. INVESTMENT IN AN ASSOCIATE

	2002	2001
	HK$'000	*HK$'000*
Investments, at cost		
Unlisted shares	4	–
Less: Provision for impairment loss	(4)	–
	–	–

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

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

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

14. INVESTMENTS IN SECURITIES

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

15. TRADE RECEIVABLES

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

	2002	2001
	HK$'000	*HK$'000*
0 to 30 days	1,517	420
31 to 60 days	1,361	830
61 to 90 days	–	–
Over 90 days	600	1,470
	3,478	2,720

16. TRADE PAYABLES

The ageing analysis of trade payables is as follows:

	2002	2001
	HK$'000	*HK$'000*
0 to 30 days	23	–

17. DUE TO A RELATED COMPANY

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

18. ISSUED CAPITAL

	Authorised Ordinary shares of HK$0.01 each	
	Number of shares	Amount
		HK$'000
At 1 July 2001	–	–
Upon incorporation of the Company and subdivision of shares	35,000,000	350
Increase of authorised share capital	1,465,000,000	14,650
At 30 June 2002	1,500,000,000	15,000

	Issued and fully paid Ordinary shares of HK$0.01 each	
	Number of shares	Amount
		HK$'000
At 1 July 2001	–	–
Issued upon incorporation of the Company and subdivision of shares	100	–
Shares issued as consideration for acquisition of subsidiaries	39,900	1
Capitalisation issue	479,960,000	4,799
Issue of shares upon listing	96,000,000	960
At 30 June 2002	576,000,000	5,760

(a) On incorporation, the authorised share capital of the Company was HK$350,000 divided into 350,000 shares of HK$1 each. One share of HK$1 was issued and allotted, credited as fully paid, to the subscriber of the Company.

(b) On 20 September 2001, the share capital of the Company was subdivided into 100 issued shares and 34,999,900 unissued shares of HK$0.01 each.

(c) Pursuant to a written resolution of all the shareholders of the Company passed on 12 December 2001, the authorised share capital of the Company was increased from HK$350,000 to HK$15,000,000 by the creation of additional 1,465,000,000 shares. Such new shares were to rank pari passu in all respects with the existing shares.

(d) Pursuant to a written resolution of all the shareholders of the Company passed on 13 December 2001, the directors were authorised to capitalise the sum of HK$4,799,600 standing to the credit of the contributed surplus account of the Company by applying such sum in paying up in full at par a total number of 479,960,000 shares for allotment and issue to holders of shares whose names appeared on the register of members of the Company as at the close of business on 13 December 2001 in proportion (as nearly as possible without involving fractions) to their then respective shareholdings in the Company.

(e) On 27 December 2001, the share offer became unconditional and 96,000,000 shares were issued at HK$0.32 each by way of placing and public offer.

Options

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

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

	Percentage of the Pre-IPO Share Options exercisable
1 July 2002 to 31 December 2002	10.83%
1 January 2003 to 30 June 2003	66%
1 July 2003 to 13 December 2012	100%

19. RESERVES

(i) Group

	Share premium *HK$'000*	**Contributed surplus** *HK$'000*	**Accumulated losses** *HK$'000*	**Total** *HK$'000*
At 1/7/2000	–	–	(4,218)	(4,218)
Capitalisation of shareholders' loan	12,195	–	–	12,195
Net profit for the year	–	–	51	51
At 30/6/2001 and 1/7/2001	12,195	–	(4,167)	8,028
Issue of shares upon listing	29,760	–	–	29,760
Issuing expenses	(7,094)	–	–	(7,094)
Arising from Reorganisation	(12,195)	12,195	–	–
Capitalisation issue	–	(4,799)	–	(4,799)
Net loss for the year	–	–	(4,442)	(4,442)
At 30/6/2002	22,666	7,396	(8,609)	21,453

(ii) Company

	Share premium *HK$'000*	**Contributed surplus** *HK$'000*	**Accumulated losses** *HK$'000*	**Total** *HK$'000*
Issue of shares upon listing	29,760	–	–	29,760
Issuing expenses	(7,094)	–	–	(7,094)
Contributed surplus arising from Reorganisation	–	2,985	–	2,985
Net loss for the year	–	–	(355)	(355)
At 30/6/2002	22,666	2,985	(355)	25,296

20. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

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

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

(b) Acquisition of a subsidiary

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

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

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

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

(d) Non-cash transactions

(i) On 27 June 2001 and 29 June 2001, the former shareholders of Inworld (Hong Kong) Limited, Inworld System (HK) Limited and Inworld Internet Singapore Pte. Ltd. (the "subsidiaries"), wholly-owned subsidiaries of the Group, agreed to allot 1 share in each of the subsidiaries by capitallising approximately HK$12,195,000.

(ii) Upon the share swap arrangement, the capitalisation of HK$12,195,000 was converted into contributed surplus.

(iii) The details are disclosed in note 18(d) to the financial statements.

21. RETIREMENT BENEFIT COSTS

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

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

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

22. RELATED PARTY TRANSACTIONS

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

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

Notes:

(i) Management fee is paid for rental, share of office equipment and office expenditure. The rental charge is based on the share of the office area physically occupied by the Group on the sub-lease portion at rental rate paid by the head-tenant. Office equipment is based on the share of depreciation by reference to actual consumption. The office expenditure is charged on the share of the expenses on cost basis. The monthly charge is HK$38,000.

(ii) Styland Holdings Limited is a major shareholder of the Company and also holds 100% interest of Styland (Hong Kong) Limited.

(iii) Advertising income on www.inworld.com.hk from December 2000 to March 2001 amounted to HK$50,000 per month. The charge was the same as those charged to third parties customers.

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

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

(iv) The fee paid to New Great China Technology Holdings Limited, of which Mr. Chan Wai Lun was a director in last year, was for the provision of the information of advanced internet-based applications, professional opinion on web page design and development and the recruitment of members. The fee paid was previously agreed by Mr. Ngai Kwok Kin, Kevin and Mr. Chan Wai Lun on normal commercial terms and was deemed to be non-recurring in nature.

(v) Cyber World Technology Limited was a wholly-owned subsidiary of Riverhill Holdings Limited in last year. Global Eagle Investments Limited, a wholly-owned subsidiary of Styland Holdings Limited, a major shareholder of the Company, holds approximately 28.63% interests in the issued share capital of Riverhill Holdings Limited, the shares of which are listed on the GEM. The charge was the same as those charged to third parties customers.

(vi) Styland Holdings Limited also holds indirectly 100% interest of Ever-Long Securities Company Limited. Service income was charged for the provision of services rendered for IT infrastructure. In the opinion of the directors of the Company, the selling price was the same as those charged to third parties.

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

23. COMMITMENTS

(a) Capital commitments

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

	2002	**2001**
	HK$'000	*HK$'000*
Acquisition of property, plant and equipment		
– Contracted but not provided for	1,200	–
– Authorised but not contracted for	–	47
	1,200	47

The contracted amount was fully settled in July 2002.

(b) Operating leases commitments

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

	2002	**2001**
	HK$'000	*HK$'000*
Within one year	1,174	159
Within the second to the fifth year	1,000	145
	2,174	304

4. PUBLISHED UNAUDITED CONSOLIDATED RESULTS FOR THE NINE MONTHS ENDED 31 MARCH 2003

Set out below is the unaudited consolidated results of the Group for the nine months ended 31 March 2003 extracted from the third quarterly report for the period.

