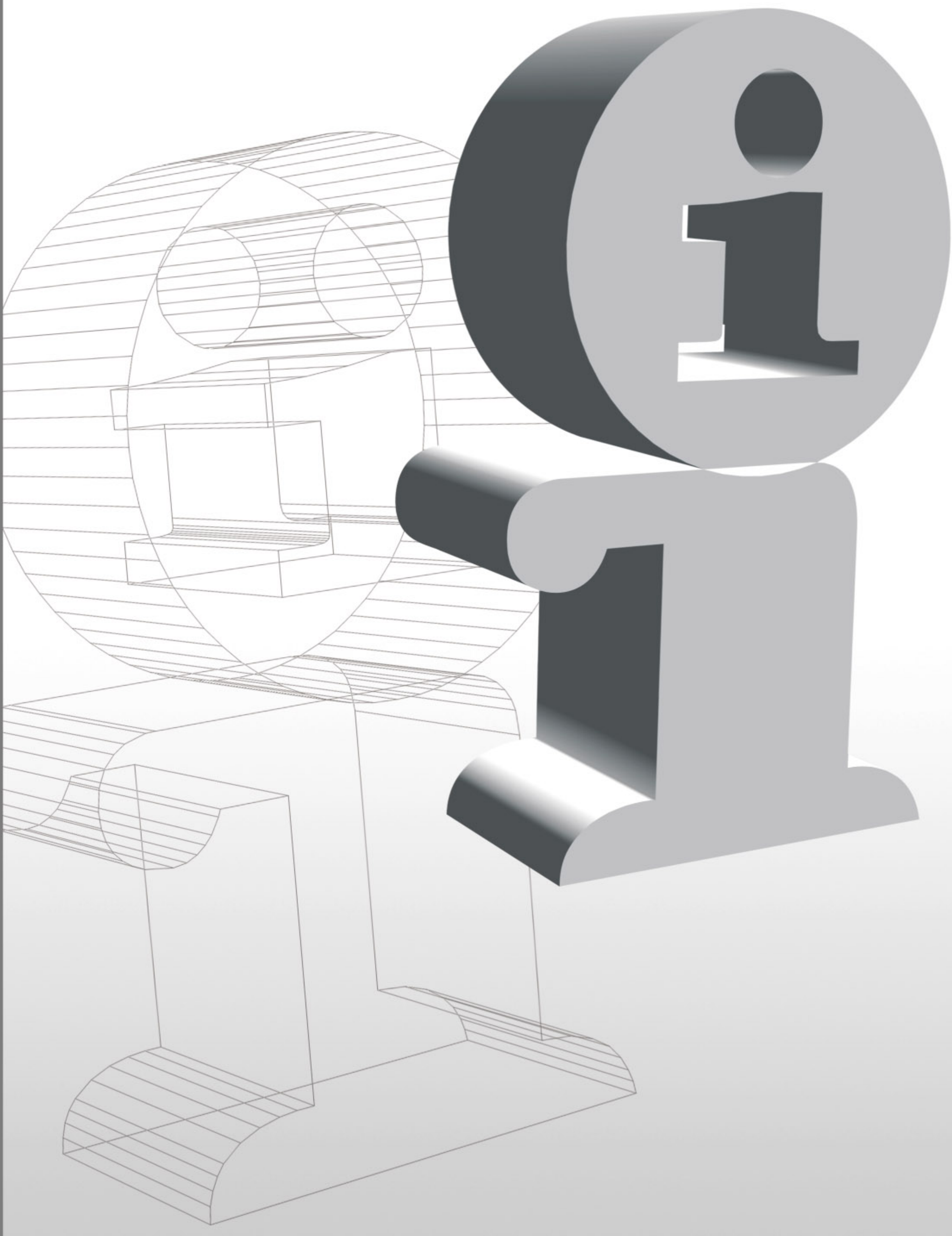
Inworld Group Limited
活力世界控股有限公司

(Incorporated in the Cayman Islands with limited liability)



Annual Report 2003

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

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors. Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on Main Board 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 announcement in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM listed issuers.

The Stock Exchange 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.

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Koh Tat Lee, Michael *(Chairman)*
Wong Shui Fun

Non-executive Directors

Ng Yat Cheung

Independent Non-executive Directors

Leung Chun Cheng
Cheong Mun Hong

QUALIFIED ACCOUNTANT

Leung, Dennis

COMPANY SECRETARY

Leung, Dennis

COMPLIANCE OFFICER

Koh Tat Lee, Michael

AUTHORISED REPRESENTATIVES

Koh Tat Lee, Michael

AUDIT COMMITTEE

Leung Chun Cheng
Cheong Mun Hong
Ng Yat Cheung

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

3rd Floor, Chinese Club Building
21-22 Connaught Road Central
Central, Hong Kong

PRINCIPAL BANKERS

Liu Chong Hing Bank Limited
Standard Chartered Bank

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Butterfield International (Cayman) Ltd.
Butterfield House, 68 Fort Street
P.O. Box 705
George Town
Grand Cayman
Cayman Islands
British West Indies

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tengis Limited
G/F, Bank of East Asia Harbour View Centre
56 Gloucester Road, Wanchai
Hong Kong

AUDITORS

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

SPONSOR

Sun Hung Kai International Limited

LEGAL ADVISER

As to Hong Kong Law:
Kwok & Yih

As to Cayman Island Law:
Maples and Calder Asia

WEBSITE

www.inworld.com.hk

STOCK CODE

8100

Chairman Statement

Dear Shareholders,

I am pleased to report that during the six months ended 31 December 2003, Inworld Group Limited (the "Company") achieved another significant milestone by completing its first major transaction after the initial public offering by acquiring Shenzhen Huaruiyuan Company Limited ("Huaruiyuan") in September 2003. Through the acquisition, the Company and its subsidiaries (hereinafter referred to as the "Group") expand its business further into The People's Republic of China (the "PRC"), a large and rapidly growing market. The operating loss for the six months ended 31 December 2003 narrowed to approximately HK$5,569,000, representing a 71% improvement over the year ended 30 June 2003.

On 23 September 2003, the Group's first major acquisition in the PRC, namely Huaruiyuan, was completed. Huaruiyuan specialises in the design and development of tax-declaring computer software and the integration of tax-declaring computer systems and network. We are confident that Huaruiyuan will drive the Group to significant growth as the PRC government move to tighten up the tax monitoring system to combat tax avoidance. Hence, the demand for tax-declaring computer technology and system would increase in the coming few years.

In connection with the acquisition, the Company successfully raised a total of HK$15.3 million through placement of 400,000,000 shares in September 2003. This placement provided sufficient working capital for the Group's operation and expansion.

In February 2004, the Company completed another placement of 150,000,000 shares to provide an even strong foundation for the Group's operation and expansion.

The Group is constantly exploring new business opportunities in order to achieve better returns for our shareholders. The PRC market represents massive growth potential to the Group. On 17 March 2004 the Group entered into a sales and purchase agreement under which and subject to the terms and conditions thereof, the Group has agreed to acquire the entire share capital of M Dream Mobile Entertainment Limited ("M Dream") for an aggregate consideration of HK$31,320,000. M Dream is principally engaged in the research, development and after-sale services of entertainment gaming software in the PRC. M Dream currently focuses on the provision of application services in relation to valued added services in the wireless mobile games and entertainment market in the PRC, including the provision of information technology solutions to Internet content providers for distribution of wireless mobile games and downloadable applications via the Internet and mobile networks in the PRC in return for service fees paid by Internet content providers.

The two applications launched and currently provided by M Dream were adapted from Korea applications. Based on the information provided by M Dream Zone, one of these Korean applications, which was launched in Korea in December 2001, has a subscriber base of approximately 500,000 users in Korea over a mobile phone subscriber base of approximately 28 million people, which represents a penetration rate of 1.79% in the Korean market. The other Korean application was launched in May 2002 and currently has a subscriber base of 200,000 people in Korea. The current mobile phone subscriber population in the PRC is over 250 million. We believe that a similar penetration rate may be reached in the PRC which will translate to a potential subscriber number of 4.48 million people. This is approximately 112 times of the current subscriber number of M Dream and represents a healthy potential growth of M Dream revenue. Based on the information provided

Chairman Statement

by M Dream, for one of the applications to be launched and provided by M Dream in the next six month, the current number of users of that application over the Internet platform (i.e. online games using Internet platform) is over 30 million people and according to M Dream, approximately 5% of these Internet platform users are interested in running the applications over the mobile platform (i.e. playing the games on mobile platform).

We believe that the total revenue will increase because M Dream has currently launched only 2 applications, another 2 applications are planned for launch within the next quarter and another 2 applications within the year. Based on the increase in number of applications and in turn, an increase in number of subscribers, the revenue of M Dream will increase. Further, we believe that the penetration of application service provision over the mobile platform in the PRC may approximate other countries, such as Korea, and thus, with the increase in penetration rate, the revenue of M Dream will also increase.

Through this proposed acquisition of M Dream, the Group can expand its information technology consultation and infrastructure services on to the mobile platform. The Group can also participate in the provision of mobile value-added service in the PRC. The Group will combine the user base and distribution channels of M Dream and the information technology knowledge of the Group to create synergy and in turn, benefit our shareholders. Through M Dream's current business relationship with PRC internet content providers, the Company can immediately tap into this segment of the market.

Finally, I wish to thank our shareholders, Board of Directors, management, staff, and business partners for their support, contributing to the Group's rapid development in the past period.

