

# *i*Merchants

iMerchants Limited

**Annual Report 1999-2000**



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

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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

*This annual report, for which the Directors of iMerchants Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to iMerchants Limited. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this annual 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 annual report misleading; and (3) all opinions expressed in this annual report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

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## CORPORATE INFORMATION

### Executive Directors

Mr. Leroy Kung Lin Yuen (Chairman)  
Ms. Lena Foo  
Mr. Matthew P. Johnston

### Independent non-executive Directors

Dr. Alice Piera Lam Lee Kiu Yue  
Mr. Alex Ko Po Ming  
Mr. Ronny Chow Fan Chim

### Company secretary

Mr. Clement Leung Yuen Wing  
*AHKSA, FCCA*

### Compliance officer

Mr. Matthew P. Johnston

### Qualified accountant

Mr. Clement Leung Yuen Wing  
*AHKSA, FCCA*

### Audit committee

Dr. Alice Piera Lam Lee Kiu Yue  
Mr. Alex Ko Po Ming  
Mr. Ronny Chow Fan Chim

### Authorised representatives

Mr. Leroy Kung Lin Yuen  
Ms. Lena Foo

### Registered office

26th Floor, Great Eagle Centre  
23 Harbour Road  
Wanchai  
Hong Kong

### Head office and principal place of business

26th Floor, Great Eagle Centre  
23 Harbour Road  
Wanchai  
Hong Kong

### Web-site address

[www.imerchants.com](http://www.imerchants.com)

### Legal advisers

Deacons Graham & James

### Auditors and reporting accountants

Deloitte Touche Tohmatsu  
*Certified Public Accountants*

### Sponsor

BNP Prime Peregrine Capital Limited

### Principal share registrar and transfer office

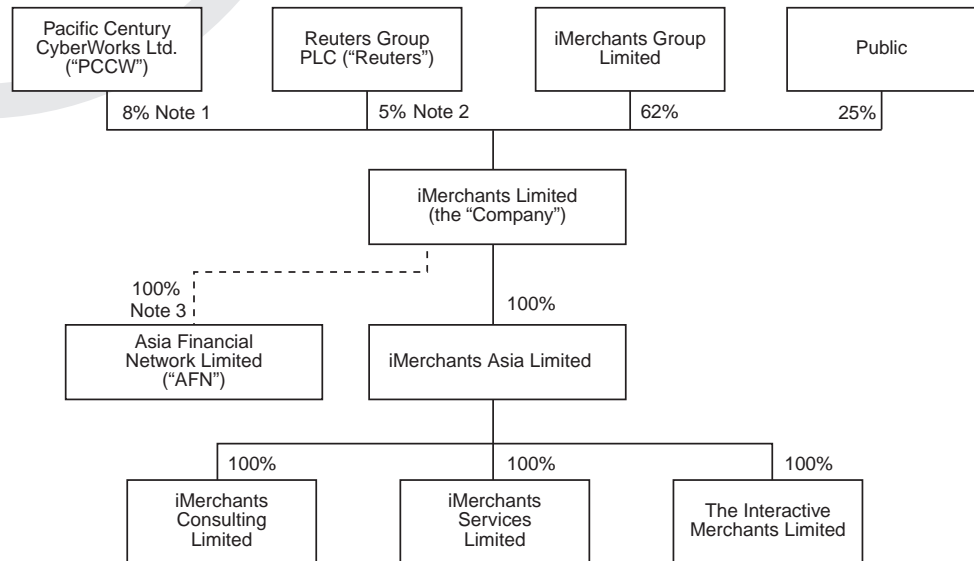
Tengis Limited  
4/F, Hutchison House  
10 Harcourt Road  
Hong Kong

### Principal bankers

Chekiang First Bank Limited  
The Chase Manhattan Bank  
Citibank N.A.