		Nine months ended 31 March		Three months ended 31 March	
		2003	**2002**	**2003**	**2002**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	*2*	1,843	3,713	222	1,056
Cost of services rendered		(4,023)	(1,953)	(1,435)	(748)
Gross (loss)/profit		(2,180)	1,760	(1,213)	308
Other revenues		128	258	4	164
Gain on disposal of investment security		–	4,460	–	–
Distribution costs		(682)	(1,174)	(82)	(288)
Administrative expenses		(8,005)	(4,157)	(3,105)	(1,903)
Amortisation		(1,193)	–	(397)	–
Depreciation		(659)	(441)	(203)	(161)
(Loss)/profit before taxation		(12,591)	706	(4,996)	(1,880)
Taxation	*3*	–	–	–	–
(Loss)/profit after taxation		(12,591)	706	(4,996)	(1,880)
Minority interest		372	10	111	10
(Loss)/profit after taxation and minority interest		(12,219)	716	(4,885)	(1,870)
(Loss)/earnings per share					
– Basic (cents)	*4*	(2.11)	0.14	(0.84)	(0.32)
– Diluted (cents)	*4*	(2.01)	N/A	(0.82)	N/A

Notes:

1. Group reorganisation and basis of presentation

The Company was incorporated in the Cayman Islands 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 is regarded as a continuing group. Accordingly, the Reorganisation has been accounted for on the basis of merger accounting, under which the Group's unaudited consolidated results have been prepared as if the Company had been the holding company of the Group throughout the respective financial periods.

These unaudited consolidated results are prepared in accordance with all applicable Statements of Standard Accounting Practice ("SSAP") issued by the Hong Kong Society of Accountants and the GEM Listing Rules as well as accounting principles generally accepted in Hong Kong. The accounting policies adopted in the preparation of the unaudited consolidated results are consistent with those used in the annual financial statements for the year ended 30 June 2002.

All significant transactions and balances between companies now comprising the Group have been eliminated on consolidation.

2. Turnover

Turnover represents system solution service, web page design and development, application service provider ("ASP"), cyber cafe and sales of computer periphery product.

3. 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 nine months and three months ended 31 March 2003 and the corresponding periods in 2002.

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 the subsidiaries had no assessable profits for the nine months and three months ended 31 March 2003 and the corresponding periods in 2002.

4. (Loss)/earnings per share

The calculation of the Group's basic (loss)/earnings per share for the nine months and three months ended 31 March 2003 is based on the Group's (loss)/profit attributable to shareholders of approximately HK$12,219,000 (loss) and HK$4,885,000 (loss) respectively (nine months and three months ended 31 March 2002: approximately HK$716,000 (profit) and HK$1,870,000 (loss) respectively) and the weighted average number of approximately 578,542,044 and 578,690,489 shares of the Company respectively for the nine months and three months ended 31 March 2003 (nine months and three months ended 31 March 2002: 512,934,306 and 576,000,000 shares) on the assumption that 480,000,000 shares had been in issue throughout the respective periods.

The calculation of the Group's diluted loss per share for the nine months and three months ended 31 March 2003 is based on the Group's loss attributable to shareholders of approximately HK$12,219,000 and HK$4,885,000 respectively and the weight average number of ordinary shares used in the calculation was approximately 607,845,758 and 598,630,979 respectively.

There were no diluted potential ordinary shares in issue during the nine months and three months ended 31 March 2002.

5. Reserves

	Share Premium *HK$'000*	Contributed surplus *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*
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)
At 30 June 2002 and 1 July 2002	22,666	7,396	(8,609)	21,453
Loss for the period	–	–	(12,219)	(12,219)
At 31 March 2003	22,666	7,396	(20,828)	9,234

The following is the text of a report, prepared for the purpose of incorporation in this circular, from the reporting accountants of Shenzhen Huaruiyuan Company Limited, HLB Hodgson Impey Cheng, Chartered Accountants, Certified Public Accountants, Hong Kong.

HLB 國衛會計師事務所
Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

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4 August 2003

The Directors
Inworld Group Limited

Dear Sirs,

We set out below our report on the financial information relating to Shenzhen Huaruiyuan Company Limited ("Huaruiyuan") for the period from 6 May 2003 (its date of establishment) to 31 May 2003 (the "Relevant Period"), prepared on the basis as set out in note 1 below, for inclusion in the circular of Inworld Group Limited (the "Company") dated 4 August 2003 (the "Circular").

Huaruiyuan was established as a limited liability company on 6 May 2003 in the People's Republic of China (the "PRC"), which is, as at the date of this report, beneficially owned as to 90% by Shenzhen Ingen Technology Company Limited ("Ingen"), a joint stock limited liability company established in the PRC, and as to 5% by each of Huang Shu-ying and Chen Hong. As at the date of this report, Huaruiyuan does not have any subsidiary.

On 25 June 2003, Wah Shui Company Limited, a wholly owned subsidiary of the Company, entered into a share transfer agreement (the "Agreement") with Ingen, Huang Shu-ying and Chen Hong, pursuant to and subject to the terms and conditions thereof, Wah Shui Company Limited agreed to acquire an aggregate of 95% of the equity interests in Huaruiyuan. Upon completion of the acquisition pursuant to the Agreement, Wah Shui Company Limited will have an aggregate of 95% of the equity interests in Huaruiyuan and Huaruiyuan will become a subsidiary of the Company.

Huaruiyuan, being a company registered and operating in the PRC, prepares PRC statutory financial statements for tax purposes based on a 31 December year-end. Up to the date of this report, no audited financial statements have been prepared for Huaruiyuan since its date of establishment on 6 May 2003. However, for the purpose of this report, we have examined, in accordance with the Auditing Guideline "Prospectuses and the reporting accountant" issued by the Hong Kong Society of Accountants, the management accounts of Huaruiyuan for the Relevant Period which have been prepared in accordance with the accounting principles generally accepted in Hong Kong.

The financial information of Huaruiyuan for the Relevant Period as set out below (the "Financial Information") has been prepared based on the management accounts of Huaruiyuan for the Relevant Period and is presented on the basis as set out in note 1 below. The directors of Huaruiyuan are responsible for preparing the underlying management accounts of Huaruiyuan for the Relevant Period. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to form an independent opinion on the Financial Information.

In our opinion, the Financial Information, for the purposes of this report and prepared on the basis as set out in note 1 below, gives a true and fair view of the results and cash flows of Huaruiyuan for the Relevant Period and of the state of affairs of Huaruiyuan as at 31 May 2003.

A. INCOME STATEMENT

For the period from 6 May 2003 (date of establishment) to 31 May 2003

	Notes	*HK$'000*
Turnover	*3*	2,415
Cost of sales		(1,489)
Gross profit		926
Selling expenses		(221)
Administrative expenses		(8)
Profit from operations	*5*	697
Finance costs		–
Profit before taxation		697
Taxation	*6*	(105)
Profit for the period		592

All of Huaruiyuan's operations are classed as continuing.

