

INWORLD GROUP LIMITED

活力世界控股有限公司

(Incorporated in the Cayman Islands with limited liability)



Quarterly Report for the
three months ended
30 September 2003

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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

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

Highlights

- Unaudited consolidated loss decreased by approximately 41% for the three months ended 30 September 2003 as compared to the corresponding period in 2002.
- The Directors do not recommend an interim dividend for the three months ended 30 September 2003.

QUARTERLY RESULTS (UNAUDITED)

The directors (the "Directors") of Inworld Group Limited (the "Company") are pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the three months ended 30 September 2003 together with comparative figures for the corresponding period in 2002 as follows:

		Three months ended 30 September	
		2003	2002
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover		619	1,293
Cost of services rendered		<u>(211)</u>	<u>(1,199)</u>
Gross profit		408	94
Other revenues		–	111
Distribution costs		(151)	(749)
Administrative expenses		(1,757)	(2,057)
Depreciation		<u>(121)</u>	<u>(233)</u>
Loss before taxation		(1,621)	(2,834)
Taxation	2	<u>–</u>	<u>–</u>
Loss after taxation		(1,621)	(2,834)
Minority interest		<u>11</u>	<u>97</u>
Net loss attributable to shareholders		<u><u>(1,610)</u></u>	<u><u>(2,737)</u></u>
Loss per share			
– Basic (cents)	3	<u><u>(0.25)</u></u>	<u><u>(0.47)</u></u>
– Diluted (cents)	3	<u><u>N/A</u></u>	<u><u>N/A</u></u>

Notes:

1. Basis of presentation

The accounts have been prepared in accordance with all applicable Statements of Standard Accounting Practice ("SSAP") issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention except that certain investment securities are stated at fair value.

The accounting policies adopted in the preparation of the accounts are consistent with those used in the annual financial statements for the year ended 30 June 2003. All significant transactions and balances between companies comprising the Group have been eliminated on consolidation.

2. 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 three months ended 30 September 2003 (2002: Nil).

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 accounts as the subsidiaries operating outside Hong Kong have no assessable profits for the period ended 30 September 2003 (2002: Nil).

No provision for deferred taxation has been made as the Group have no material potential liabilities arising on timing difference at 30 September 2003 (2002: Nil).

3. Loss per share

The calculation of the Group's basic loss per share for the three months ended 30 September 2003 is based on the Group's loss attributable to shareholders of approximately HK\$1,610,000 (2002: approximately HK\$2,737,000) and the weighted average number of approximately 636,712,348 shares of the Company for the three months ended 30 September 2003 (2002: 578,306,870 shares).

There were no potential dilutive shares in existence for the three months ended 30 September 2003 and, accordingly, no diluted loss per share has been presented.

4. Reserves

	Share Premium HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 July 2002	22,666	7,396	(8,609)	21,453
Loss for the period	—	—	(2,737)	(2,737)
At 30 September 2002	<u>22,666</u>	<u>7,396</u>	<u>(11,346)</u>	<u>18,716</u>
At 1 July 2003	22,666	7,396	(27,722)	2,340
Placement of shares	12,000	—	—	12,000
Issuance of shares for acquisition of subsidiary	8,962	—	—	8,962
Share issuing expenses	(810)	—	—	(810)
Loss for the period	—	—	(1,610)	(1,610)
At 30 September 2003	<u>42,818</u>	<u>7,396</u>	<u>(29,332)</u>	<u>20,882</u>

FINANCIAL REVIEW

The turnover of the Group was approximately HK\$619,000 for the three months ended 30 September 2003 (2002: HK\$1,293,000). This represented a decline of 52% from the corresponding period in 2002 due to setbacks experienced by the Group regarding the unfortunate saga of Severe Acute Respiratory Syndrome (“SARS”) in the first half of 2003 and the consequential slowdown of business activities in various countries that the Group operated in. However, comparing with the negative turnover in the three months ended 30 June 2003, the Group had recorded a positive growth in business again.

Operating expenses

The operating expenses of the Group had been kept under tight control by management. Total operating expenses decreased by approximately HK\$1,010,000. Distribution costs dropped by 80% while administrative expenses decreased by 14%.