## GROUP BUSINESS STRUCTURE

The corporate structure of the Company, its shareholders and its subsidiaries as at 31st March, 2000 is set out as follows:



### Notes:

1. PCCW's interest in the Company is held indirectly through Network Initiatives Limited, an indirectly wholly-owned subsidiary of PCCW.
2. Reuters' interest in the Company is held indirectly through Reuters Holdings Switzerland S.A., a wholly-owned subsidiary of Reuters.
3. In May 2000, the Company acquired the 100% interests in AFN from iMerchants Group Limited at a nominal consideration.



**Mr. Leroy Kung Lin Yuen**  
*CHAIRMAN AND CHIEF EXECUTIVE OFFICER*

**iMERCHANTS - ONE OF THE MOST EXPERIENCED E-COMMERCE  
SPECIALISTS IN ASIA**

We believe that iMerchants is one of the most experienced e-commerce specialists in Asia. The Company helps leading old economy and new economy enterprises succeed in the online world by:

- advising them on their e-business strategies;
- providing them with e-commerce technologies; and
- operating as an integrated e-commerce application service provider (“Integrated ASP”), encompassing the technology platform with integrated linkage to banks, fulfillment and logistic partners, content providers and insurance companies.

Through our highly skilled team members specialized in business consulting and technology, we provide the e-commerce services that consolidate fragmented technology and service components and that bring our clients' products and services to the global market online.



***FINANCIAL RESOURCES***

This past year has been a very important one for iMerchants and I believe laid the foundation for a very successful future. Investors viewed our listing on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited positively and the share placement was substantially over subscribed. This provided us with a healthy balance of cash to support our future strategies including regional expansion and the continuing enhancement of the services we offer to our clients.

### ***ATTRACTIVE OPERATING ENVIRONMENT***

Changes in our operating environment also foreshadowed an exciting future. e-Commerce in Asia started to take off, creating the beginnings of a vibrant market for our services. Companies in Asia have begun to realise that they need to get involved in the online economy and many are turning to outside specialists to seek help in this evolution. These changes in the market for our services were reflected in a 226% year-on-year increase in our turnover to approximately HK\$15.2 million.

I firmly believe that the best is yet to come in the world of e-commerce services and we anticipate revenue growth in the coming years to be even better than before. This view has been supported by the exciting projects that iMerchants has engaged in during the early months of the new financial year, including Net Alliance, a multi-bank online banking application service provider ("ASP"), and Asia Financial Network, a multi-bank online bill presentment and payment ASP.

### ***CLEAR VISION AND VALUE***

iMerchants strives to play a central role in the online economy and, in doing so, achieve a strong, scaleable stream of recurring revenues. We combine our services so clients can outsource the operations of their e-commerce activities to iMerchants. In doing so, we seek to provide clients with very clear value: through cost saving, speed to market and the ongoing benefit of a continuously enhanced Integrated ASP platform for e-commerce. This makes us rather different from a traditional systems integrator, as we are not in the business of re-selling hardware, nor are we focusing on one-time, project based relationships with our clients. Rather we look for an ongoing partnership in which the technology and services we operate become an integral part of our clients' online business.

### ***THE RIGHT CLIENTS***

For our close to four years of history, iMerchants has focused on e-commerce and on building a solid foundation for the future. Part of this foundation is built upon our history of helping major enterprises such as SmarTone Mobile Communications Limited, CLP Power Hong Kong Limited and key financial services providers in Hong Kong to make use of the Internet to conduct business. Needless to say, being among the first in Asia to launch pioneering e-commerce services including web banking, online shopping, Internet payment and online auction systems has helped also.

### ***THE RIGHT PARTNERS***

Having four years of history has enabled us to build business relationships with partners such as JETCO, Microsoft, DHL Worldwide Express ("DHL"), Intel and Reuters which enable iMerchants to leverage their capabilities to complete the set of technology and services that we offer to our clients to perform e-commerce.