BALANCE SHEET
As at 31 May 2003

	Notes	*HK$'000*
Non-current assets		
Fixed assets	*8*	1,510
Intangible assets	*9*	2,830
		4,340
Current assets		
Inventories	*10*	3,747
Trade receivables	*11*	2,223
Cash and bank balances		1,607
		7,577
Less: **Current liabilities**		
Trade and other payables	*12*	371
Amount due to a shareholder		1,415
Tax payable		105
		1,891
Net current assets		5,686
Net assets		10,026
Representing:		
Paid up capital	*13*	9,434
Retained profits		592
Shareholders' funds		10,026

CASH FLOW STATEMENT

For the period from 6 May 2003 (date of establishment) to 31 May 2003

	HK'000
Cash flows from operating activities	
Profit before taxation	697
Operating profit before working capital changes	697
Decrease in inventories	1,347
Increase in trade and other receivables	(2,223)
Increase in trade and other payables	371
Net cash from operating activities	192
Cash flows from investing activities	
Increase in amount due to a shareholder	1,415
Purchase of intangible assets	(1,415)
Net cash used in investing activities	–
Cash flows from financing activities	
Proceeds from paid-up capital	1,415
Net cash from financing activities	1,415
Net increase in cash and cash equivalents	1,607
Cash and cash equivalents as at 31 May 2003	1,607
Analysis of balances of cash and cash equivalents	
Cash and bank balances	1,607

STATEMENT OF CHANGES IN EQUITY

For the period from 6 May 2003 (date of establishment) to 31 May 2003

	Paid up capital *HK$'000*	Retained profits *HK$'000*	Total *HK$'000*
Total equity at 6 May 2003	–	–	–
Injection of paid up capital	9,434	–	9,434
Net profit for the period	–	592	592
Total equity at 31 May 2003	9,434	592	10,026

NOTES TO FINANCIAL INFORMATION

1. Accounting policies

The Financial Information has been prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants ("HKSA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Listing Rules as applicable to Accountants' Reports included in listing documents or circulars. The Financial Information is prepared under the historical cost convention. A summary of the significant accounting policies adopted in the preparation of the Financial Information is set out below:

(a) Fixed assets and depreciation

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

The gain or loss arising from disposal or retirement of a fixed asset recognised in the income statement is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Depreciation is calculated on the straight-line basis so as to write down the cost of fixed assets to their estimated realisable value over their anticipated useful lives at the following annual rates:–

Office equipment	:	20%
Motor vehicles	:	20%

(b) Intangible assets

Intangible assets, representing patents and technical know-how acquired, are stated at cost less accumulated amortisation and impairment losses. Amortisation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The estimated useful lives used for this purpose are as follows:

Patents and computer software	:	5 to 10 years
Technical know-how	:	20 years

Intangible assets are reviewed periodically for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

When the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Estimated recoverable amount is determined based on estimated discounted future cash flows of the cash-generating unit at the lowest level to which the asset belongs. The recoverable amount is the higher of value in use and net selling price.

(c) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated on the first-in, first-out basis and comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories is recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(d) Recognition of revenue

Provided it is probable that the economic benefits will flow to Huaruiyuan and the revenue can be measured reliably, revenue is recognised in the income statement as follows:

i. Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and the title has passed; and

ii. Revenue derived from the provision of IT consultation and system solution services of tax declaring products is recognised when services are performed.

Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts and returns.

(e) Foreign currencies

Transactions in foreign currencies are translated into Hong Kong dollars at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Hong Kong dollars at the applicable rates of exchange ruling at that date. All gains and losses on translation of foreign currencies are dealt with in the income statement.

(f) Current assets and liabilities

Current assets are expected to be realised within twelve months of the balance sheet date or in the normal course of Huaruiyuan's operating cycle. Current liabilities are expected to be settled within twelve months of the balance sheet date or in the normal course of Huaruiyuan's operating cycle.

(g) Cash equivalents

Cash and cash equivalents represent cash at bank and on hand, demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, which were within three months of maturity at acquisition. Bank overdrafts that are repayable on demand are also included as a component of cash and cash equivalents for the purpose of cash flow statement.

(h) 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 Huaruiyuan. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, 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 Huaruiyuan. 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.

(i) Impairment

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised to reduce the asset to its recoverable amount. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets, if it is not possible, for the cash-generating unit.

Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or has decreased. A reversal of an impairment loss is recognised as income immediately.

(j) Deferred taxation

Deferred taxation is accounted for at the current tax rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the financial statements to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

(k) Provisions

Provisions are recognised when Huaruiyuan has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

(l) Segment information

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

(m) 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.

(n) Related party transaction

A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

3. Turnover

Huaruiyuan is principally engaged in the provision of IT consultation and system solution services for tax-declaring products. Turnover recognised during the Relevant Period is as follows:

	6 May 2003 to 31 May 2003
	HK$'000
Sales of goods	1,489
IT consultation and system solution services	926
	2,415

4. Segment information

Huaruiyuan is principally engaged in the provision of IT consultation and system solution services for tax-declaring products.

The sales of tax-declaring products shown in the business segment below was a part of the inventories injected by Ingen to Huaruiyuan for the purpose of capital contribution to the registered capital as at the date of establishment. The directors of Huaruiyuan are in the opinion that it is in the best interest of Huaruiyuan to deplete swiftly the injected inventories by way of selling them together with the provision of IT consultation and system solution services. Huaruiyuan did not generate any profit from the disposal of the injected inventories in the Relevant Period. The directors of Huaruiyuan confirm that upon the depletion of the injected inventories, Huaruiyuan will no longer need to procure hardware inventories.

Turnover represents the net invoiced value of goods and services, after allowance for returns and trade discounts and exclude value-added tax or other sales taxes.

An analysis of Huaruiyuan's turnover, revenue and operating results for the Relevant Period by business segments and geographical segments is set out as follows:

Business segments

	Sales of tax declaring products	**IT consultation and system solution services**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Sales	1,489	926	2,415
Cost of sales	(1,489)	–	(1,489)
Gross profit	–	926	926
Unallocated expenses			(229)
Taxation			(105)
Profit from operations			592

Geographical segments

Throughout the Relevant Period, Huaruiyuan's products are sold to and services are provided in a single geographical segment, i.e. the PRC.

Analysis of assets and liabilities by business segments and by geographical segments have not been prepared as most of Huaruiyuan's asset and liabilities were unable to be allocated in view of the nature of Huaruiyuan's business.

5. Profit from operations

	6 May 2003 to 31 May 2003 *HK$'000*
Profit from operations is stated after charging:	
Auditors' remuneration	–
Directors' remuneration – fees	–
– other emoluments	–
Costs of inventories expensed	1,347
Total staff costs, excluding directors' remuneration	221

(i) The emoluments of the five highest paid individuals are as follows:

	6 May 2003 to 31 May 2003 *HK$'000*
Salaries and other emoluments	37
Performance related/discretionary bonuses	–
Staff retirement scheme contributions	–
	37

The emoluments of each of the above employees fall within the emolument band of nil to HK$1,000,000 during the Relevant Period.

(ii) The number of directors and employees whose remuneration fell into the band of nil to HK$1,000,000 is as follows:

	Number of individuals
Directors	–
Employees	5
	5

(iii) No directors nor the five highest paid employees have waived any emoluments during the Relevant Period. No emoluments were paid or payable by Huaruiyuan to the directors, or the five highest paid individuals, as an inducement to join or upon joining Huaruiyuan, or as compensation for loss of office during the Relevant Period.

6. Taxation

No provision for Hong Kong profits tax has been made as there was no assessable profits derived in Hong Kong during the Relevant Period. Taxation on PRC profits has been calculated on the estimated assessable profits or income for the Relevant Period at the rates of taxation prevailing in the PRC.

	6 May 2003 to 31 May 2003 *HK$'000*
Current Taxation:	
Provision for the period	
– PRC	105

There are no material unprovided deferred taxation as at 31 May 2003.