Koh Tat Lee, Michael
Chairman

Hong Kong, 30 March 2004

Management Discussion and Analysis

FINANCIAL REVIEW

Change of year end

Pursuant to a resolution passed in the annual general meeting of Inworld Group Limited (the "Company") held on 29 October 2003, the accounting year end date of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") has been changed from 30 June to 31 December. As such, this annual report covers the six months period from 1 July 2003 to 31 December 2003.

Turnover

The turnover of the Group was approximately HK$614,000 for the six months ended 31 December 2003 (year ended 30 June 2003: HK$1,558,000). This represented an annualised decline of 21% from the year ended 30 June 2003 due to the 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. Nonetheless, the turnover in the current period represents a turnaround from the negative turnover in the first six months of 2003.

Pursuant to the Group's acquisition of Huaruiyuan, the Group strengthened its operating base in The People's Republic of China (the "PRC"). A positive growth of revenue was contributed from Huaruiyuan.

Operating expenses

In view of the turnover situation, the Group continued to tightly control its operating expense. Despite the additional operating expenses incurred due to the Huqruiyuan acquisition, the operating expenses decreased by 65%.

Loss for the period

The consolidated loss of the Group for the six months ended 31 December 2003 was approximately HK$5,569,000 (year ended 30 June 2003: loss of HK$19,113,000). The improvement in operating results resulted from the broaden revenue base, the cutback of operating expenses and the decrease in provision for assets. The Group provided for a total of HK$6,620,000 for impairment of product development cost in the year ended 30 June 2003.

Liquidity, financial resources and gearing

The Group generally finance its operation with internally generated cash flow and remaining portion of the net proceeds from fund raising activities. As at 31 December 2003, shareholders' funds of the Group amounted to approximately HK$29,349,000 (30 June 2003: HK$8,130,000). Current assets amount to approximately HK$11,556,000, of which approximately HK$166,000 were cash and bank balances. Current liabilities of approximately HK$2,461,000 mainly comprised 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 31 December 2003 and to the date of this report, the Group did not have any bank borrowing or long-term debts (30 June 2003: 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.

Management Discussion and Analysis

FINANCIAL REVIEW *(Continued)*

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 six months ended 31 December 2003, the Company allotted and issued as fully paid a total of 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 for a net proceeds of approximately HK$15,300,000. Details of the acquisition of Huaruiyuan and Placing were set out in the circular of the Company dated 5 August 2003.

During the six months ended 31 December 2003, 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.

Investments

As at 31 December 2003, the Group held 930,000 shares and 104,999,999 shares of two companies which shares are listed on GEM. The investment of 104,999,999 shares in one of these listed companies are suspended as at the date of this report. During the six months under review, the Group did not receive any dividend from these listed securities (year ended 30 June 2003: Nil). The Group intends to hold these listed securities for trading purpose.

Details of material acquisitions and disposals of subsidiaries and affiliated companies in the course of the six months under review.

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 acquisition was completed through allotment of 263,600,000 shares of the Company as consideration, and settlement of HK$11,201,600 in cash.

On 17 March 2004, the Group have entered into a sales and purchase agreement to acquire M Dream Mobile Entertainment Limited ("M Dream"). The consideration amounted to HK$31,320,000, of which HK$4,500,000 will be satisfied in cash and HK$26,820,000 will be satisfied by way of the allotment and issue of 298,000,000 new shares at HK$0.090 per share credited as fully paid.

Other than the aforementioned, the Group currently does not have any future plans for the material investment or capital assets.

Management Discussion and Analysis

FINANCIAL REVIEW *(Continued)*

Employees and remuneration policies

As at 31 December 2003, the Group had 70 employees (30 June 2003: 10), including directors of the Company. For the period under review, the remuneration of the Group amounted to approximately HK$1,217,000 (year ended 30 June 2003: HK$3,359,000). 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. The Group has adopted a Share Option Scheme pursuant to which the Group granted options to persons including executive director and employees of the Group to acquire shares of the Company.

Details of charges on Group assets

During the period under review, no assets of the Group were pledged (year ended 30 June 2003: Nil).

Contingent liabilities

As at 31 December 2003, the Group had no contingent liabilities (30 June 2003: Nil).

Segmental Results

The Group mainly operated as a system solution provider during the period. The Group's turnover mainly resulted from system solutions services and cyber cafè income. Turnover from system solution services remained the primary revenue contributor of the Group and accounted for 87% of the turnover for the period ended 31 December 2003 (year ended 30 June 2003: 84%).

The Group is principally engaged in the business as a system solution provider. 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 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.

The Group presented its geographical segment reporting based on the geographical location of our customers. During the period ended 31 December 2003, the PRC market had overtaken Hong Kong market as the largest market of the Group. Revenue from the PRC customers accounted for 90% of the turnover of the Group for the period as compared to only 9% in the year ended 30 June 2003. However, due to initial market development expenses, the PRC market segment reported a loss of HK$2,528,000 for the period.

Revenue from Hong Kong customers dropped from 85% of total revenue in the year ended 30 June 2003 to less than 1% in the current period. Nonetheless, due to tight management control on costs, the loss incurred in the Hong Kong market narrowed from HK$11,785,000 for the year ended 30 June 2003 to HK$3,040,000 for the period ended 31 December 2003.

Management Discussion and Analysis

BUSINESS REVIEW

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 Group continued to pursue its overall objective in the six months ended 31 December 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 six months under review .

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.

After the completion of the acquisition, the Group strengthened the operation and internal control of Huaruiyuan to upgrade its system to international standard. The Group employed international professional manager to be stationed in Huaruiyuan's Shenzhen operation base to spear head the upgrade. Results were prominent as the level of product standard improved significantly. Huaruiyuan successfully expanded its business operation from a pure PRC based company to an international company with exports to overseas market.

With the improvement in quality control, the efficiency of operation also improved. Head count at Huaruiyuan was reduced from over 70 people to 60 people and led to a better controlled environment and reduction in operating expenses.

Management Discussion and Analysis

BUSINESS REVIEW *(Continued)*

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.

In February 2004, the Company completed a placement of 150,000,000 shares to provide a strong foundation for the Group's further operation and expansion.

On 17 March 2004, the Group has entered into a sales and purchase agreement to acquire M Dream. M Dream is principally engaged in the research, development and after-sale services of entertainment gaming software in the PRC. M Dream also provides other value added services to mobile operators, like China Mobile, China Unicom in the PRC.

Through this acquisition of M Dream, the Group can expand its information technology consultation and infrastructure services on to the mobile platform. The Group can also participate in the provision of mobile value-added service in the PRC, a large and rapidly growing market. The Group will combine the user base and distribution channels of M Dream and the information technology knowledge of the Group to create synergy and in turn, enhance shareholders value. Through M Dream's current business relationship with PRC internet content providers, the Company can immediately tap into this segment of the market.

The Group will continue to broaden its services as a system solutions provider and its business spectrums in order to improve its profitability. The Group also intends to look for investment and acquisition opportunities in related business 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.

Comparison of Business Objectives with Acutal Business Progress

The following is a summary of the actual progress made in comparison with the business objectives as per the Prospectus up to 31 December 2003:

According to the business objectives as stated in the prospectus for the relevant period	Actual business progress
Revenue and business development	
• To continue the business development activities from the previous period	• The Group continued to strengthen its operation and work toward expansion of market shares in the geographical areas where the Group operated.
• To establish a main income stream from the Group's services provided in the PRC as a result of the growth of the Group's operation in the PRC	• The Group acquired Huaruiyuan during the period and established a main income stream in the PRC
• To continue to expand the proportion of revenues generated from the ASP services	• Revenue derived from the ASP business remained stagnant due to the slowdown of economic activities caused by the SARS saga.
• To expand revenue derived from the ASP services as a result of the launching of the CRM application which has been developed in the previous period	• Revenue derived from the ASP business remained stagnant due to the slowdown of economic activities caused by the SARS saga.
Product and services development	
• To continue the product and services development activities from the previous period	• The Group continued the development activities from the previous period but the progress was delayed due to the slowdown of economy and the SARS saga.
• To continue to develop Web-based application solutions	• The Group continued the development activities from the previous period but the progress was delayed due to the slowdown of economy and the SARS saga.
• To conduct the research and development of the 3G-enabled application, which enables users to perform 3G communication function, i.e. information exchange	• The Group continued the development activities from the previous period but the progress was delayed due to the slowdown of economy and the SARS saga.

Comparison of Business Objectives with Acutal Business Progress

According to the business objectives as stated in the prospectus for the relevant period	Actual business progress
Marketing	
• To explore the opportunities in expansion into other markets in the Asian countries, including India, Japan, South Korea, Singapore, Thailand and the PRC	• Due to the overall slowdown of economy in Asia, the Group had scaled back its expansion plan and focused mainly on the PRC market during the period.
• To implement a marketing program for the launching of CRM application as well as the existing products of the Group	• The Group had suspended the CRM application due to the unfavourable economic environment.
Expansion	
• To continue the expansion and business development activities from the previous period	• The Group acquired a new subsidiary, Huaruiyuan, in the PRC to further expand its operating base in the PRC. The Group continued to look into opportunities and explore venues for potential business development activities .
• To recruit new staff for the expansion of the Group's ASP services	• Due to the slowdown of overall economy, the Group had scaled back its recruitment activities during the period.
• To expand cyber cafè business and ASP services in other Asian regions such as Hong Kong, Singapore and Macau, other potential major cities where the Group has not have its presence	• Due to the slowdown of overall economy, the Group had scaled back its expansion of cyber cafè and ASP services during the period.
• To explore and identify investment and acquisition opportunities for expanding the Group's presence in related businesses with a growth potential	• The Group acquired a new subsidiary, Huaruiyuan, in the PRC to further expand its operating base in the PRC. The Group continued to look into opportunities for expanding the Group's presence in related businesses with a growth potential.