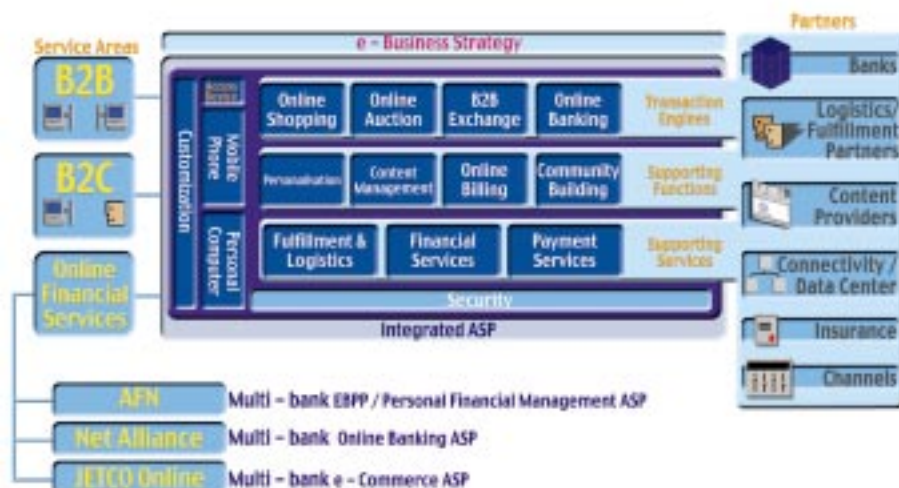
We have the resources, technology and service partnerships and the client references we need to succeed. As one of the most experienced e-commerce specialists in Asia, I believe we are well positioned to help companies in their moves to the online economy and that the widespread use of e-commerce to support business transactions will provide an ongoing stream of attractive opportunities for iMerchants.

**OPERATIONS OVERVIEW**

iMerchants seeks to operate a suite of technology applications with integration of services such as payment, fulfilment and content provision, so that clients are able to outsource the ongoing operation of their e-commerce sites to us - clients take responsibility for the branding and marketing of their sites, while iMerchants operates their sites. In effect, iMerchants' Integrated ASP platform provides one-stop service for clients' complete e-commerce needs.

**COMPONENTS**

As illustrated in the diagram, iMerchants integrates the core technology and service requirements for e-commerce into a complete Integrated ASP platform.

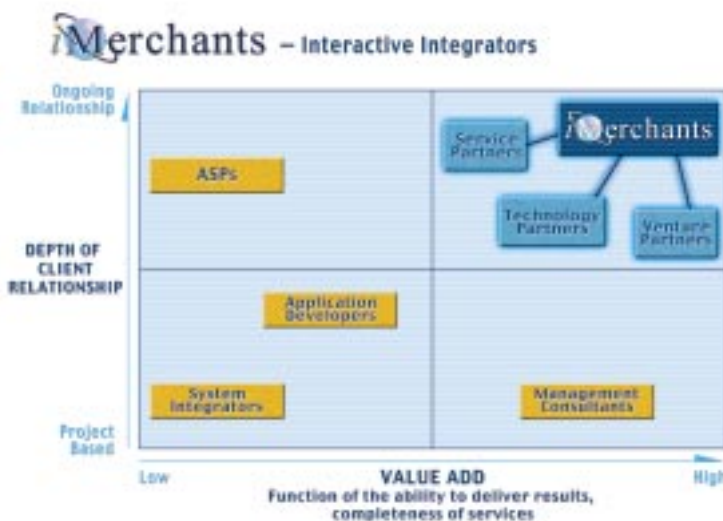


This platform incorporates:

- Transaction Engines: the software applications, such as online banking, online procurement and exchanges, which bring buyers and sellers together online;
- Supporting Functions: the software supporting e-commerce by, for example, allowing companies to issue their invoices online, enabling the formation of online communities or providing mechanisms to post content to web-sites;
- Access Devices: the software required to present Internet information through different access devices such as mobile phones as well as PC-based Internet browsers; and
- Supporting Services: integration with service providers who enable business to actually be conducted. These include linkages to companies providing payment, financial services and fulfilment & logistics services.

iMerchants seeks to support the e-commerce activities of sophisticated clients and, as a consequence, can perform customisation to tailor the Integrated ASP platform's components to meet clients' specific requirements. Furthermore, e-commerce is about more than technology and operations - business strategy plays an important role. iMerchants is also in a position to help our clients develop the plans for their online businesses.