7. Earnings per share

No information on earnings per share is presented as its inclusion is not considered meaningful for the purpose of this report.

8. Fixed assets

	Office equipment *HK$'000*	**Motor vehicles** *HK$'000*	**Total** *HK$'000*
At cost:			
Additions and at 31 May 2003	619	891	1,510
Depreciation:			
Charge for the period and at 31 May 2003	–	–	–
Net book value:			
At 31 May 2003	619	891	1,510

9. Intangible assets

	As at 31 May 2003 *HK$'000*
Costs:	
Additions and at 31 May 2003	2,830
Amortisation:	
Provided during the period and at 31 May 2003	–
Carrying amount:	
At 31 May 2003	2,830

10. Inventories

	As at 31 May 2003 *HK$'000*
Finished goods, at cost	3,747

11. Trade receivables

Customers are usually offered a credit period ranging from 0 to 90 days. An ageing analysis of trade receivables is as follows:

	As at 31 May 2003 *HK$'000*
Current – 1 month	2,223

12. Trade and other payables

	As at 31 May 2003 *HK$'000*
Accruals and other payables	371

13. Paid up capital

	As at 31 May 2003 *HK$'000*
Registered Capital:	
Rmb10,000,000 fully paid, equivalent to	9,434

14. Non-cash transactions

During the period, the paid-up capital of Huaruiyuan was injected in the form of fixed assets of approximately equivalent to HK$1,510,000, intangible assets of HK$1,415,000 and inventories of HK$5,094,000.

15. Commitments and contingent liabilities

Huaruiyuan has no material commitments and contingent liabilities as at 31 May 2003.

16. Related party transactions

During the Relevant Period, Huaruiyuan had entered into the following transactions with related parties which, in the opinion of the directors of Huaruiyuan, were carried out on normal commercial terms and in the ordinary course of business of Huaruiyuan.

Name of related party	Nature of transaction	As at 31 May 2003 *HK$'000*
Shenzhen Ingen Technology Company Limited	Advance – payable	1,415

The amount due to the above related party is unsecured, interest-free and repayable on demand.

17. Subsequent events

Subsequent to 31 May 2003 and up to the date of this report, there are no significant events which have been occurred to Huaruiyuan.

B. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared for Huaruiyuan in respect of any period subsequent to 31 May 2003 and no dividends or other distributions have been declared by Huaruiyuan in respect of any period subsequent to 31 May 2003.

Yours faithfully
HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants
Hong Kong

1. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED COMBINED NET TANGIBLE ASSETS OF THE ENLARGED GROUP

The following is an unaudited pro forma statement of the adjusted combined net tangible assets of the Enlarged Group following completion of the Placing and the Acquisition. It is based on the audited consolidated financial statements of the Group as at 30 June 2002 and the unaudited consolidated results of the Group for the nine months ended 31 March 2003 adjusted to reflect the effect of Acquisition and the Placing.

	HK'000
Audited consolidated net assets as at 30 June 2002	27,213
Less: Intangible assets of the Group as at 30 June 2002	(1,590)
Audited consolidated net tangible assets of the Group as at 30 June 2002	25,623
Unaudited consolidated results of the Group for the nine months ended 31 March 2003 *(Note 1)*	(12,219)
Proceeds from Shares issued on exercise of share option *(Note 2)*	30
Unaudited amortisation of intangible assets of the Group for the nine months ended 31 March 2003	1,193
Unaudited adjusted combined net tangible assets of the Group as at 31 March 2003	14,627
Estimated net proceeds from the Placing *(Note 3)*	15,300
Consideration *(Note 6)*	22,800
Less: Consideration payable for the Acquisition *(Note 6)*	(11,202)
Less: Goodwill arising from Acquisition *(Note 7)*	(13,275)
Unaudited pro forma adjusted combined net tangible assets of the Enlarged Group upon completion of the Placing and the Acquisition	28,250
Unaudited adjusted combined net tangible asset value per Share of the Group before the Placing and the Acquisition *(Note 4)*	HK$0.025
Unaudited pro forma adjusted combined net tangible asset value per Share of the Enlarged Group upon the completion of the Placing and the Acquisition *(Note 5)*	HK$0.023

Notes:

1. The unaudited consolidated results of the Group for the nine months ended 31 March 2003 are extracted from the third quarterly report of the Group set out in section 4 of Appendix I to this circular.

2. This represents proceeds from the issue of 3,008,000 Shares of HK$0.01 each of the Company on exercise of 3,008,000 share options pursuant to the Company's Pre IPO share option scheme during the period from 1 July 2002 to the Latest Practicable Date.

3. This represents the estimated net proceeds from placing of 400,000,000 Shares at HK$0.04 per Share totalling HK$15,300,000, according to the terms of the subscription agreements, together with the estimated expenses relating to the Placing.

4. The unaudited consolidated net tangible asset value per Share of the Group before the Placing and Acquisition is calculated based on the unaudited adjusted net tangible assets of the Group as at 31 March 2003 of approximately HK$14,627,000 and 579,008,000 Shares, being the number of Shares in issue as at the Latest Practicable Date as set out in section 1 of Appendix 1 to the circular.

5. The unaudited pro forma adjusted combined net tangible asset value per Share of the Enlarged Group upon the completion of Placing is calculated on the basis of 1,242,608,000 Shares, being the number of Shares in issue as the Latest Practicable Date of 579,008,000 plus the 400,000,000 Placing Shares and the 263,600,000 Consideration Shares assuming that no share option was exercised under the share option scheme of the Company during the period from the Latest Practicable Date to the completion of the Placing and the Acquisition.

6. The Consideration shall be HK$22,800,000, of which HK$11,201,600 will be satisfied by cash and the remaining balance of HK$11,598,400 in Consideration Shares.

7. The goodwill represents the excess of the Consideration amounted to HK$22,800,000 over the Group's share of the net assets of Huaruiyuan as at 31 May 2003 amounting to HK$9,525,000.

2. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED COMBINED ASSETS AND LIABILITIES OF THE ENLARGED GROUP

The following is a summary of the unaudited pro forma statement of adjusted combined assets and liabilities of the Enlarged Group immediately following completion of the Placing and the Acquisition. It is based on the audited consolidated net assets of the Group as at 30 June 2002, as set out in Appendix I to this circular, the unaudited consolidated results of the Group for the nine months ended 31 March 2003 and the net assets of Huaruiyuan as at 31 May 2003, as extracted from the accountants' report on Huaruiyuan as set out in Appendix II to this circular, assuming the acquisitions of Huaruiyuan had been completed.

	The Group	**Huaruiyuan**	**Adjustments**		**Enlarged Group**
	HK$'000	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
Intangible assets	–	2,830			2,830
Goodwill	–	–	13,275	*1*	13,275
Fixed assets	1,579	1,510			3,089
Investment in securities	5,587	–			5,587
Current assets	8,468	7,577	4,098	*2*	20,143
Current liabilities	(910)	(1,891)			(2,801)
Net current assets	7,558	5,686			17,342
Total assets less current liabilities	14,724	10,026			42,123
Minority interests	300	–	(501)	*3*	(201)
Net assets	15,024	10,026			41,922

Notes:

1. The goodwill represents the excess of the Consideration amounted to HK$22,800,000 over the Group's share of the net assets of Huaruiyuan as at 31 May 2003 amounting to HK$9,525,000.

2. Additions to current assets represents estimated net proceeds from placing of Shares of HK$15,300,000 less cash consideration of acquisition of Huaruiyuan amounting HK$11,202,000.