Comparison of Business Objectives with Acutal Business Progress

Use of proceeds

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

	Originally planned up to 31 December 2003 *HK$ in million*	**Actual amount used up to 31 December 2003** *HK$ in million*
Research and development of new applications and system solution	1.20	2.60
Development of ASP business	1.60	2.40
Enhancement of e-commerce platform	0.80	1.30
Development of new and enhancement of existing Internet based applications	2.00	2.35
Marketing and promotion activity	1.25	2.00
Enhancement of the Internet infrastructure of the Group	0.60	1.30
Formation of strategic and business alliance	3.00	18.15
Development of cyber cafè	1.50	1.80
Working capital	2.50	4.00
Total	14.45	35.90

Comparison of Business Objectives with Acutal Business Progress

Use of proceeds *(Continued)*

Due to the contraction of business activities caused by the SARS saga and the subsequent slowdown of economy in the six months ended 31 December 2003, the Directors allocated internal resources to finance the operation of the Group. The net proceeds from the New Issue was fully utilized in the previous years. The Group raised additional funding in the six months under review by placement of 400,000,000 shares to support the operation of the Group for the current period . The Group continued its business development plan and strengthened its competitive ability in preparation for the coming years.

Though the actual amount of the use of proceeds varied from the original plan, the Directors currently still intend to implement the business plan as disclosed in the Prospectus and will continue to explore and identify opportunities for business alliance. The variances in the usage were mainly due to timing difference in the fund application.

Directors and Senior Management

Executive Directors

Mr. Koh Tat Lee, Michael, aged 37, joined the Group on 23rd April 2003 and is responsible for overseeing the general management and formulating strategic plans for the Group. In addition, he is in charge of product development and sales and marketing strategies. Mr. Koh was appointed as an executive director of another company listed on the Main Board of the Stock Exchange of Hong Kong Limited in October 2001 and has resigned in October 2002 as an executive director. Mr. Koh possess more than ten years of experience in the telecommunications industry and has worked at Bell South and AT&T in the United States and was promoted to technical director before he left AT&T. During his tenure as vice-president at First Pacific Company Limited from 1994 to 1997, Mr. Koh founded a private company called Tuntex Telecom in Taiwan and assumed the post of president for the period from 1995 to 1997. Mr. Koh holds a master degree in electrical engineering and a master degree in industrial engineering from Columbia University in the United States.

Mr. Wong Shui Fun, aged 39, possesses more than eight years of experience of trade finance from the Hongkong and Shanghai Banking Corporation, and was 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.

Non-executive Directors

Mr. Ng Yat Cheung, aged 48, received an associate degree in arts in business data processing from Chabot College in the United States in 1984. He holds director's offices with a number of private companies which are principally engaged in technology, property development, insurance, finance and property holding.

Independent non-executive Directors

Mr. Leung Chun Cheng, aged 40, 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. 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, United Kingdom. Mr. Leung is a director of various private companies.

Mr. Cheong Mun Hong, aged 38, is a Certified Public Accountant and a member of the Institute of Certified Public Accountants of Singapore ("ICPAS"). Mr. Cheong is a partner of MHC & Associates, DFK, which is a member firm of a major worldwide group of independent accounting firms. He had served as an ICPAS committee member in the Members' Welfare Committee and is currently appointed as a member to the Panel of Inquiry Committee of the Public Accountants Board in Singapore. Mr. Cheong has vast working experience in Singapore and the People's Republic of China.

Directors and Senior Management

Senior management

Mr. Leung Dennis, aged 37, is the company secretary, qualified accountant and financial controller of the Group. Mr. Leung started his career in North America and later joined an international Big Four accounting firm in Hong Kong. He had served clients in various industries including information technology, banking, securities dealing, manufacturing and insurance industry. Mr. Leung later joined a multi-national information technology consulting firm as chief operating officer and helped the company to grow from a Hong Kong based firm to an international firm with operations in the United States of America, Canada and Singapore. Mr. Leung rejoined the accounting profession in 2001 and was posted in Shenzhen, People's Republic of China prior to joining the Group in 2003. Mr. Leung is an associate member of the Hong Kong Society of Accountants and a member of the America Institute of Certified Public Accountants.

Directors' Report

The Directors have pleasure in submitting their report together with the audited financial statements of Inworld Group Limited (hereinafter referred to as the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for the period ended 31 December 2003.

CHANGE OF FINANCIAL YEAR END DATE

During the period, the Group and the Company changed their financial year end date from 30 June to 31 December. As such, this annual report covers the six months period from 1 July 2003 to 31 December 2003.

PRINCIPAL ACTIVITIES

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

RESULTS AND APPROPRIATION

The results of the Group for the period ended 31 December 2003 are set out in the consolidated income statement on page 24.

The state of affairs of the Group and the Company as at 31 December 2003 are set out in the balance sheets on pages 25 to 26 respectively.

The Directors do not recommend the payment of dividend for the period ended 31 December 2003 (year ended 30 June 2003: Nil).

SEGMENT INFORMATION

Details of segment information are set out in note 5 to the financial statements.

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and of the assets and liabilities of the Group for each of the four years ended 30 June 2003 and for the period ended 31 December 2003 is set out on page 62.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the period are set out in note 15 to the financial statements.

SUBSIDIARIES

Details of the Company's principal subsidiaries as at 31 December 2003 are set out in note 16 to the financial statements.

Directors' Report

SHARE CAPITAL

Details of movements in the share capital of the Company during the period are set out in note 26 to the financial statements.

RESERVES

Details of movements in the reserves of the Company and the Group during the period are set out in note 27 to the financial statements.

RETIREMENT SCHEMES

Particulars of the retirement schemes of the Group are set out in note 13 to the financial statements.

SHARE OPTION SCHEME

Particulars of the share option schemes of the Group are set out in note 13 to the financial statements.

DIRECTORS

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

Executive Directors

Mr. Koh Tat Lee, Michael	
Mr. Wong Shui Fun	(appointed on 24 March 2004)
Mr. Chu Siu Wah	(appointed on 9 May 2003 and resigned on 9 February 2004)

Non-executive Directors

Mr. Ng Yat Cheung

Independent Non-executive Directors

Mr. Leung Chun Cheng	
Mr. Cheong Mun Hong	(appointed on 24 March 2004)
Mr. Wong Shui Fun	(resigned on 24 March 2004)

In accordance with Article 99 of the Company's Articles of Association, all present Directors shall hold office until next annual general meeting of the Company and shall then be eligible for re-election by ordinary resolution.

DIRECTORS' INTERESTS IN CONTRACTS

None of the Directors had any interest in any contracts of significance in relation to the Group's business to which the Company, it's holding company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the period or at any time during the period.

Directors' Report

DIRECTORS' INTERESTS IN SHARES

At 31 December 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 Division 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 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:

Long position in the Shares

	Number of shares in the Company				
Name of Directors	**Personal interests**	**Family interests**	**Corporate interests**	**Total interests**	**Percentage of interests**
Mr. Koh Tat Lee, Michael *(Note 1)*	–	–	370,163,200	370,163,200	29.79%
Mr. Chu Siu Wah *(Note 2)*	7,576,000	–	–	7,576,000	0.61%

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. Mr. Chu Siu Wah has resigned as an executive director of the Company on 9 February 2004.

Save 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 share, 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.

Directors' Report

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.

No option granted under the Pre-IPO Share Option Scheme was outstanding up to the date of the approval of the financial statements.

b) Share Option Scheme

The Company has also adopted a share option scheme on 14 December 2001 ("Share Option Scheme") under which the Directors may at their discretion grant options to employees (whether under 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.

Particulars and movements during the period ended 31 December 2003 of the outstanding share options granted under the Share Option Scheme were as follows:

Name of Category of participant	As at 1 July 2003	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period	As at 31 December 2003	Date of grant of share options	Exercise period of share options	Exercise price of share options
Mr. Chu Siu Wah	–	12,000,000	–	–	–	12,000,000	9 October 2003	9 October 2003 to 8 October 2013	HK$0.076
Employees	–	20,000,000	–	–	–	20,000,000	9 October 2003	9 October 2003 to 8 October 2013	HK$0.076
Total	–	32,000,000	–	–	–	32,000,000			

None of the Director and employees of the Group had exercised their share options during the period ended 31 December 2003.

Directors' Report

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the heading "Share Options" above, at no time during the period was the Company, or any of its subsidiaries a party to any arrangements to enable the Directors, their respective spouses or children under the age of 18 to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate.

CONVERTIBLE SECURITIES, OPTIONS, WARRANTS OR SIMILAR RIGHTS

Save as disclosed in "Share Options" above, during the period ended 31 December 2003, neither the Company nor any of its subsidiaries issued or granted any convertible securities, options, warrants or similar rights and there was no exercise of any conversion or subscription rights under any convertible securities, options, warrants or similar rights issued or granted at any time by the Company or any of its subsidiaries.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2003, the following persons (not being directors or chief executive of the Company) had interests and short positions in the Shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

Name of shareholders	Number of shares held	Percentage of the Company's share capital
Dynamate Limited *(Note 1)*	370,163,200	29.79%
Styland Holdings Limited *(Note 2)*	125,296,227	10.08%
City Lion Worldwide Limited *(Note 2)*	125,296,227	10.08%
Styland (Overseas) Limited *(Note 2)*	125,296,227	10.08%
Shenzhen Ingen Technology Company Limited	195,840,000	15.76%

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 under Part XV of the SFO.