**PARTNERS**



iMerchants does not aim to develop all components it offers as an Integrated ASP on its own. Rather, it draws together the capabilities of a range of service partners. Other co-operative partnerships are being established with leading software and service companies, to further enhance our services. The major categories of partners whose capabilities help to operate the Integrated ASP are:

- **Technology Partners:** iMerchants integrates products offered by Intel, Microsoft, Sun Microsystems, and other technology companies into its platform. Partnerships with leading software providers in a number of areas, including content management and personalisation are being finalised;
- **Data Centre & Connectivity Partners:** iMerchants draws on the data centre and connectivity services offered by both iAsiaWorks and Digital Island;
- **Financial Services Partners:** iMerchants works with JETCO and a number of banks to provide payment processing services so that our clients can get paid for the goods and services they sell over the Internet. iMerchants is also discussing with other companies to offer insurance services, escrow payment capabilities and online letters of credit;
- **Fulfilment & Logistics Partners:** The ability to have goods delivered once they have been purchased is another key component of successful e-commerce. To provide clients with this capability, iMerchants works with DHL and intends to develop partnerships with shipping and warehousing companies; and
- **Content Partner:** Recognising the need that many e-commerce sites have for content, iMerchants has partnered with Reuters and operates the mechanism to post content provided by Reuters to clients' sites.

### **Channel Partners**

iMerchants works with partners not only to help it operate as an Integrated ASP, but also to assist in marketing the platform to prospective clients. These partners are called channel partners and currently comprise JETCO and PCCW. In all cases, channel partners are entities who have access to substantial customer bases to whom the partner can offer iMerchants' services. In the case of JETCO, the channel partnership will be conducted through the JETCO Online joint venture, in which JETCO member banks will be able to offer iMerchants' e-commerce services to their customers. Banking consortiums are natural partners for iMerchants and we are in the process of establishing similar relationships in other regions to expand our channel coverage.

### **SOLUTION AREAS**

e-Commerce is a broad field. In recognition of this, iMerchants has elected to focus its organisation and capabilities on three solution areas: online financial service solutions, business-to-business solutions and business-to-consumer solutions. By orienting distinct teams toward each area, the Company is able to more rapidly build the sophistication of its capabilities, deepen its knowledge and enhance the value to clients.

**Online Financial Services**

Since the launch of Hong Kong's first online banking system in 1997, iMerchants has been a leader in getting financial institutions in Asia online. 2000 saw iMerchants engaged to work with a major stock exchange in Asia to support its increasing use of the Internet. More recently, iMerchants finalised arrangements to launch Net Alliance, a partnership between iMerchants and four reputable banks to play the role of an Integrated ASP providing a shared platform to operate online banking services. This new entity will draw upon iMerchants' expertise in the provision of online banking services to enable each of the partner banks to offer their customers sophisticated online financial services at a cost significantly below what they would have to pay to develop the services on their own. More banks have expressed an interest in joining Net Alliance.

iMerchants' portfolio of solutions to support online financial services was further strengthened in May 2000, when iMerchants Group Limited injected its 100% shareholding of Asia Financial Network Limited ("AFN") into the Company at a nominal consideration. AFN is an application service provider focusing on the provision of a technology platform to support online financial management services. In the third quarter of 2000, AFN will first be launching Electronic Bill Presentment and Payment ("EBPP") services, which electronically consolidate the bills sent to customers by numerous billers and allow these bills to be paid online.

In March 2000, iMerchants and JETCO, the consortium of 51 member banks in Hong Kong, agreed to co-operate to form a strategic alliance called JETCO Online. When it is launched later in 2000, JETCO Online will act as an application service provider to offer technology to support online shops, online auction, online business-to-business procurement functions and online bill presentment and payment services for JETCO's member banks, which will in turn be able to market these services to their customers. iMerchants will be responsible for operating this platform of technology and services for JETCO Online. Customers who make use of JETCO Online's services will have access to e-commerce services that cover the entire transaction cycle from establishing an online business to processing payments to fulfilment. Additional focused online financial services ventures are being considered at the moment.