3. Adjustment on minority interests represents the share of the net assets of Huaruiyuan by the minority interest as at 31 May 2003.

3. WORKING CAPITAL

Taking into account the financial resources available to the Group including internally generated funds, the present available banking facilities of the Group and the estimated net proceeds from the Placing, the Directors are of the opinion that the Group has sufficient working capital for its present requirements.

4. INDEBTEDNESS

Borrowing

At the close of business on 31 May 2003, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Enlarged Group had not obtained any bank facilities.

Debt securities

As at 31 May 2003, the Enlarged Group had no debt securities.

Commitment and Contingent liabilities

As at 31 May 2003, the Enlarged Group had no material commitment and contingent liabilities.

Disclaimer

Save as aforesaid and apart from intra-group liabilities, the Enlarged Group did not have, at the close of business on 31 May 2003, any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, changes, obligations under hire purchases or finance leases, guarantees or other material contingent liabilities.

Foreign currency amounts have been translated into Hong Kong dollars at the approximate exchange rates prevailing at the close of business on 31 May 2003.

The Directors have confirmed that there has been no material change in the indebtedness and contingent liabilities of the Enlarged Group since 31 May 2003 and up to the Latest Practicable Date.

5. MATERIAL CHANGES

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 30 June 2002, the date to which the latest published annual report of the Group was made up.

This is an explanatory statement given to all Shareholders relating to the resolution to be proposed at the EGM authorising the Repurchase Mandate. This explanatory statement contains all the information required pursuant to Rule 13.08 and other relevant provisions of the GEM Listing Rules and the Stock Exchange.

1. SHARE CAPITAL

As at the Latest Practicable Date, the issued share capital of the Company comprised 579,008,000 Shares. Upon the allotment and issue of the Placing Shares and the Consideration Shares, the issued share capital of the Company will be 1,242,608,000 Shares.

Subject to the passing of the resolution for the approval of the Repurchase Mandate and on the basis that no further Shares are issued or repurchased between the Latest Practicable Date and the date of the EGM and that the Placing Shares and the Consideration Shares are duly allotted and issued pursuant to the Placing and the Share Transfer Agreement respectively, the Company would be allowed under the Repurchase Mandate to repurchase a maximum of 124,260,800 Shares, representing 10% of the issued share capital of the Company as enlarged by the allotment and issue of the Placing Shares and the Consideration Shares, during the period form the date of passing of the resolution for the approval of the Repurchase Mandate up to (i) the conclusion of the next annual general meeting of the Company; (ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable laws of the Cayman Islands to be held; or (iii) the revocation, variation or renewal of the Repurchase Mandate by ordinary resolution of the Shareholders in general meeting, whichever occurs first.

2. REASONS FOR REPURCHASES

The Directors believe that it is in the best interests of the Company and its Shareholders for the Directors to have general authority from Shareholders to enable the Company to repurchase Shares in the market. Repurchases of Shares will only be made when the Directors believe that such repurchases will benefit the Company and the Shareholders. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share.

3. FUNDING OF REPURCHASES

In repurchasing Shares, the Company may only apply funds legally available for such purpose in accordance with its memorandum and articles of association, the GEM Listing Rules and the applicable laws of the Cayman Islands. The Company may not repurchase its own Shares on the GEM for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

4. GENERAL

There might be a material adverse impact on the working capital or gearing position of the Company (as compared with the position disclosed in the audited consolidated financial statements contained in the annual report of the Company for the year ended 30 June 2002) in the event that the proposed repurchases were to be carried out in full at any time during the proposed repurchase period. However, the Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Company or on the gearing levels which in the opinion of the Directors are from time to time appropriate for the Company.

5. SHARE PRICES

The highest and lowest prices at which the Shares were traded on GEM during each of the previous twelve months preceding the date of this circular and up to the Latest Practicable Date are as follows:

Month	**Highest**	**Lowest**
	HK$	*HK$*
2002		
August	0.220	0.159
September	0.159	0.130
October	0.150	0.113
November	0.122	0.107
December	0.119	0.098
2003		
January	0.098	0.045
February	0.045	0.035
March	0.066	0.040
April	0.057	0.040
May	0.063	0.028
June (up to 24 June 2003, being the last trading day before the date of the Share Transfer Agreement)	0.056	0.046
July (up to the Latest Practicable Date)	0.061	0.042

6. DIRECTORS' UNDERTAKING

The Directors have undertaken to the Stock Exchange that they will exercise the power of the Company to make repurchases pursuant to the Repurchase Mandate in accordance with the GEM Listing Rules, the memorandum and articles of association of the Company and the applicable laws of the Cayman Islands.

7. TAKEOVERS CODE CONSEQUENCE

If as a result of a repurchase of Shares, a Shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purposes of Rule 32 of the Takeovers Code. As a result, a Shareholder, or a group of Shareholders acting in concert (within the meaning under the Takeovers Code), depending on the level of increase in the Shareholder's interests, could obtain or consolidate control of the Company and become(s) obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code.

As at the Latest Practicable Date, Dynamate Limited held approximately 25.93% of the issued share capital of the Company. Upon allotment and issue of the Placing Shares and the Consideration Shares, Dynamate Limited will hold approximately 29.79% of the issued share capital of the Company as enlarged by the allotment and issue of the Placing Shares and the Consideration Shares. In the event that the Directors exercise in full the power to repurchase Shares in accordance with the Repurchase Mandate, the shareholding of Dynamate Limited in the Company would be increased to approximately 33.10% of the then issued share capital of the Company.

On the basis of the current shareholding of Dynamate Limited, an exercise of the Repurchase Mandate in full will result in it becoming obliged to make a mandatory offer under Rule 26 of the Takeover Code. The Directors have no intention to exercise the Repurchase Mandate to such an extent that will result in Dynamate Limited being obliged to make a mandatory offer under the Takeovers Code.

Save as aforesaid, the Directors are not aware of any other consequences which may arise under the Takeover Code if the Repurchase Mandate is exercised in full. However, the Company may not repurchase Shares which would result in the amount of Shares held by the public being reduced to less than 25%.

None of the Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates has notified the Company of any present intention, if the Repurchase Mandate is approved by the Shareholders, to sell Shares to the Company or its subsidiaries.

No connected person (as defined in the GEM Listing Rules) has notified the Company that it has a present intention to sell Shares to the Company, or has undertaken not to do so, in the event that the Repurchase Mandate is approved by the Shareholders.

8. SHARES REPURCHASE MADE BY THE COMPANY

No repurchases of Shares have been made by the Company (whether on the GEM or otherwise) during the six months prior to the Latest Practicable Date.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:

(a) the information contained in this circular is accurate and complete in all material respects and not misleading;

(b) there are no other matters the omission of which would make any statement in this circular misleading; and

(c) all opinions expressed in this circular have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

2. SHARE CAPITAL OF THE COMPANY

The authorised and issued share capital of the Company as at the Latest Practicable Date and immediately after completion of the Placing and the allotment and issue of the Consideration Shares were and will be as follows:

Authorised		*HK$*
1,500,000,000	Shares	15,000,000
Issued and to be issued, fully paid or credited as fully paid		
579,008,000	Shares in issue as at the Latest Practicable Date	5,790,080
400,000,000	Placing Shares to be issued pursuant to the Placing	4,000,000
263,600,000	Consideration Shares to be issued pursuant to the Share Transfer Agreement	2,636,000
1,242,608,000	Shares	12,426,080

The Placing Shares and the Consideration Shares, when allotted and issued, will rank equally in all respects among themselves and with the Shares in issue on the date of allotment and issue of the Placing Shares and the Consideration Shares (as the case may be), including but not limited to the right to receive all dividends, distributions or entitlements declared, paid or made prior to the date of allotment and issue of the Placing Shares and the Consideration Shares.