Loss for the period

The consolidated loss of the Group for the three months ended 30 September 2003 was approximately HK\$1,610,000 (2002: loss of HK\$2,737,000). The improvement in operating results resulted from the broaden revenue base and the cutback of operating expenses. Pursuant to the Group's acquisition of Shenzhen Huaruiyuan Company Limited ("Huaruiyuan"), the Group strengthened its operating base in the PRC. A positive growth of revenue was recorded from the Huaruiyuan operation.

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the three months ended 30 September 2003 (2002: Nil).

BUSINESS REVIEW

The Group's overall business objective is to become a leading system solutions provider and IT consultant targeting at the SMEs in the Asian Region with a primary focus in Hong Kong, the PRC and Singapore. The Group continue to pursue its overall objective in the current quarter ended 30 September 2003.

However, the progress of the Group's objective was materially slowed down by the SARS saga which hit heavily at the Group's various operating centres in Hong Kong, Singapore and the PRC in the first half of 2003. Management of the Group consolidated its operating basis during the SARS saga and provided a strong base for the rebound of business in the current quarter.

On 23 September 2003, Wah Shui Company Limited, a wholly-owned subsidiary of the Company, completed its purchase of 95% of the equity interests in Huaruiyuan. The principal activities of Huaruiyuan are the design and development of tax-declaring computer software and the integration of tax-declaring computer system and network in the PRC. It 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.

Prospects

Due to the high level of technical sophistication involved in the tax-declaring system market, license need to be obtained from the PRC government in order to enter the tax-declaring products and the embedded computer systems market. Thus, there is an entry barrier in the tax-declaring system market in the PRC. The Directors anticipated that the economic climate in the PRC would maintain its present upward trend. As the PRC government moves to tighten up the tax monitoring system to combat tax avoidance, the Directors expected that the demand for tax-declaring computer technology and system would increase substantially in the coming few years.

The Directors considered that the acquisition of Huaruiyuan offered 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 of its existing business.

With the SARS saga behind us, the Group looks forward to a broader range of system solutions and IT consultancy services to offer to our customers in the future. The Group will continue broaden our services and business spectrums in order to enhance our profitability. The Group will continue to actively explore and identify investment and acquisition opportunities in related businesses with growth potential.

Liquidity, financial resources and gearing

The Group generally finances its operation with internally generated cash flow and net proceeds from fund raising activities. As at 30 September 2003, shareholders' funds of the Group amounted to approximately HK\$33,309,000 (2002: HK\$24,504,000). Current assets amount to approximately HK\$10,056,000, of which approximately HK\$2,153,000 were cash and bank balances. Current liabilities of approximately HK\$2,251,000 mainly comprised trade deposits received and other payables and accrued expenses. The Group expresses its gearing ratio (if any) as a percentage of bank borrowing and long-term debts over total assets. As at 30 September 2003 and to the date of this report, the Group did not have any bank borrowing or long-term debts (2002: Nil).

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

The capital structure, funding and treasury policies of the Group

The Group intends to finance its operation with its internal resources and net proceeds from fund raising activities. During the three months ended 30 September 2003, the Company allotted and issued 263,600,000 new shares of the Company as consideration of HK\$11,598,400 for the acquisition of Huaruiyuan. The Company also placed an aggregate of 400,000,000 new shares of the Company at the placing price of HK\$0.04 per placing shares. The net proceeds of the placing of approximately HK\$15,300,000 will be applied as to HK\$11,201,600 to settle the cash consideration in respect of the acquisition of Huaruiyuan, as to approximately HK\$1,200,000 for the purchase of facilities and equipments used for the development of the 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. Details of the acquisition of Huaruiyuan and Placing were set out in the circular of the Company dated 5th August 2003.

During the quarter under review, the business activities of the Group were mainly denominated in Hong Kong dollars and Renminbi. The Directors do not consider that the Group is significantly exposed to any foreign currency exchange risk. It is the Group's treasury policy to manage its foreign currency exposure whenever its financial impact is material to the Group. The Group does not employ any financial instruments for hedging purposes and does not engage in foreign currency speculative activities.

Employees and remuneration policies

As at 30 September 2003, the Group had 85 employees (2002: 43), including directors of the Company. For the quarter under review, the remuneration of the Group amounted to approximately HK\$748,000 (2002: HK\$1,242,000). The Group's remuneration policies are in line with the prevailing market practice and are determined on the basis of the performance and experience of individual employees. The Group also provides retirement schemes and medical insurance scheme for its employees.

Details of charges on Group assets

During the quarter under review, no assets of the Group were pledged (2002: Nil).