**Business-to-Business Solutions**

2000 saw iMerchants engaged to launch iSteelAsia.com, an online business that has been widely recognised as being on the vanguard of B2B e-commerce in Asia. iMerchants partnered with the founding members of iSteelAsia.com Limited to provide not only its Integrated ASP platform, but added insights into e-commerce to drive the development of the iSteelAsia.com Limited 's business plan and strategy. iMerchants is currently in discussion with other enterprises who are seeking to engage an e-commerce specialist to help them launch B2B exchanges. We predict that this will be an active area of expansion for iMerchants.

### **Business-to-Consumer Solutions**

Since 1996, iMerchants has offered online shopping services in Asia and has worked with numerous leading enterprises to help them offer goods for sale online. The Company continued its record of success in the B2C solutions area in 2000 by working with prominent enterprises including iCare.com Limited, an online business that is a subsidiary of the Hong Kong and China Gas Company Limited, to help it develop its online shopping mall technology. Additional accomplishments in the B2C realm are expected in the coming months, as arrangements for other projects are finalised.

### **OUTLOOK**

iMerchants has spent close to four years positioning itself for the future and the Company's time has come. Both general and more specific trends have created a conducive operating environment for iMerchants and we believe the future looks very promising.

### **RAPID GROWTH IN E-COMMERCE**

In broad terms, e-commerce is growing rapidly in Asia and this creates opportunities for companies like iMerchants who are skilled in providing e-commerce services. However, Asia and, indeed, the world is at a very early stage of the development of e-commerce and we believe that this is just the first stage of changes to the way business is conducted. There are many years of evolution in e-commerce yet to be seen, which can be expected to result in an ongoing stream of opportunities for e-commerce service providers.



e-Commerce is built upon the adoption of the Internet, which in its essence is a platform for exchanging information. The Internet makes it possible to transmit information between businesses and individuals for a lower cost than ever before and does much to eliminate barriers of time and space. Almost by definition, these enormous changes in how entities communicate with each other will have a broad impact. Indeed, as personal digital assistants, mobile telephones and televisions are used more commonly to access the Internet, these effects will become broader yet.

As the power of the Internet's ability to transform industries has not yet been fully seen, there remain ample opportunities for companies such as iMerchants to benefit from servicing clients' e-commerce needs.

***OFFLINE PLAYERS' POSITION STRENGTHENS IN THE ONLINE ECONOMY***

A more subtle shift in iMerchants' operating environment results from the recent volatility in technology stocks around the world. These gyrations have contributed to the current conventional wisdom, which is, without easy access to equity capital, online-only companies will lose out to offline players in the online economy.

iMerchants is well positioned to take advantage of the shift in emphasis from "dotcoms", or online-only players, to "bricks-and-clicks", those companies combining an offline presence with online capabilities, as it has been serving and continues to target the e-commerce activities of established offline companies as its primary clients. In fact, during 2000, iMerchants derived over 90% of its turnover from established offline players.

***INCREASING ACCEPTANCE OF ONGOING PARTNERSHIPS***

It is our belief that the market is becoming increasingly receptive to partnership in the form proposed by iMerchants. Rather than offering to deliver one-time project to clients, iMerchants is very much seeking to be their ongoing partner in e-commerce operations and offers them a relationship whereby iMerchants integrates and co-ordinates the technology and services the client requires for e-commerce, while the client focuses on branding, marketing and sourcing.

It is our firm belief that this separation of roles and ongoing partnership relationship enables all parties involved to achieve optimal efficiency. It is this philosophy that underlies alliances such as JETCO Online, where iMerchants operates the e-commerce platform that JETCO member banks offer to their customers, and Net Alliance, a partnership formed by four well-recognized local banks, to achieve economies of scale for the purpose of delivering quality online banking services.

Given this outlook and the strong foundation which iMerchants is building on, the coming years are expected to be very exciting. We expect to continue to be engaged as the e-commerce partner by additional enterprises to perform groundbreaking projects. Also, the new financial year will mark the beginning of our regional expansion, as we plan to open offices in Singapore, the PRC and other locations in Asia. As we grow, we are actively working to put in place the infrastructure to effectively capture and make use of knowledge and to ensure that our organisation can scale up to meet the strong future demand we are expecting.