2. The entire issued share capital of City Lion Worldwide Limited is beneficially owned by Styland (Overseas) Limited, which the entire issued share capital is in turn beneficially owned by Styland Holdings Limited. Accordingly, each of Sytland (Overseas) Limited and Styland Holdings Limited is deemed to be interested in the 125,296,227 Shares beneficially owned by City Lion Worldwide Limited.

Directors' Report

MAJOR CUSTOMERS AND SUPPLIERS

The percentage of aggregate turnover attributable to the Group's five largest customers is as follows:

The largest customer	87%
Five largest customers combined	100%

Aggregate purchases attributable to the Group's five largest suppliers were less than 30% of total purchases.

None of the Directors, their associates or any shareholders (which to the knowledge of the Directors owned more than 5% of the Company's issued share capital) had any interests in the Group's five largest customers or five largest suppliers.

COMPETING INTEREST

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.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

SPONSOR'S INTEREST

None of the Company's sponsor, Sun Hung Kai International Limited ("Sun Hung Kai International"), its directors, employees or associates (as deferred 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 31 December 2003.

Pursuant to an agreement dated 17 December 2001 entered into between the Company and Sun Hung Kai International, Sun Hung Kai International 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.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association or the laws of the Cayman Islands, being the jurisdiction in which the Company is incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

MANAGEMENT CONTRACTS

None of the Executive Directors, Non-Executive Directors and Independent Non-Executive Directors had entered into any service contract with the Group.

Directors' Report

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

BOARD PRACTICES AND PROCEDURES

In the opinion of the Directors, the Company has complied with the "Board Practices and Procedures" as set out in Rule 5.28 and 5.39 of the GEM Listing Rules since the listing of the Company's shares on GEM on 31 December 2001, except that the independent non-executive directors of the Company are not appointed for specific terms and are subject to re-election at the annual general meeting of the Company in accordance with the provisions of the Company's Articles of Associations.

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 of one Non-Executive Director of the Company and two Independent Non-Executive Directors of the Company.

SUBSEQUENT EVENTS

Details of the significant subsequent events of the Group are set out in note 32 to the financial statements.

AUDITORS

HLB Hodgson Impey Cheng retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of HLB Hodgson Impey Cheng as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Koh Tat Lee, Michael
Chairman

Hong Kong, 30 March 2004

Auditors' Report

國衛會計師事務所
Hodgson Impey Cheng

Chartered Accountants
Certified Public Accountants

TO THE MEMBERS OF INWORLD GROUP LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 24 to 61 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of Directors and auditors

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you.

Basis of Opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2003 and of the loss and cash flows of the Group for the period then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

Hong Kong, 30 March 2004

Consolidated Income Statement

For the six months ended 31 December 2003 (in HK Dollars)

	Notes	Period ended 31 December 2003 *HK$'000*	Year ended 30 June 2003 *HK$'000*
Turnover	4	**614**	1,558
Cost of Sales		**(184)**	(3,963)
Gross Profit/(Loss)		**430**	(2,405)
Other Revenue	4	**325**	5,979
Selling and Distribution Costs		**(1,204)**	(2,322)
Administrative Expenses		**(4,403)**	(13,817)
Impairment of Product Development Costs		**–**	(6,620)
Amortisation of Goodwill	14	**(680)**	–
Amortisation of Intangible Assets	18	**(141)**	–
Loss from Operations	6	**(5,673)**	(19,185)
Finance Costs		**–**	–
Loss before Tax		**(5,673)**	(19,185)
Taxation	7	**–**	–
Loss before Minority Interests		**(5,673)**	(19,185)
Minority Interests		**104**	72
Net Loss from Ordinary Activities Attributable to Shareholders	8, 27	**(5,569)**	(19,113)
Loss Per Share			
Basic, HK cents	9	**(0.593)**	(3.303)
Diluted, HK cents	9	**N/A**	N/A

All of the Group's operations are classed as continuing.

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

Consolidated Balance Sheet

At 31 December 2003 (in HK Dollars)

	Note	31 December 2003 HK$'000	30 June 2003 HK$'000
Non-Current Assets			
Goodwill	14	**15,646**	–
Property, plant and equipment	15	**2,156**	853
Interests in an associate	17	**–**	–
Intangible assets	18	**2,689**	–
		20,491	853
Current Assets			
Other investments	19	**7,976**	8,227
Product development costs	20	**–**	–
Trade receivables	21	**12**	14
Deposits, prepayments and other receivables		**905**	292
Inventories	22	**2,497**	–
Tax recoverable		**–**	286
Cash and bank balances		**166**	270
		11,556	9,089
Current Liabilities			
Trade deposits received		**–**	215
Trade payables	23	**2**	69
Amount due to a director	24	**217**	860
Other payables and accrued expenses		**2,242**	668
		2,461	1,812
Net Current Assets		**9,095**	7,277
Total Assets Less Current Liabilities		**29,586**	8,130
Minority Interests		**237**	–
Net Assets		**29,349**	8,130
Representing:			
Share Capital	26	**12,426**	5,790
Reserves	27	**16,923**	2,340
Shareholders' Funds		**29,349**	8,130

Approved by the Board of Directors on 30 March 2004 and signed on its behalf by:

Koh Tat Lee, Michael
Director

Wong Shui Fun
Director

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

Balance Sheet

At 31 December 2003 (in HK Dollars)

	Note	31 December 2003 HK$'000	30 June 2003 HK$'000
Non-Current Assets			
Property, plant and equipment	15	–	2
Investment in subsidiaries	16	**36,203**	28,082
		36,203	28,084
Current Assets			
Other investments	19	**101**	352
Deposits, prepayments and other receivables		**705**	81
Cash and bank balances		**41**	182
		847	615
Current Liabilities			
Accrued expenses		**1,022**	416
Amount due to a director	24	**217**	860
Amounts due to subsidiaries	25	**105**	–
		1,344	1,276
Net Current Liabilities		**(497)**	(661)
Net Assets		**35,706**	27,423
Representing:			
Share Capital	26	**12,426**	5,790
Reserves	27	**23,280**	21,633
Shareholders' Funds		**35,706**	27,423

Approved by the Board of Directors on 30 March 2004 and signed on its behalf by:

Koh Tat Lee, Michael
Director

Wong Shui Fun
Director

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

Consolidated Statement of Changes in Equity

For the period ended 31 December 2003 (in HK Dollars)

	Note	**1 July 2003 to 31 December 2003** *HK$'000*	1 July 2002 to 30 June 2003 *HK$'000*
Total equity at 1 July 2003/2002		**8,130**	27,213
Net loss for the period/year	27	**(5,569)**	(19,113)
Issue of shares		**6,636**	30
Share issue expenses		**(810)**	–
Share premium arising from placing of shares		**20,962**	–
Total equity at 31 December 2003/30 June 2003		**29,349**	8,130

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

Consolidated Cash Flow Statement

For the period ended 31st December 2003 (in HK Dollars)

	Note	**1 July 2003 to 31 December 2003** ***HK$'000***	1 July 2002 to 30 June 2003 *HK$'000*
Cash Flows from Operating Activities			
Loss before taxation		**(5,673)**	(19,185)
Adjustments for:			
Interest income		**–**	(42)
Depreciation		**339**	828
Amortisation of			
– intangible assets		**141**	1,590
– product development costs		**–**	2,271
Unrealised holding loss/(gain) on other investments		**243**	(5,740)
Loss on disposal of investment securities		**5**	–
Amortisation of goodwill		**680**	–
Provision for doubtful debt		**4**	79
Impairment of current assets of overseas subsidiaries		**–**	1,151
Impairment of product development costs		**–**	6,620
Loss on disposals of property, plant and equipment		**37**	508
Operating loss before working capital changes		**(4,224)**	(11,920)
Increase in product development costs		**–**	(6,620)
Decrease in trade receivables		**2**	3,297
(Increase)/decrease in prepayments, deposits and other receivables		**(613)**	163
(Decrease)/increase in trade payables		**(67)**	46
Increase/(decrease) in other payables and accrued expenses		**1,211**	(1,167)
(Decrease)/increase in amount due to a director		**(643)**	860
(Decrease)/increase in trade deposits received		**(215)**	215
Cash consumed from operations		**(4,549)**	(15,126)
Interest and bank charges paid		**–**	–
Hong Kong profits tax refund/(paid)		**286**	(286)
Net cash outflow from operating activities		**(4,263)**	(15,412)
Cash Flows from Investing Activities			
Interest received		**–**	42
Purchases of property, plant and equipment		**(156)**	(296)
Sales proceeds on disposals of property, plant and equipment		**11**	176
Cash effect on acquisition of a subsidiary	28	**(10,888)**	–
Acquisition of other investments		**–**	(685)
Net proceeds on disposal of investment securities		**2**	–
Net cash outflow from investing activities		**(11,031)**	(763)

Consolidated Cash Flow Statement (Continued)

For the period ended 31st December 2003 (in HK Dollars)

	Note	**1 July 2003 to 31 December 2003** *HK$'000*	1 July 2002 to 30 June 2003 *HK$'000*
Cash Flows from Financing Activities			
Proceeds from placing of shares		**16,000**	–
Proceeds from issue of share capital upon exercise of share options	26	**–**	30
Share issue expenses		**(810)**	–
Net cash inflow from financing activities		**15,190**	30
Net Decrease in Cash and Cash Equivalents		**(104)**	(16,145)
Cash and cash equivalents at beginning of period/year		**270**	16,415
Cash and cash equivalents at end of period/year		**166**	270
Analysis of Balances of Cash and Cash Equivalents			
Cash and bank balances		**166**	270

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

Notes to the Financial Statements

31 December 2003 (in HK Dollars)

1. CORPORATE INFORMATION

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

The principal activity of the Company is investment holding. The principal activities of the Company's principal subsidiaries are set out in note 16 to the financial statements.