Contingent liabilities

As at 30 September 2003, the Group had no contingent liabilities (2002: Nil).

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

(1) Directors and chief executive

At 30 September 2003, the interests and short positions of the Directors and 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 Securities and Futures Ordinance (“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 provision 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 of Hong Kong Limited (“Stock Exchange”) pursuant to Rules 5.40 to 5.58 of the Rules Governing The Listing of Securities on The Growth Enterprises Market of the Stock Exchange (the “GEM Listing Rules”) relating to securities transaction by Directors, were as follows:

Name of Directors	Number of shares in the Company				Percentage of Interests
	Personal Interests	Family Interests	Corporate Interests	Total Interests	
Mr. Koh Tat Lee, Michael (Note)	-	-	370,163,200	370,163,200	29.79%
Mr. Chu Siu Wah	7,576,000	-	-	7,576,000	0.61%

Note:

These shares are held by Dynamate Limited of which the entire issued share capital is beneficially owned by Mr. Koh Tat Lee, Michael. Accordingly, Mr. Koh is deemed to be interested in the shares beneficially owned by Dynamate Limited.

Saved as disclosed above, 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 provision 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 transaction by Directors.

(2) Directors' Rights to acquire shares or Debentures

Pursuant to the Share Option Scheme adopted by the Company on 14 December 2001 ("Share Option Scheme"), a director was granted share options to subscribe for shares of the Company, details of which were as follows:

Name of Director	Date of grant	Number of share options outstanding as at 14 November 2003	Option Period	Subscription price per share
Mr. Chu Siu Wah	9 October 2003	12,000,000	9 October 2003 to 8 October 2013	HK\$0.076

Save as disclosed above, during the three months ended 30 September 2003, none of the Directors or their respective associates was granted options to subscribe for shares of the Company, nor had exercised such rights.

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

(3) Share Options

No options granted under the Pre-IPO Share Option Scheme adopted by the Company on 14 December 2001 were outstanding up to the date of this report.

Pursuant to the Share Option Scheme, options to subscribe for an aggregate of 32,000,000 shares of the Company (which includes the options granted to Mr. Chu Siu Wah as disclosed above) were outstanding as at the date of this report, breakdown of which are set out below:

Date of grant	No. of share options	No. of employees	Subscription price per share	Option period (commencing from the date of grant and terminating ten years thereafter)
9 October 2003	32,000,000	5	HK\$0.076	9 October 2003 to 8 October 2013

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2003, the following persons (not being Directors or chief executive of the Company whose interest are disclosed above) 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 provision of Division 2 and 3 or 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 of shares held	Percentage of the Company's share capital
Dynamate Limited (<i>Note 1</i>)	370,163,200	29.79
Shenzhen Ingen Technology Company Limited	263,600,000	21.21
City Lion Worldwide Limited (<i>Note 2</i>)	160,000,000	12.88
Styland (Overseas) Limited (<i>Note 2</i>)	160,000,000	12.88
Styland Holdings Limited (<i>Note 2</i>)	160,000,000	12.88

Notes :

1. These shares are held by Dynamate Limited of which the entire issued share capital is beneficially owned by Mr. Koh Tat Lee, Michael. Accordingly, Mr. Koh is deemed to be interested in the shares beneficially owned by Dynamate Limited.
2. 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.

SPONSOR'S INTEREST

None of the Company's sponsor, Sun Hung Kai International Limited, its directors, employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interests in any class of securities of the Company or any other company in the Group (including options or rights to subscribe for such securities) as at 30 September 2003.

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

COMPETING INTERESTS

None of the Directors or management shareholders (as defined in the GEM Listing Rules) of the Company have any interest in any business which competes with or may compete with the business of the Group.

BOARD PRACTICES AND PROCEDURES

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

AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in compliance with the requirements as set out in Rules 5.23 and 5.24 of the GEM Listing Rules. The duties of the audit committee are to review and to provide supervision over the financial reporting process and internal control system of the Group. The audit committee comprises one Non-Executive Director and two Independent Non-Executive Directors of the Company.

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

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the three months ended 30 September 2003.

CHANGE OF YEAR END DATE

Pursuant to a resolution passed in the annual general meeting of the Company held on 29 October 2003, the year end date of the Company was changed from 30 June to 31 December.

By order of the Board
Koh Tat Lee, Michael
Director

Hong Kong, 14 November 2003