The future of iMerchants is very bright indeed.

**Leroy Kung Lin Yuen**  
*Chairman*

Hong Kong, 31st May, 2000

### FINANCIAL OVERVIEW

We were very pleased to list our shares on GEM in March 2000. The net proceeds of the listing were about HK\$325 million, which will fund key strategic activities such as:

- our targeted expansion to high potential markets in Asia including Singapore and the PRC;
- advertising and marketing to increase awareness of our capabilities by potential customers;
- hiring staff to expand our capacity for delivering service and to enhance our service offering;
- investment in ongoing research and development to enhance our integrated application service platform for e-commerce; and
- acquisitions of stakes in companies to whom we can provide synergies or that can provide synergies to us.

iMerchants finished 2000 with a very healthy cash balance of approximately HK\$341 million and no bank borrowings, leaving the Company in quite a comfortable financial position.

In addition to providing us with cash to more aggressively build our business, our listing status helps to further differentiate iMerchants from many of our potential competitors.

2000 saw a dramatic increase in the interest in the Internet in Asia and, with this rise, came additional activity in the e-commerce realm. This had a number of positive effects on iMerchants. As a service company whose sole focus is on helping clients to perform e-commerce, iMerchants' turnover growth is strongly tied to the level of interest in e-commerce and it is hardly surprising that 2000 saw an acceleration in turnover growth. Growth in turnover from 1999 to 2000 was 226%, compared to 66% growth between 1998 and 1999. Not only did iMerchants find that it had the opportunity to service a larger number of clients, but the value of iMerchants' major client relationships continued to grow. In 2000, the average revenue from each of iMerchants' five largest client relationships was approximately HK\$2,215,000, up from approximately HK\$773,000 in 1999. We anticipate both revenue growth and average revenue per client to be even better in the coming years.

iMerchants' drive to continue to build its integrated application service platform for e-commerce required a significant expenditure on research and development projects, such as the development of mobile commerce engines, online banking modules, B2B trading platforms and new payment mechanisms. As a consequence, iMerchants incurred a loss of approximately HK\$9.3 million. As the Company continued to build its revenue base toward critical mass, the net loss margin improved from -100% in 1999 to -61% in 2000.

iMerchants' growth and efforts to further build its brand led to an increase in operating expenses. Increased headcount from 18 staff on 31st March, 1999 to 67 on 31st March, 2000 led to a rise in salary expenses of 98% to approximately HK\$10.2 million. Headcount growth underlay a rise in rental expenditure by 86% to approximately HK\$1.7 million. In its drive to better establish its market presence, iMerchants incurred expenditure for an advertising campaign covering major newspapers and prominent business magazines around the region, for participation in and sponsorship of leading Internet industry conferences and in numerous press events to inform the market of the Company's activities.

### **ISTEELASIA ACQUISITION**

Further to the iSteelAsia Agreement (which is conditional upon the independent shareholders' approval) with iMerchants Group Limited on 15th March, 2000 for the iSteelAsia Acquisition, details of which have been disclosed in the paragraph headed "Acquisition of interest in iSteelAsia" on page 83 of the Prospectus, the Company has chosen to convene an extraordinary general meeting on 18th September, 2000 to consider and, if thought fit, to approve the iSteelAsia Acquisition. This decision is made in view of the current volatile equity market conditions, with the intention of enabling independent shareholders to fully utilise the time frame stipulated in the iSteelAsia Agreement to observe the operating performance and share price movement of iSteelAsia, so as to evaluate the iSteelAsia Acquisition.



### EXECUTIVE OFFICERS AND DIRECTORS

#### Executive Directors

**Leroy Kung Lin Yuen — Chairman, Chief Executive Officer (CEO):** As founder and CEO of the Group, Mr. Kung, aged 33, is responsible for setting the strategic direction of the Group and spearheading the e-commerce services the Group provides. Mr. Kung possesses both technology and financial experience. He started his career as a software developer with Fujitsu America Ltd. in Silicon Valley, where he was responsible for research and development on network technologies including the development of a pre-web era Internet probing application. He later worked for three years with an investment bank in Hong Kong. Mr. Kung holds a bachelor's degree in electrical engineering and a master's degree in computer engineering from The University of Southern California in the U.S.A. He also holds a masters degree in engineering economic systems from Stanford University in the U.S.A.