2. ADOPTION OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")

In the current year, the Group adopted the following revised SSAPs issued by the Hong Kong Society of Accountants ("HKSA") which are effective for the first time for the accounting periods commencing on or after 1 January 2003:

SSAP 12 (revised) : Income taxes

The principal effect of the implementation of SSAP 12 (revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (revised), the new accounting policy has been applied retrospectively.

The adoption of SSAP 12 (revised) has no material impact on the Group's financial statements in prior years and comparative figures have not been restated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with all applicable SSAPs and Interpretations issued by the HKSA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. A summary of the significant accounting policies followed by the Group in the preparation of the financial statements is set out below:

(a) Basis of preparation

The measurement basis used in the preparation of the financial statements is historical cost convention.

Notes to Financial Statements (Continued)

31 December 2003 (in HK Dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the period ended 31 December 2003. The results of subsidiaries acquired or disposed of during the period are consolidated from or to their effective dates of acquisition or disposal, respectively.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

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

(c) Subsidiaries

A subsidiary is an enterprise controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. In the Company's balance sheet, the investments in subsidiaries are stated at cost less any impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(d) Associates

An associate is an enterprise over which the Group is in a position to exercise significant influence, but not control or joint control, 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 period 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.

(e) Investment 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.

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.

Notes to Financial Statements (Continued)

31 December 2003 (in HK Dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Investment in securities *(Continued)*

The transfer of a security between categories of investments are accounted for at fair value. At the date of the transfer, the security's unrealised holding gain or loss for a security transferred into the other investment category are recognised in net profit or loss immediately.

(f) Property, plant and equipment

i. Valuation

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated 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 property, plant and equipment have been put into operations, such as repairs and maintenance, is normally charged to the consolidated 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 form the use of the property, plant and equipment, the expenditure is capitalised as an additional cost of that asset.

ii. Depreciation

Depreciation is provided on the straight-line basis to write off the cost of each asset over its estimated useful life, and after taking into account their estimated residual value. The principal annual rates used for this purpose are as follows:

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

iii. Disposition

Gains or losses arising from the retirement or disposal of property, plant and equipment are determined as the difference between the estimated net disposal proceeds and the carrying amount of the relevant asset and are recognised in the consolidated income statement on the date of retirement or disposal.

Notes to Financial Statements (Continued)

31 December 2003 (in HK Dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Goodwill

Goodwill, which represents the excess of purchase consideration cover the fair values ascribed to the separate net assets of subsidiaries, associates and jointly controlled entities acquired at the date of acquisition, is stated at cost less accumulated amortisation and impairment loss. Goodwill is amortised by equal annual instalment over its estimated useful economic life of 10 years. Negative goodwill is credited directly to reserves.

Unamortised goodwill is charged to the consolidated income statement upon disposal of the relevant subsidiaries, associate and jointly controlled entity.

(h) Intangible assets

Intangible assets, representing technical know-how and patents acquired, are stated at cost less accumulated amortisation and impairment loss. 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:

Technical know-how	:	20 years
Patents	:	10 years
Membership database	:	1 year

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.

(i) Research and development costs

Expenditure on research and development is charged as an expense in the period in which it is incurred except where a clearly defined project is undertaken and it is reasonably anticipated that the development costs will be recovered through future commercial activity. Each research and development costs are deferred and amortised over the period in which the related benefits were expected to be realised.

The product development costs represent internet-based applications acquired from the third parties. 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:

Internet-based applications	:	1 year

Research and development costs is reviewed annually to determine the amount, if any, that is no longer recoverable and any such amount is written off to the income statement in the year of determination.

Notes to Financial Statements (Continued)

31 December 2003 (in HK Dollars)

3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

(j) Current assets and current liabilities

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

(k) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit is the profit for the period, determined in accordance with the rules established by the taxation authorities, upon which income taxes are payable.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary difference can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investment in subsidiaries and associates, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Notes to Financial Statements (Continued)

31 December 2003 (in HK Dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Cash equivalents

Cash equivalents represent 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, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

(m) Recognition of revenue

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

i. Revenues from system solutions services are recognsied when the services are rendered;

ii. Sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

iii. Interest income is recognised on a time-apportioned basis taking into account the principal outstanding and the effective interest rates applicable.

(n) Borrowing costs

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

(o) 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.

(p) Provisions

A provision is recognised when the Group has a present legal or constructive obligation as a result of a past event 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. Where the effect of the time value of money is material, the amount of a provision is the present value at the balance sheet date of the expenditures expected to be required to settle the obligation.

Notes to Financial Statements (Continued)

31 December 2003 (in HK Dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) 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 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.

On consolidation, the balance sheet items of overseas subsidiaries, and associates are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date whilst the income and expense items are translated at the average rates for that period. The resulting translation differences are dealt with in the exchange reserve.

(r) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to determine whether there is any indication of impairment of assets, or whether there is any indication that an impairment loss previously recognised no longer exists or may have decreased. If any such indication exists, the recoverable amount of the asset is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant policy for that revalued asset.

i. Calculation of recoverable amount

The recoverable amount of an asset is the higher of its 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. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of asset that generates cash inflows independently (i.e. a cash-generating unit).

ii. Reversals of impairment losses

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years.

Notes to Financial Statements (Continued)

31 December 2003 (in HK Dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) 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, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group. Contingent assets are not recognised but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(t) Related parties transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

(u) Employee benefits

i. Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

ii. Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance and to the state-managed retirement benefits schemes for the employees of the Group’s overseas entities are recognised as an expense in the income statement as incurred.

iii. When the Group grants employees options to acquire shares of the Company at nil consideration, no employee benefit cost or obligation is recognised at the date of grant. When the options are exercised, equity is increased by the amount of the proceeds received.

iv. Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

Notes to Financial Statements (Continued)

31 December 2003 (in HK Dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(v) 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 system, the Group has determined that business segments 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 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 parties.

Segment capital expenditure is the total cost incurred during the period to 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.

Notes to Financial Statements (Continued)

31 December 2003 (in HK Dollars)

4. TURNOVER AND REVENUE

	1 July 2003 to 31 December 2003	1 July 2002 to 30 June 2003
	HK$'000	*HK$'000*
Turnover		
System solutions services income		
– Consultation	**–**	733
– Infrastructure	**552**	579
Web hosting income	**–**	66
Online room reservation income	**–**	44
Cyber cafè income	**62**	136
	614	1,558
Other revenue		
Sale of computer hardware and software	**55**	368
Less: Cost of good sold	**(28)**	(322)
	27	46
Exchange gain	**12**	–
Interest income	**–**	42
Rental income	**–**	3
Sundry income	**242**	148
Unrealised holding gain on other investments	**–**	5,740
Maintenance service income	**44**	–
	325	5,979
Total revenue	**939**	7,537

Notes to Financial Statements (Continued)

31 December 2003 (in HK Dollars)

5. SEGMENT INFORMATION

Business segments

The Group is principally engaged in the business as a system solution provider. As per note 4 to the financial statements, the system solutions services offered by the Group consist of information technology consultation and infrastructure services and cyber cafè income.

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:

Group:

	31 December 2003	30 June 2003
	HK$'000	*HK$'000*
Trade receivables		
Continuing operations		
IT consultation and infrastructure services	**–**	4
Cyber cafè income	**12**	10
	12	14

Notes to Financial Statements (Continued)

31 December 2003 (in HK Dollars)

5. SEGMENT INFORMATION *(Continued)*

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, Macau and the People's Republic of China (the "PRC").

	1 July 2003 to 31 December 2003 ***HK$'000***	1 July 2002 to 30 June 2003 *HK$'000*
Revenue from external customers		
– Hong Kong	**1**	1,317
– Singapore	**–**	13
– Macau	**62**	184
– the PRC	**551**	44
Total revenue from external customers	**614**	1,558
Other revenue		
– Hong Kong	**47**	5,927
– others	**278**	52
	325	5,979
Total operating revenue	**939**	7,537
Segment results		
– Hong Kong	**(3,040)**	(11,785)
– Singapore	**(1)**	(2,233)
– Macau	**(104)**	(2,880)
– the PRC	**(2,528)**	(2,287)
Loss from operations	**(5,673)**	(19,185)
Finance costs	**–**	–
Taxation	**–**	–
Minority interests	**104**	72
Loss attributable to shareholders	**(5,569)**	(19,113)
Depreciation		
– Hong Kong	**172**	563
– Singapore	**–**	87
– Macau	**52**	165
– the PRC	**115**	13
	339	828

More than 90% of segment assets and capital expenditure are in the PRC and Hong Kong at 31 December 2003 and 30 June 2003 respectively.

Notes to Financial Statements (Continued)

31 December 2003 (in HK Dollars)

6. LOSS FROM OPERATIONS

The Group's loss from operations is arrived at after charging:

	1 July 2003 to 31 December 2003	1 July 2002 to 30 June 2003
	HK$'000	*HK$'000*
Auditors' remuneration	**120**	120
Staff costs (excluding Directors' remuneration):		
– Wages and salaries	**1,201**	3,279
– Retirement benefits contributions	**16**	80
Research expenses incurred	**31**	290
Exchange loss	**–**	7
Depreciation of owned fixed assets	**339**	828
Amortisation of intangible assets	**141**	1,590
Amortisation of product development costs	**–**	2,271
Operating lease rentals in respect of land and buildings	**293**	1,125
Provision for doubtful debt	**4**	79
Loss on disposal of property, plant and equipment	**37**	508
Impairment of product development costs	**–**	6,620
Stock written off	**778**	–
Unrealised loss on investment of securities	**248**	–

7. 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 period (year ended 30 June 2003: 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 financial statements as the subsidiaries operating outside Hong Kong have no assessable profits for the period (year ended 30 June 2003: Nil).