3. DISCLOSURE OF INTERESTS

(a) Director's interests and short positions in the securities of the Company and its associated corporations in share capital

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of the Part XV of the SFO) (a) 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 (b) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules relating to securities transactions by Directors, were as follows:

	Number or attributable number of Shares held and nature of interests			Approximate percentage or attributable percentage of
Name of Director	**Personal**	**Corporate**	**Family**	**shareholding**
				(%)
Mr. Koh *(Note)*	–	370,163,200	–	63.93
Chu Siu Wah	7,576,000	–	–	1.31

Note: Dynamate Limited is the beneficial owner of 150,163,200 Shares and has an interest in 220,000,000 Placing Shares under the subscription agreement dated 4 July 2003 and entered into between the Company and Dynamate Limited in relation to the Placing. The entire issued share capital of Dynamate Limited is beneficially owned by Mr. Koh. Accordingly, Mr. Koh is deemed to be interested in the 150,163,200 Shares beneficially owned by Dynamate Limited and the 220,000,000 Placing Shares which Dynamate Limited has an interest under the said subscription agreement, representing an aggregate of approximately 63.93% of the existing issued share capital of the Company and approximately 29.79% of the issued share capital of the Company as enlarged by the allotment and issue of the Placing Shares and the Consideration Shares.

Save as disclosed herein, as at the Latest Practicable Date, none of the Directors nor the chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (a) 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 (b) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules relating to securities transactions by Directors.

(b) Persons who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO and substantial shareholders of the Company

So far as is known to the Directors, as at the Latest Practicable Date, the following persons (not being Directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were 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 member of the Group:

Name	**Number or attributable Number of Shares held**	**Approximate percentage or attributable percentage of shareholding** *(%)*
City Lion Worldwide Limited *(Note 1)*	160,000,000	27.63
Styland (Overseas) Limited *(Note 1)*	160,000,000	27.63
Styland Holdings Limited *(Note 1)*	160,000,000	27.63
Dynamate Limited *(Note 2)*	370,163,200	63.93
Ingen *(Note 3)*	263,600,000	45.53

Notes:

1. The entire issued share capital of City Lion Worldwide Limited is beneficially owned by Styland (Overseas) Limited, which entire issued share capital is in turn beneficially owned by Styland Holdings Limited. Accordingly, each of Styland (Overseas) Limited and Styland Holdings Limited is deemed to be interested in the 160,000,000 Shares beneficially owned by City Lion Worldwide Limited.

2. Dynamate Limited is the beneficial owner of 150,163,200 Shares and has an interest in 220,000,000 Placing Shares under the subscription agreement dated 4 July 2003 and entered into between the Company and Dynamate Limited in relation to the Placing. Therefore, Dynamate Limited is interested in an aggregate of 370,163,200 Shares, representing approximately 63.93% of the existing issued share capital of the Company and approximately 29.79% of the issued share capital of the Company as enlarged by the allotment and issue of the Placing Shares and the Consideration Shares.

3. Subject to the terms and conditions of the Share Transfer Agreement, an aggregate of 263,600,000 Consideration Shares, representing approximately 45.53% of the existing issued share capital of the Company and approximately 21.21% of the issued share capital of the Company as enlarged by the allotment and issue of the Placing Shares and the Consideration Shares, will be allotted and issued to Ingen.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was 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 member of the Group.

4. OUTSTANDING SHARE OPTIONS

(a) Pre-IPO Share Option Scheme

On 14 December 2001, the Pre-IPO Share Option Scheme was approved and adopted by a written resolution of all the Shareholders. The purpose of the Pre-IPO Share Option Scheme is to recognise the contribution of certain directors and employees of the Group to the growth of the Group and/or the listing of the Shares on GEM.

As at the Latest Practicable Date, no options granted under the Pre-IPO Share Option Scheme were outstanding.

(b) Share Option Scheme

On 14 December 2001, the Share Option Scheme was approved and adopted by a written resolution of all the Shareholders. The purpose of the Share Option Scheme is to provide incentive and to recognise the contribution of the employees (whether in full-time or part-time employment) and directors (whether executive, non-executive or independent non-executive) of the Company and/or its subsidiaries.

As at the Latest Practicable Date, no options have been granted under the Share Option Scheme.

5. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by the course of business) have been entered into by the Company or any of its subsidiaries within the two years preceding the date of this circular and are or may be material:

(a) a sale and purchase agreement dated 19 September 2001 and entered into between Mr. Ngai Kwok Kin, Kevin ("**Mr. Ngai**"), Joyview International Limited, Iwana Company Limited and Jet Concord Inc. and Inworld International Limited, pursuant to which Mr. Ngai, Joyview International Limited, Iwana Company Limited and Jet

Concord Inc. agreed to sell and Inworld International Limited agreed to purchase 164 shares of US$1.00 each in the issued share capital of Inworld Holdings Limited in exchange for a total number of 163 shares of US$1.00 each, allotted and issued to them, credited as fully paid;

(b) a swap and merge deed dated 20 September 2001 and entered into between Inworld International Limited on the first part, Inworld Holdings Limited on the second part and Mr. Ngai, Joyview International Limited, Iwana Company Limited and Jet Concord Inc. on the third part, pursuant to which, among other things, Inworld Holdings Limited agreed to sell and Inworld International Limited agreed to purchase the entire issued share capital of each of Inworld (Hong Kong) Limited, Inworld System (Hong Kong) Limited and Inworld Internet Singapore Pte. Ltd. in consideration for Inworld International Limited allotting and issuing to Mr. Ngai, Joyview International Limited, Jet Concord Inc. and Iwana Company Limited (at the direction of Inworld Holdings Limited and Iwana Company Limited) a total number of 164 shares of US$1.00 each, credited as fully paid;

(c) a sale and purchase agreement dated 21 September 2001 and entered into between Inworld International Limited and Mr. Ngai, Joyview International Limited, Iwana Company Limited and Jet Concord Inc., pursuant to which Inworld International Limited agreed to sell and Mr. Ngai, Joyview International Limited, Iwana Company Limited and Jet Concord Inc. agreed to purchase a total number of 164 shares of US$1.00 each in the issued share capital of Inworld Holdings Limited at an aggregate consideration of US$160;

(d) a sale and purchase agreement dated 24 September 2001 and entered into between Mr. Ngai, Joyview International Limited, Iwana Company Limited and Jet Concord Inc. and the Company, pursuant to which Mr. Ngai, Joyview International Limited, Iwana Company Limited and Jet Concord Inc. agreed to sell and the Company agreed to purchase a total number of 328 shares of US$1.00 each in the issued share capital of Inworld International Limited in exchange for a total number of 39,900 Shares, allotted and issued to them (or as they may direct), credited as fully paid;

(e) the underwriting agreement dated 17 December 2001 and entered into between, among others, the Company and the underwriters in connection with the initial listing of the Shares on GEM;

(f) a deed of indemnity dated 17 December 2001 given by Mr. Ngai, Dynamate Limited, Mr. Chan Wai Lun and Joyview International Limited in favour of the Company, containing, among other things, indemnities in respect of estate duty and taxation;

(g) a sponsor's agreement dated 17 December 2001 and entered into between Sun Hung Kai International Limited and the Company whereby the Company appointed Sun Hung Kai International Limited to act as its sponsor for the purpose of the GEM Listing Rules;

(h) the Share Transfer Agreement pursuant to which the Vendors agreed to sell and Wah Shui agreed to purchase an aggregate of 95% of the equity interests in Huaruiyuan for an aggregate Consideration of HK$22,800,000; and

(i) nine subscription agreements all dated 4 July 2003 and entered into between the Company and Dynamate Limited, Mr. Leung Kin Man Dennis and seven independent investors in connection with the Placing, pursuant to which the Company agreed to place an aggregate of 400,000,000 Placing Shares to such placees at the Placing Price of HK$0.04 per Placing Share.