**Lena Foo — Director, Chief Operating Officer and Vice President of Business Development:** Ms. Foo, aged 35, co-founded the Group with Mr. Kung in 1996 and is responsible for overseeing the Group's operations and new business development activities. Ms. Foo has close to 15 years of business experience which encompasses systems design and development, strategic planning, operations design and management and project management. This experience was gained through work with Hongkong Telecom's IMS division (now part of Cable & Wireless HKT Limited), DHL Worldwide Express and IBM. Ms. Foo holds a bachelor's degree in science majoring in Management Information Systems from Carnegie-Mellon University in the U.S.A.

**Matthew P. Johnston — Director and Vice President of Corporate Development:** Mr. Johnston, aged 27, is responsible for defining how the Group's services should evolve, developing strategic and financial plans for the business and building strategic partnerships and alliances for the Group. He has been with the Group since July 1999. Prior to joining the Group, Mr. Johnston was a management consultant with Deloitte Consulting and Braxton Associates, Deloitte Consulting's strategy consulting practice. As a consultant, he helped clients to succeed by reorienting their strategic & financial plans, enhancing business processes and managing complex projects. Mr. Johnston holds a bachelor's degree in arts, awarded with great distinction, in economics and political science from McGill University in Canada where he earned the designation of University Scholar. He also holds a Management Studies Diploma from Cambridge University in the United Kingdom.

#### Independent non-executive Directors

**Alice Piera Lam Lee Kiu Yue —** Dr. Lam, aged 60, is and has been the chairman of the University Grants Committee since February 1999. She graduated from the University of Hong Kong in 1963 with a Bachelor of Arts degree, attended the solicitors Professional Course and attained a Solicitors Practising Certificate in 1978. She was awarded an honorary LLD in law by the Chinese University of Hong Kong in 1993. She has extensive experience in banking and finance and was a managing director and deputy chief executive of Hang Seng Bank Limited and a director of Cable and Wireless HKT Limited. She was also a co-chairman of Sotheby's Asia and the vice-chairman of the Chinese University of Hong Kong. Dr. Lam was appointed as an independent non-executive Director on 6th March, 2000.

**Alex Ko Po Ming** — Mr. Ko, aged 41, is the vice chairman and a managing director of BNP Prime Peregrine Capital Limited. Mr. Ko graduated from the Chinese University of Hong Kong in 1982 with a bachelor's degree in business administration. Mr. Ko has over seventeen years' experience in banking and corporate finance. Mr. Ko was appointed as an independent non-executive Director on 31st January, 2000.

**Ronny Chow Fan Chim** — Mr. Chow, aged 31, is a practising solicitor in Hong Kong and a partner of Deacons, Graham & James. Mr. Chow graduated and received from The University of Hong Kong a Bachelor Degree in Laws in 1990, a Postgraduate Certificate in Laws in 1991 and a Master Degree in Laws in 1996. Mr. Chow was appointed as an independent non-executive Director on 15th March, 2000.

## **SENIOR MANAGEMENT**

**Vico Cheng Kai Ming — Vice President, Information Technology:** Mr. Cheng, aged 36, is responsible for managing the development and implementation of many of the solutions the Group provides to its clients and the modules the Group offers through the service bureau. He also oversees the organisation and development of the Group's IT team. Mr. Cheng possesses deep HTML and Java development skills and great expertise in online payment systems, gained by having been with the Group since 1997. Mr. Cheng has over ten years of experience in systems development. He built strong skills in system security, development and systems integration by working with Standard Chartered Bank, Union Bank of Switzerland and Chase Manhattan Bank. Mr. Cheng graduated from the Chinese University of Hong Kong with a Bachelor of Science Degree and went on to obtain an Education Diploma from the same institution.