Notes to Financial Statements (Continued)

31 December 2003 (in HK Dollars)

7. TAXATION *(Continued)*

The reconciliation of nil provision to the loss per income statement is as follows:

	Group	
	1 July 2003 to 31 December 2003	1 July 2002 to 30 June 2003
	HK$'000	*HK$'000*
Loss before taxation	**5,673**	19,185
Tax at the domestic income tax rate of 17.5% (2003:16%)	**(993)**	(3,070)
Tax effect of expenses that are not deductible in determining taxable profit	**1,164**	4,768
Tax effect of income that is not taxable in determining taxable profit	**–**	(42)
Tax effect of unrecognised deferred tax assets in respect of tax losses	**(171)**	(1,656)
Taxation charge for the period/year	**–**	–

No provision for deferred tax liabilities has been made as the Group and the Company had no material temporary differences between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements (year ended 30 June 2003: Nil).

The Group has not recognised deferred tax assets in respect of losses due to the unpredictability of the future profit streams. The tax losses do not expire under current tax legislation.

8. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders dealt with in the financial statements of the Company for the period ended 31 December 2003 was HK$18,505,000 (year ended 30 June 2003: HK$3,663,000).

9. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss from ordinary activities attributable to shareholders for the period of HK$5,569,000 (30 June 2003: HK$19,113,000) and the weighted average of 939,660,174 (30 June 2003: 578,667,024) ordinary share in issue during the period.

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

No diluted loss per share has been presented because the exercise price of the Company's share options was higher than the average market price per share for the period ended 31 December 2003.

Notes to Financial Statements (Continued)

31 December 2003 (in HK Dollars)

10. DIVIDENDS

The directors do not recommend the payment of any dividend in respect of the period ended 31 December 2003 (30 June 2003: Nil).

11. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to the requirements of the Rules Governing the Listing of Securities on GEM and Section 161 of the Hong Kong Companies Ordinance is as follows:

	Group	
	1 July 2003 to 31 December 2003	1 July 2002 to 30 June 2003
	HK$'000	*HK$'000*
Fees	**77**	113
Other emoluments:		
Basic salaries, housing benefits, other allowances and benefits in kind	**784**	1,052
Mandatory provident fund scheme contribution	**6**	54
	867	1,219

Included in the Directors' remuneration were fees of HK$77,000 (year ended 30 June 2003: HK$113,000) paid to independent non-executive Directors during the period.

The executive and non-executive directors received individual emoluments for the period ended 31 December 2003 of approximately HK$ Nil (30 June 2003: HK$388,000), HK$ Nil (30 June 2003: HK$257,000), HK$ Nil (30 June 2003: HK$157,000), HK$ Nil (30 June 2003: HK$57,000), HK$240,000 (30 June 2003: HK$98,000), HK$550,000 (30 June 2003: HK$ Nil), HK$ Nil (30 June 2003: HK$50,000), HK$50,000 (30 June 2003: HK$50,000) and HK$27,000 (30 June 2003: HK$12,000) respectively.

During the period, there were no bonuses paid or payable to the Directors (30 June 2003: Nil). No Director waived or agreed to waive any remuneration during the period (30 June 2003: Nil). In addition, no emoluments were paid by the Group to the Directors as an inducement to join, or upon joining the Group as a compensation for loss of office (30 June 2003: Nil).

Notes to Financial Statements (Continued)

31 December 2003 (in HK Dollars)

12. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid employees during the period included two (30 June 2003: two) Directors, details of whose remuneration are set out in note 11 above. Details of the remuneration of the remaining three (30 June 2003: three) non-director, highest paid individuals, which each fell within the nil to HK$1,000,000 band, are as follows:

	Group	
	1 July 2003 to 31 December 2003 HK$'000	1 July 2002 to 30 June 2003 HK$'000
Basic salaries, housing benefits, other allowances and benefits in kind	**1,140**	637
Mandatory provident fund scheme contribution	**17**	41
	1,157	678

During the period, there were no bonuses paid or payable to any of the five highest paid individuals of the Group (30 June 2003: Nil). No Director waived or agreed to waive any remuneration during the period (30 June 2003: Nil). In addition no emoluments were paid by the Group to the five highest paid individuals as an inducement to join, or upon joining the Group, or as a compensation for loss of office (30 June 2003: Nil).

Notes to Financial Statements (Continued)

31 December 2003 (in HK Dollars)

13. EMPLOYEE BENEFITS

(a) Retirement benefits scheme

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. Contributions to the scheme vest immediately.

The employees of the Company's subsidiary in the PRC are members of the state-sponsored retirement benefit scheme organised by the relevant local government authority in the PRC. The subsidiary is required to contribute, based on a certain percentage of the basic salary of its employees, to the retirement benefit scheme and has no further obligations for the actual payment of pensions or post-retirement benefits beyond the annual contributions. The state-sponsored retirement benefit scheme represent for the entire pension obligations payable to retired employees.

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 Scheme and CPF, there is no forfeited contribution which could be utilised to reduce the level of the contribution by the Group and therefore there was no such balance as at 31 December 2003.

The Group does not have any other pension schemes for its employees in respect of its subsidiaries outside Hong Kong, Singapore and the PRC. In the opinion of the Directors of the Company, the Group did not have any significant contingent liabilities as at 31 December 2003 in respect of the retirement of its employees.

(b) Equity compensation benefits

Pre-IPO share option scheme

Pursuant to the pre-IPO share option scheme adopted by the Company on 14 December 2001 ("Pre-IPO Share Option Scheme") for the purpose of recognition of the contribution of certain Directors and employees of the Group to the growth of the Group and/or to the listing of the Shares on GEM.

No options granted under the Pre-IPO Share Option Scheme were outstanding up to the date of the approval of the financial statements.

Notes to Financial Statements (Continued)

31 December 2003 (in HK Dollars)

13. EMPLOYEE BENEFITS *(Continued)*

(b) Equity compensation benefits *(Continued)*

Share Option Scheme

Pursuant to the share option scheme adopted by the Company, on 14 December 2001 ("Share Option Scheme"), 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. The purpose of the Share Option Scheme is to provide incentive and to recognise the contribution of the employees.

The total number of Shares in respect of which options may be granted under the Share Option Scheme shall not exceed 10% of the issued share capital of the Company as at the date of this annual report. The number of Shares in respect of which options may be granted to any individual in any 12-month period up to the date of the grant is not permitted to exceed 1% of the issued share capital of the Company as at the date of the grant, unless approved by the shareholders of the Company in accordance with the Share Option Scheme.

Options may be exercised at any time from the date of the grant of the options to the date of expiry of the option as may be determined by the Directors which shall not exceed ten years from the date of the grant. The exercise price of the options is determined by the Directors, save that such price shall not be less than the highest of (i) the closing price of the Shares on the date of the grant; (ii) the average of the closing price per Share on the GEM for the five business days immediately preceding the date of grant and (iii) the nominal value of the Shares. Upon acceptance of the offer, the grantee shall pay HK$1.00 to the Company by way of consideration for the grant.

There is no general requirement on the minimum period for which an option must be held or the performance target which must be achieved before an option can be exercised under the terms of the Share Option Scheme. However, at the time of granting any option, the board of Directors may make such grant subject to such terms and conditions in relation to the minimum period of the options to be held and/or the performance targets to be achieved as the board of Directors may determined at its absolute discretion.

Subject to earlier termination by shareholders' resolution in the general meeting, the Share Option Scheme shall be valid and effective for a period of ten years commencing from 14 December 2001.

An aggregate of 32,000,000 options were granted by the Company during the period up to the date of approval of these financial statements which consists of 1 executive director and 4 employees.

Notes to Financial Statements (Continued)

31 December 2003 (in HK Dollars)

13. EMPLOYEE BENEFITS *(Continued)*

(b) Equity compensation benefits *(Continued)*

Share Option Scheme (Continued)

Movements in the share options during the period are as follows:

	1 July 2003 to 31 December 2003	1 July 2002 to 30 June 2003
	Number	*Number*
Option outstanding at 31 July 2003/2002	**–**	–
Issued	**32,000,000**	–
Exercised	**–**	–
Cancelled/Lapsed	**–**	–
Option outstanding at 31 December 2003/30 June 2003	**32,000,000**	–

None of the Directors and employees of the Group had exercised their share options during the period ended 31 December 2003.