6. SPONSOR'S INTERESTS

Pursuant to the sponsor agreement dated 17 December 2001 and entered into between Sun Hung Kai International Limited and the Company, Sun Hung Kai has received, and will continue to receive, fees for acting as the Company's retained sponsor for the period from 31 December 2001 to 30 June 2004.

As at the Latest Practicable Date, neither Sun Hung Kai nor its directors, employees or associates (as referred to in Rule 6.36 of the GEM Listing Rules) had any interests in the Shares, including options or rights to subscribe for any Shares.

7. COMPETING INTEREST

As at the Latest Practicable Date, none of the Directors, the management shareholders (as defined in the GEM Listing Rules) of the Company nor their respective associates had any business or interest that competes or may compete with the business of the Group or any other conflicts of interest with the Group.

8. LITIGATION

As at the Latest Practicable Date, no member of the Group is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against any member of the Group.

9. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation).

There is no variation of the aggregate of the remuneration payable to and benefits in kind receivable by the Directors in consequence of the Acquisition.

10. EXPERTS

The following is the qualification of each of the experts who has given opinion or advice which is contained in this circular:

Name	Qualification
First Asia Finance	a deemed licensed corporation to carry out type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO
HLB Hodgson Impey Cheng	Chartered Accountants Certified Public Accountants

Each of First Asia Finance and HLB Hodgson Impey Cheng has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and references to its name in the form and context in which it appears.

As at the Latest Practicable Date, none of First Asia Finance and HLB Hodgson Impey Cheng had any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

11. GENERAL

(a) The registered office of the Company is at P.O. Box 309, Ugland House, South Church Street, George Town, Grand Cayman, Cayman Islands, British West Indies.

(b) The head office and principal place of business of the Company in Hong Kong is at 3rd Floor, Chinese Club Building, 21-22 Connaught Road Central, Hong Kong.

(c) The Company's branch share registrar and transfer office in Hong Kong is Tengis Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wahchai, Hong Kong.

(d) The company secretary and qualified accountant of the Company is Mr. Leung Kin Man, Dennis. Mr. Leung is an associate member of the Hong Kong Society of Accountants and a member of the American Institute of Certified Public Accountants.

(e) The compliance officer of the Company is Mr. Koh.

(f) The Company's audit committee (the "**Audit Committee**") was established on 13 December 2001 with written terms of reference based on the guidelines set out in "A guide for the formation of an audit committee" of the Hong Kong Society of Accountants. The primary duties of the Audit Committee are to review the Company's annual reports and accounts, half-yearly reports and quarterly reports and to provide advice and comments thereto to the Board. The Audit Committee is also responsible for reviewing and supervising the financial reporting process and internal control procedures of the Group. The Audit Committee comprises the two independent non-executive Directors, namely Mr. Leung Chun Cheng and Mr. Wong Shui Fan. Set out below are their background and directorships (present and past) of other companies listed on GEM, the main board of the Stock Exchange or other stock exchanges:

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

Mr. Wong Shui Fan, aged 38, possesses more than eight years' experience in trade finance at HSBC, the issued shares of the ultimate holding company of which are listed on the main board of the Stock Exchange, and was the head of the small medium business department responsible for implementing the sales and marketing strategy in the Hong Kong region. Mr. Wong is currently the president of a private biochemical company, Capital Field International Limited, in Hong Kong. Mr. Wong holds a bachelor of arts degree in international marketing from San Francisco State University in the United States.

(g) As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2002, the date to which the latest published audited consolidated financial statements of the Group were made up.

(h) Save as disclosed in this circular, there is no contract or arrangement entered into by any member of the Group subsisting at the Latest Practicable Date in which any Director is materially interested and which is significant to the business of the Group.

(i) Save as disclosed in this circular, none of First Asia Finance, HLB Hodgson Impey Cheng nor any Directors had any direct or indirect interest in any assets which had been acquired, disposed of by or leased to, or which were proposed to be acquired, disposed of by or leased to, any member of the Group since 31 December 2002, the date to which the latest published audited consolidated financial statements of the Group were made up, up to the Latest Practicable Date.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the office of Michael Li & Co. at 14th Floor, Printing House, 6 Duddell Street, Central, Hong Kong from the date of this circular up to and including 22 August 2003 and at the EGM:

(a) the memorandum and articles of association of the Company;

(b) the prospectus of the Company dated 18 December 2001;

(c) the material contracts referred to in the paragraph headed "Material Contracts" in this appendix;

(d) the annual reports of the Company for the financial year ended 30 June 2002 and the third quarterly report of the Company for the nine months ended 31 March 2003;

(e) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out on page 25 of this circular;

(f) the letter of advice from First Asia Finance to the Independent Board Committee, the text of which is set out on pages 26 to 34 of this circular;

(g) the written consents from First Asia Finance and HLB Hodgson Impey Cheng referred to in the paragraph headed "Experts" in this appendix;

(h) the accountants' report prepared by HLB Hodgson Impey Cheng, the text of which set out in appendix II to this circular;

(i) the "Notice in relation to the Installation of Tax-Declaring Units in Fuel Filling Machines" (關於加油機安裝稅控裝置的通告) issued by the State Administration of Taxation of China on 8 May 2000;

(j) the "Notice in relation to the Production and Use of Tax-Declaring Taxi Meters" (關於生產使用出租汽車稅控計價器有關問題的通知) issued by the Guangdong Local Tax Bureau and the Guangdong Quality Supervision Inspection Bureau on 9 May 2000; and

(k) the business licence of Huaruiyuan.

INWORLD GROUP LIMITED

活力世界控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of Inworld Group Limited (the "Company") will be held on 22 August 2003 (Friday) at 11:00 a.m. at Macau Jockey Club Golden Restaurant, First Floor, China Merchants Tower, Shun Tak Centre, 200 Connaught Road Central, Hong Kong for the purpose of considering and, if thought fit, passing the following resolutions as ordinary resolutions:

ORDINARY RESOLUTIONS

1. "**THAT** the share transfer agreement (the "**Share Transfer Agreement**", a copy of the Share Transfer Agreement has been produced at the meeting marked "**A**" and signed by the chairman of the meeting for the purpose of identification) dated 25 June 2003 and entered into between Shenzhen Ingen Technology Company Limited ("**Ingen**"), Huang Shu-ying and Chen Hong as vendors and Wah Shui Company Limited, a wholly-owned subsidiary of the Company, as the purchaser in relation to the acquisition of an aggregate of 95% of the equity interests in Shenzhen Huaruiyuan Company Limited for an aggregate consideration of HK$22,800,000, be and is hereby approved and that the transactions contemplated thereunder including but not limited to the allotment and issue by the Company of 263,600,000 shares (each a "**Share**") of HK$0.01 each in the capital of the Company to Ingen be and are hereby approved and that the board of directors of the Company (the "**Board**") be and is hereby authorised to take such action as may in the opinion of the Board be necessary or desirable to give effect to the Share Transfer Agreement."