14. GOODWILL

	Group	
	31 December 2003	30 June 2003
	HK$'000	*HK$'000*
Cost		
At 1 July 2003/2002	**4,449**	4,449
Additions during the period/year	**16,326**	–
At 31 December 2003/30 June 2003	**20,775**	4,449
Accumulated amortisation and impairment loss		
At 1 July 2003/2002	**4,449**	4,449
Charge for the period/year	**680**	–
At 31 December 2003/30 June 2003	**5,129**	4,449
Carrying amount at 31 December 2003/30 June 2003	**15,646**	–

Notes to Financial Statements (Continued)

31 December 2003 (in HK Dollars)

15. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold Improvements HK$'000	Office equipment HK$'000	Furniture and fixtures HK$'000	Computer hardware and software HK$'000	Motor vehicles HK$'000	Total HK$'000
At cost:						
At 1 July 2003	619	53	30	1,653	–	2,355
Additions	–	502	4	310	874	1,690
Disposals	–	(2)	–	(151)	–	(153)
At 31 December 2003	**619**	**553**	**34**	**1,812**	**874**	**3,892**
Depreciation and Impairment losses:						
At 1 July 2003	165	24	17	1,296	–	1,502
Charge for the year	62	45	3	162	67	339
Written back on disposal	–	–	–	(105)	–	(105)
At 31 December 2003	**227**	**69**	**20**	**1,353**	**67**	**1,736**
Net book value:						
At 31 December 2003	**392**	**484**	**14**	**459**	**807**	**2,156**
At 30 June 2003	454	29	13	357	–	853

Notes to Financial Statements (Continued)

31 December 2003 (in HK Dollars)

15. PROPERTY, PLANT AND EQUIPMENT

Company

	Office equipment *HK$'000*
At cost:	
At 1 July 2003	2
Additions	–
Disposals	(2)
At 31 December 2003	**–**
Depreciation:	
At 1 July 2003 and at 31 December 2003	–
Net book value:	
At 31 December 2003	**–**
At 30 June 2003	2

16. INVESTMENTS IN SUBSIDIARIES

	Company	
	31 December 2003 *HK$'000*	30 June 2003 *HK$'000*
Unlisted shares, at cost	**7,785**	7,785
Due from subsidiaries	**44,829**	20,297
Less: Provision for amount due from subsidiaries	**(16,411)**	–
	36,203	28,082

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Notes to Financial Statements (Continued)

31 December 2003 (in HK Dollars)

16. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Particulars of the principal subsidiaries of the Company are as follows:

Name of company	Place of Incorporation/ Establishment and operation	Particulars of issued and paid-up share capital/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Inworld International Limited	British Virgin Islands	Ordinary US$328	100%	–	Investment holding
Wai Shui Company Limited	British Virgin Islands	Ordinary US$2	100%	–	Investment holding
Inworld (Hong Kong) Limited	Hong Kong	Ordinary HK$3	–	100%	Provision of ASP solutions service
Inworld System (HK) Limited	Hong Kong	Ordinary HK$3	–	100%	Provision of system solution service
Inworld Technology(HK) Limited	Hong Kong	Ordinary HK$2	–	100%	Provision of system solution service
Inworld Internet Singapore Pte. Ltd	Singapore	Ordinary SGD101	–	100%	Provision of system solutions, ASP and ISP services
Sunny World Company Limited#	Macau	Ordinary MOP 25,000	–	100%	Operations of cyber cafè
活力世界(上海)網絡技術有限公司*	The People's Republic of China	Registered capital US$200,000	–	100%	Development and sale of internet application solution services
深圳華瑞源實業有限公司	The People's Republic of China	Registered capital RMB10,000,000	–	95%	Provision of system solutions services

During the period, the Group acquired the remaining 28% interests of Sunny World Company Limited. After the transaction, Sunny World Company Limited became the wholly owned subsidiary of the Company as at 31 December 2003.

* 活力世界(上海)網絡技術有限公司 was formed as a wholly-owned foreign enterprise in the People's Republic of China.

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results for the period or formed a substantial portion of the net assets of the Group.

Notes to Financial Statements (Continued)

31 December 2003 (in HK Dollars)

17. INTERESTS IN AN ASSOCIATE

	Group	
	31 December 2003	30 June 2003
	HK$'000	*HK$'000*
Investment, at cost		
Unlisted shares	–	4
Impairment loss		
At 1 July 2002/2003	–	4
Provision for the period/year	–	–
At 31 December 2003/30 June 2003	–	4
Carrying amount at 31 December 2003/30 June 2003	–	–

Particulars of the associate are as follows:

Name of company	Business structure	Place of establishment/ registration and operation	Percentage of equity interest attributable to the Group	Class of shares	Principal activities
Styland Datareach Computer Technology Limited	Corporate	Hong Kong	40%	Ordinary	Inactive

The associate was acquired on 25th 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 has been deregistered on 20 September 2002, as a result, the cost of investments in an associate has been written off during the period.

Notes to Financial Statements (Continued)

31 December 2003 (in HK Dollars)

18. INTANGIBLE ASSETS

Group	Technical know-how	Patents	Membership database	Total
	HK$'000	*HK$'000*	*HKS$'000*	*HK$'000*
At cost:				
At 1 July 2003	–	–	1,590	1,590
Additions	1,415	1,415	–	2,830
At 31 December 2003	**1,415**	**1,415**	**1,590**	**4,420**
Amortisation:				
At 1 July 2003	–	–	1,590	1,590
Charge for the year	47	94	–	141
At 31 December 2003	**47**	**94**	**1,590**	**1,731**
Carrying value:				
At 31 December 2003	**1,368**	**1,321**	**–**	**2,689**
At 30 June 2003	–	–	–	–

19. INVESTMENTS IN SECURITIES

	Group		Company	
	31 December 2003	30 June 2003	**31 December 2003**	30 June 2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Current assets				
Other investments, at market value:				
Listed in Hong Kong	**7,976**	8,227	**101**	352

At 31 December 2003, the carrying amount of other investments in equity securities exceeds 10% of the total assets of the Group is as follow:

Name of equity security	Country of incorporation	Class of shares	Number of shares held	Percentage of equity interest
Rainbow International Holdings Limited	The Cayman Islands	Ordinary	104,999,999	4.29%

* On 13 February 2004, Rainbow International Holdings Limited proposed to change the name to B.A.L. Holdings Limited and to adopt a chinese name of 變靚D控股有限公司.

Notes to Financial Statements (Continued)

31 December 2003 (in HK Dollars)

20. PRODUCT DEVELOPMENT COSTS

Group

	Ticketing System *HK$'000*	Intranet system *HK$'000*	Human Resources and administration system *HK$'000*	Hotel reservation system *HK$'000*	MAP Technologies software *HK$'000*	Action Networking services *HK$'000*	3S platform *HK$'000*	Web cache *HK$'000*	Total *HK$'000*
At Cost:									
At 1 July 2003 and At 31 December 2003	450	140	1,116	1,280	710	1,610	1,200	3,100	9,606
Amortisation and Impairment losses:									
At 1 July 2003 and At 31 December 2003	**450**	**140**	**1,116**	**1,280**	**710**	**1,610**	**1,200**	**3,100**	**9,606**
Carrying amount:									
At 31 December 2003	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
At 30 June 2003	–	–	–	–	–	–	–	–	–

21. TRADE RECEIVABLES

An ageing analysis of trade receivables (net of provisions for bad and doubtful debts) at the balance sheet date is as follows:

	Group	
	31 December 2003	30 June 2003
	HK$'000	*HK$'000*
0 – 30 days	**12**	10
31 – 60 days	**–**	–
61 – 90 days	**–**	4
Over 90 days	**–**	–
	12	14

Customers are usually offered a credit period ranging from 7 days to 90 days.

Notes to Financial Statements (Continued)

31 December 2003 (in HK Dollars)

22. INVENTORIES

	Group	
	31 December 2003	30 June 2003
	HK$'000	*HK$'000*
Finished goods	**3,275**	–
Stock written off	**(778)**	–
	2,497	–

23. TRADE PAYABLES

An ageing analysis of trade payables at the balance sheet date is as follows:

	Group	
	31 December 2003	30 June 2003
	HK$'000	*HK$'000*
0 – 30 days	**2**	18
31 – 60 days	**–**	5
61 – 90 days	**–**	2
Over 90 days	**–**	44
	2	69

24. AMOUNT DUE TO A DIRECTOR

The amount due to a director was unsecured, interest-free and had no fixed term of repayment.

25. AMOUNT DUE TO SUBSIDIARIES

The amount due to subsidiaries was unsecured, interest free and had no fixed term of repayment.

Notes to Financial Statements (Continued)

31 December 2003 (in HK Dollars)

26. SHARE CAPITAL

	Notes	Number of shares	Amount
			HK$'000
Authorised (ordinary shares of HK$0.01 each):			
At 30 June 2003 and 31 December 2003		**1,500,000,000**	**15,000**
Issued and fully paid (ordinary shares of HK$0.01 each):			
At 1 July 2002		576,000,000	5,760
Share issued upon exercise of share options	(a)	3,008,000	30
At 30 June 2003		579,008,000	5,790
Share issued pursuant to the Placing	(b)	400,000,000	4,000
Shares issued as consideration for the share transfer agreement	(c)	263,600,000	2,636
At 31 December 2003		**1,242,608,000**	**12,426**

(a) During the year ended 30 June 2003, 9 grantees, including 8 employees and one employee who was appointed as the Director on 31 January 2003 but resigned on 13 May 2003, have exercised a total of 3,008,000 share options granted to them under the Pre-IPO Share Option Scheme at the subscription price of HK$0.01, resulting in the issue of 3,008,000 share of HK$0.01 each for a total cash consideration, before expenses, of approximately HK$30,000.

(b) 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 of HK$0.01 each to such placees at the placing price of HK$0.04 each.

(c) On 15 July 2003, the Directors announced that Wah Shui Company Limited, a wholly-owned subsidiary of the Company, entered into the Share Transfer Agreement on 25 June 2003 to acquire an aggregate of 95% of the equity interests in Shenzhen Huaruiyuan Company Limited for an aggregate consideration of HK$22,800,000, of which HK$11,201,600 (representing approximately 49% of the Consideration) was satisfied by cash and the remaining balance of HK$11,598,400 (representing approximately 51% of the Consideration) was satisfied by the allotment and issue of 263,600,000 consideration shares at an issue price of HK$0.044 per consideration share.

Notes to Financial Statements (Continued)

31 December 2003 (in HK Dollars)

26. SHARE CAPITAL *(Continued)*

Share option scheme

The Company has two share option schemes, and details of which are set out under the heading 'Equity compensation benefits' in note 13 to the financial statements.