2. "**THAT** the nine subscription agreements (the "**Subscriptions Agreements**", copies of the Subscription Agreements have been produced at the meeting marked "**B**" and signed by the chairman of the meeting for the purpose of identification) all dated 4 July 2003 and entered into between the Company and nine placees including Dynamate Limited, Mr. Leung, Dennis and seven independent investors in relation to the placing of 400,000,000 Shares (each a "**Placing Share**") to such placees at a placing price of HK$0.040 per Placing Share, be and are hereby approved and that the transactions contemplated thereunder including but not limited to the allotment and issue by the Company of the 400,000,000 Placing Shares to the placees (including the allotment and issue of 220,000,000 Placing Shares to Dynamate Limited) be and are hereby approved and that the Board be and is hereby authorised to take such action as may in the opinion of the Board be necessary or desirable to give effect to the Subscription Agreements."

* *For identification purpose only*

3. “**THAT** subject to the ordinary resolution nos.1 and 2 above being duly passed:

(a) the general mandate granted to the directors (the “**Directors**”) of the Company to exercise all the powers of the Company to allot, issue and deal with the unissued Shares at the annual general meeting of the Company held on 23 October 2002 be and is hereby revoked to the extent not yet exercised prior to the passing of this resolution;

(b) subject to paragraph (d) below, pursuant to the Rules Governing the Listing of Securities on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, the exercise by the Directors during the Relevant Period (as defined below) of all the powers of the Company to allot, issue and deal with the unissued Shares or securities convertible into Shares, options, warrants or similar rights to subscribe for any Shares and to make or grant offers, agreements, options and warrants, which might require the exercise of such powers be and is hereby generally and unconditionally approved;

(c) the approval in paragraph (b) above shall authorise the Directors during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;

(d) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to options or otherwise), issued or dealt with by the Directors pursuant to the approval in paragraph (b) above, otherwise than pursuant to (i) a Rights Issue (as defined below); or (ii) the exercise of any options granted under the share option scheme of the Company; or (iii) any scrip dividend or similar arrangements providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the articles of association of the Company in force from time to time; or (iv) any issue of Shares upon the exercise of rights of subscription or conversion under the terms of any warrants of the Company or any securities which are convertible into Shares, shall not exceed the aggregate of:

(aa) 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this resolution as enlarged by the allotment and issue of the Placing Shares and the Consideration Shares; and

(bb) (if the Directors are so authorised by a separate ordinary resolution of the shareholders of the Company) the nominal amount of any share capital of the Company repurchased by the Company subsequent to the passing of this resolution (up to a maximum equivalent to 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this resolution as enlarged by the allotment and issue of the Placing Shares and the Consideration Shares),

and the authority pursuant to paragraph (b) of this resolution shall be limited accordingly; and

(e) for the purposes of this resolution:

"**Relevant Period**" means the period from the date of the passing of this resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company, the Companies Law, Cap.22 (Law 3 of 1961, as consolidated or revised) of the Cayman Islands (the "**Companies Law**") or any other applicable law of the Cayman Islands to be held; or

(iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the Directors by this resolution;

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

4. "**THAT** subject to the ordinary resolution nos.1 and 2 above being duly passed:

(a) the general mandate granted to the Directors to exercise all the powers of the Company to repurchase the Shares on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited at the annual general meeting of the Company held on 23 October 2002 be and is hereby revoked to the extent not yet exercised prior to the passing of this resolution;

(b) subject to paragraph (c) below, the exercise by the Directors during the Relevant Period (as defined below) of all powers of the Company to repurchase the Shares on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited or any other stock exchange on which the Shares may be listed and recognised by the Securities and Futures Commission and The Stock Exchange of Hong Kong Limited for such purpose, and otherwise in accordance with the rules and regulations of the Securities and Futures Commission, The Stock Exchange of Hong Kong Limited, the articles of association of the Company, the Companies Law and all other applicable laws in this regard, be and is hereby generally and unconditionally approved;

(c) the aggregate nominal amount of Shares which may be repurchased by the Company pursuant to the approval in paragraph (b) during the Relevant Period shall not exceed 10 per cent. of the aggregate nominal amount of the issued share capital of the Company as at the date of the passing of this resolution as enlarged by the allotment and issue of the Placing Shares and the Consideration Shares and the authority pursuant to paragraph (b) of this resolution shall be limited accordingly; and

(d) for the purposes of this resolution, "**Relevant Period**" means the period from the date of the passing of this resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company, the Companies Law or any other applicable law of the Cayman Islands to be held; and

(iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the Directors by this resolution."

5. "**THAT** subject to the ordinary resolution nos. 3 and 4 above being duly passed, the unconditional general mandate granted to the Directors to exercise the powers of the Company to allot, issue and deal with unissued Shares pursuant to resolution no. 3 above be and is hereby extended by the addition thereon of an amount representing the aggregate nominal amount of the share capital of the Company repurchased by the Company subsequent to the passing of this resolution, provided that such amount shall not exceed 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of resolution no. 4 above as enlarged by the allotment and issue of the Placing Shares and the Consideration Shares."

By order of the Board
Inworld Group Limited
Koh Tat Lee, Michael
Chairman

Hong Kong, 5 August 2003

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

Head office and principal place of business in Hong Kong:
3rd Floor
Chinese Club Building
21-22 Connaught Road Central
Hong Kong

Notes:

1. A member of the Company entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxy to attend and, subject to the provisions of the articles of association of the Company, to vote on his behalf. A proxy need not be a member of the Company but must be present in person at the meeting to represent the member. If more than one proxy is so appointed, the appointment shall specify the number and class of Shares in respect of which each such proxy is so appointed.

2. A form of proxy for use at the meeting is enclosed. In order to be valid, the form of proxy must be duly completed and signed in accordance with the instructions printed thereon and deposited together with a power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority, at the offices of the Company's branch share registrar in Hong Kong, Tengis Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof. Completion and return of a form of proxy will not preclude a member from attending in person and voting at the above meeting or any adjournment thereof, should he so wish.

3. In the case of joint holders of Shares, any one of such holders may vote at the meeting, either personally or by proxy, in respect of such Share as if he was solely entitled thereto, but if more than one of such joint holders are present at the meeting personally or by proxy, that one of the said persons so present whose name stands first in the register of members of the Company in respect of such Shares shall alone be entitled to vote in respect thereof.

4. Votes on resolution no. 2 above shall be taken by way of poll.

5. In relation to proposed resolutions nos. 3 and 5 above, approval is being sought from the shareholders of the Company for the grant to the Directors of a general mandate to authorise the allotment and issue of Shares under the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. The Directors have no immediate plans to issue new Shares other than the Placing Shares, Consideration Shares, and Shares which may fall to be issued under the share option schemes of the Company or any scrip dividend scheme or similar arrangement providing for the allotment and issue of Shares in lieu of whole or part of a dividend which may be approved by shareholders of the Company.

6. In relation to proposed resolution no. 4 above, the Directors wish to state that they will exercise the powers conferred thereby to repurchase Shares in circumstances which they deem appropriate for the benefit of the shareholders of the Company. An explanatory statement containing the information necessary to enable the shareholders of the Company to make an informed decision to vote on the proposed resolution as required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited is set out in Appendix IV to this circular.