27. RESERVES

Group

	Share premium	Contributed surplus	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 July 2002	22,666	7,396	(8,609)	21,453
Net loss for the year	–	–	(19,113)	(19,113)
At 30 June 2003 and 1 July 2003	22,666	7,396	(27,722)	2,340
Placing of shares	20,962	–	–	20,962
Issuing expenses	(810)	–	–	(810)
Net loss for the period	–	–	(5,569)	(5,569)
At 31 December 2003	**42,818**	**7,396**	**(33,291)**	**16,923**

Company

	Share premium	Contributed surplus	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 July 2002	22,666	2,985	(355)	25,296
Net loss for the year	–	–	(3,663)	(3,663)
At 30 June 2003 and 1 July 2003	22,666	2,985	(4,018)	21,633
Placing of shares	20,962	–	–	20,962
Issuing expenses	(810)	–	–	(810)
Net loss for the period	–	–	(18,505)	(18,505)
At 31 December 2003	**42,818**	**2,985**	**(22,523)**	**23,280**

Notes:

(a) The contributed surplus of the Group represents the difference between the nominal value of share capital of the subsidiaries acquired pursuant to the reorganization scheme (the "Group Reorganisation") to rationalize the structure of the Group in preparation for the public listing of the Company's shares on The Stock Exchange of Hong Kong Limited set out in the Company's prospectus dated 18 December 2001, over the nominal value of the shares of the Company issued in exchange thereof.

(b) The contributed surplus of the Company represents the excess of the fair value of the subsidiaries acquired pursuant to the Group Reorganisation over the nominal value of the shares of the Company issued in exchange thereof.

Notes to Financial Statements (Continued)

31 December 2003 (in HK Dollars)

27. RESERVES *(Continued)*

(c) Under the Companies Law (2001 Second Revision) of the Cayman Islands, a company may make distributions to its members out of the contributed surplus account under certain circumstances. In addition, the share premium account of the Company is distributable to the shareholders of the Company provided that immediately following the distribution or payment of dividend, the Company is able to pay its debts as they fall due in the ordinary course of business. At 31 December 2003, in the opinion of the Directors, the Company have reserves of approximately HK$21,936,000 available for cash distribution and/or distribution in specie in accordance with the Companies Law (2001 Second Revision) of the Cayman Islands.

28. ACQUISITION OF A SUBSIDIARY

During the period, the Group acquired 95% interest in Shenzhen Huaruiyuan Company Limited. The effect of the acquisition to the financial statements were as follows:

Net assets acquired:

	HK$'000
Fixed assets	**1,503**
Patents and technical know-how	**2,830**
Inventories	**3,015**
Cash and cash equivalents	**314**
Accruals and other payables	**(847)**
Minority interest	**(341)**
	6,474
Goodwill	**16,326**
	22,800
Satisfied by:	
Cash consideration	**11,202**
Shares	**11,598**
	22,800

The subsidiary acquired during the period contributed approximately HK$551,000 to the Group's turnover and contributed to the Group a loss of approximately HK$2,082,000 for the period. The subsidiary acquired contributed approximately HK$2,482,000 to the Group's net operating cash flows and gave rise to cash outflows in respect of investing activities of HK$1,534,000. There is no significant impact in respect of the Group's cash flows for financing and payment for tax.

Notes to Financial Statements (Continued)

31 December 2003 (in HK Dollars)

28. ACQUISITION OF A SUBSIDIARY *(Continued)*

Analysis of the net inflow in respect of the purchase of subsidiary:

Cash consideration paid	**(11,202)**
Bank balances and cash acquired	**314**
Net cash outflow in respect of the purchase of subsidiary	**(10,888)**

29. RELATED PARTY TRANSACTION

During the period, the Group had entered into transactions with related parties which, in the opinion of the Directors, were carried out on normal commercial terms and in the ordinary course of the Group's business, as shown below:

Name of the Related party	**Relationship**	**Nature transactions**	Note	**1 July 2003 to 31 December 2003** ***HK$'000***	1 July 2002 to 30 June 2003 *HK$'000*
Mr. Koh Tat Lee, Michael	Executive director	Advance – payable	24	**217**	860
深圳市中包威誼投資有限公司	Common director in the subsidiary of Huaruiyuan	Sales – received	(i)	**534**	–

Note:

(i) The director in Shenzhen Huaruiyuan Company Limited has beneficial interests in the above company.

Notes to Financial Statements (Continued)

31 December 2003 (in HK Dollars)

30. OPERTAING LEASE ARRANGEMENTS

The Group leases office properties under operating arrangement which is negotiated for terms of one to four years.

At 31 December 2003, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follow:

	Group	
	31 December 2003	30 June 2003
	HK$'000	*HK$'000*
Within one year	**1,115**	377
In the second to fifth years, inclusive	**365**	232
	1,480	609

31. COMMITMENTS AND CONTINGENT LIABILITIES

At 31 December 2003, the Group does not have any significant commitments and contingent liabilities.

32. SUBSEQUENT EVENTS

Placing of existing shares and subscription of new shares

On 16 February 2004, Dynamate Limited entered into a placing and underwriting agreement to place, on a fully underwritten basis, 150,000,000 existing shares of HK$0.01 each at the placing price of HK$0.063 each. Dynamate Limited is a company incorporated in the BVI and a substantial shareholder (as defined under the GEM Listing Rules) of the Company which is wholly owned by Mr. Koh Tat Lee, Michael. On the same date, Dynamate Limited entered into a subscription agreement with the Company for the subscription of 150,000,000 shares of HK$0.01 each at the subscription price of HK$0.063 each at the placing price of HK$0.063 each. Completion of the placing took place on 19 February 2004 and completion of the subscription took place on 25 February 2004. The net proceeds of the subscription is estimated to be approximately HK$7.75 million, out of which approximately HK$4.2 million will be used for developing current businesses in information technology consultation and information technology infrastructure related services and potential future acquisitions. The remaining proceeds of approximately HK$3.55 million will be used to fund the business activities for the period ending 30 June 2004 as disclosed in the paragraph headed "Schedule of Use of Proceed" on page 143 of the prospectus; and as the group's general working capital.

Details of placing existing shares and subscription of new shares were set in the circular of the Company dated 8 March 2004.

Notes to Financial Statements (Continued)

31 December 2003 (in HK Dollars)

32. SUBSEQUENT EVENTS *(Continued)*

Acquisition of Subsidiaries

On 17 March 2004, the Directors announced that Inworld International Limited ("Inworld International"), a wholly owned subsidiaries of the Company, entered into an agreement under which and subject to the terms and conditions thereof, to acquire the entire share capital of M Dream Mobile Entertainment Limited for an aggregate consideration of HK$31,320,000.

Pursuant to the agreement, HK$4,500,000 will be satisfied in cash and the Company will allot and issue a total of 298,000,000 new shares of HK$0.01 each at HK$ 0.090 per shares upon completion. However, based on the existing authorised share capital and the issued share capital of the Company, the Company would not have sufficient unissued shares available for allotment and issue. In this connection, an ordinary resolution will be proposed to the shareholders at the extraordinary general meeting to increase the authorised share capital of the Company from HK$15,000,000 to HK$30,000,000 by the creation of an additional 1,500,000,000 shares of HK$0.01 each.

Details of the acquisition of M Dream Mobile Entertainment Limited were set out in the announcement of major transaction of the Company dated 17 March 2004.

Change of Company Name

With reference to the announcement dated on 17 March 2004, the Director of the Company also proposed that the name of the Company be changed to M Dream Inworld Limited upon completion of the M Dream Mobile Entertainment Limited acquisition. The proposed change of Company name is subject to the approval of the shareholders by way of a special resolution at the extraordinary general meeting and the approval of the Registrar of Companies in the Cayman Islands.

33. AUTHORISATION FOR ISSUE OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of Directors on 30 March 2004.

– End of Notes –

Summary of Financial Information

The following is a summary of the published results and of the assets and liabilities of the Group for each of four years ended 30 June 2003 and the six months period ended 31 December 2003 prepared on the basis set out in the note below.

RESULTS

	For the period ended 31 December 2003	Year ended 30 June 2003	2002	2001	2000
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	**614**	1,558	6,746	6,498	209
(Loss)/profit from operations	**(5,673)**	(19,185)	(4,584)	83	(4,210)
Finance costs	**–**	–	–	(32)	(6)
(Loss)/profit before taxation	**(5,673)**	(19,185)	(4,584)	51	(4,216)
Taxation		–	–	–	–
(Loss)/profit before minority interests	**(5,673)**	(19,185)	(4,584)	51	(4,216)
Minority interests	**104**	72	142	–	–
Net (loss)/profit from ordinary activities attributable to shareholders	**(5,569)**	(19,113)	(4,442)	51	(4,216)

Assets and Liabilities

	As at 31 December 2003	As at 30 June 2003	2002	2001	2000
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Total assets	**32,047**	9,942	29,143	8,485	1,877
Total liabilities	**(2,461)**	(1,812)	(1,858)	(456)	(6,093)
Minority interests	**(237)**	–	(72)	–	–
Shareholders' funds	**29,349**	8,130	27,213	8,029	(4,216)

Note:

The summary of the published combined results of the Group for the two years ended 30 June 2000 and 2001, and of the assets and liabilities of the Group as at 30 June 2000 and 2001 have been extracted from the Company's prospectus dated 18th December 2001. This summary was prepared from the audited financial statements of the companies now comprising the Group, as if the current structure of the Group had been in existence throughout the financial year. The results of the Group for the period ended 31 December 2003 and for the year ended 30 June 2003 and its assets and liabilities as at 31 December 2003 and 30 June 2003 are set out in the financial statements on pages 24 and 25 respectively.