**Edward Un Ding Bong — Vice President, Advanced Technologies:** Mr. Un, aged 34, is responsible for managing the IT research and development activities of the Group. He also serves as Chief Technology Officer of Asia Financial Network Limited where he leads the technology and business development of online financial services provided by the company. As a Silicon Valley veteran, Mr. Un has extensive experience in developing, managing and delivering software products and online services. Prior to joining AFN in February 2000, Mr. Un was co-founder and Vice President of Advanced Technologies of Just in Time Solutions, one of the leading Electronic Bill Presentment and Payment (EBPP) solution providers in the United States. Customers of Just in Time includes AT&T, Bank of America, Intuit, Mastercard and Wells Fargo. While at Just in Time, he served as the member of the Board of Directors and chairman of server-to-server and architecture working group of IFX Forum which is an industry standards body for financial services. He was also an active member of the OFX Consortium and was part of the team that defined the standard for electronic bill presentment. Prior to co-founding Just in Time, Mr. Un held senior technical positions at Sun Microsystems and Ensemble Information Systems. Mr. Un holds a MBA from U.C. Berkeley's Haas School of Business, a Bachelor of Science degree in Electrical Engineering and a Master of Science degree in Electrical and Computer Engineering, both from Carnegie-Mellon University.

**Jagdish Bajaj — Vice President, Operations and Special Projects:** Mr. Bajaj, aged 33, is responsible for implementing projects to enhance level of services the Group provides and to improve the efficiency with which services are delivered. He possesses deep experience in the area of business strategy, information technology operations and strategy, and managing large-scale information technology projects. Prior to joining the Group in March 2000, Mr. Bajaj was the director of information systems at Blockbuster Hong Kong Limited, the home entertainment product retailer, and was Head of MIS at KPS Retail Stores. He holds a Bachelors Degree in Commerce from the University of Madras in India. He also earned a Masters Degree in Business Administration from the University of Hull with a special focus on e-commerce, which was awarded with distinction.

**Horace Ma Chi Shing — Senior Manager, Human Resources:** Mr. Ma, aged 31, is responsible for defining and implementing the Group's human resources policies and procedures and for advising senior management on strategic and tactical human resources issues. He also manages the Group's recruiting activities. Mr. Ma joined the Group in January 2000. Mr. Ma possesses significant experience in human resources and recruitment. Prior to working with the Group, Mr. Ma was the Human Resource Manager for Deloitte Consulting Greater China practice and was previously employed as the Recruiting Manager for McKinsey & Company, where he was in charge of McKinsey's recruiting efforts for Greater China. Before this, Mr. Ma was a consultant with Hewitt Associates, where he advised clients on a range of issues relating to human resources. Mr. Ma holds a Bachelor of Arts Degree majoring in Chinese Language and Literature with a minor in English from the Chinese University of Hong Kong, where he graduated in the top 10% of his class. He was also awarded a Rotary Foundation Ambassadorial Scholarship which he used to pursue and obtained a Post-Graduate Diploma in Applied Linguistics, with Merit, from Australian National University.

**Clement Leung Yuen Wing — Financial Controller and Company Secretary:** Mr. Leung, aged 32, is responsible for managing the Group's finance and accounting processes, maintaining financial control within the Group, performing statutory financial reporting and providing the management information needed to run the Group's business. Mr. Leung is an associate member of the Hong Kong Society of Accountants and a fellow member of the Association of Chartered Certified Accountants, the United Kingdom. Prior to joining the Group in March 2000, Mr. Leung was a manager in an international accounting firm in Hong Kong and a manager in Peregrine Capital Limited's corporate finance division. He graduated from the Chinese University of Hong Kong where he earned a Bachelor of Business Administration Degree with a major in finance and a minor in statistics.



## DIRECTORS' REPORT

The directors present their first report and the audited financial statements of the Company for the period from 25th October, 1999 (date of incorporation) to 31st March, 2000 and of the Group for the year ended 31st March, 2000.

### **REORGANISATION AND LISTING ON THE GROWTH ENTERPRISE MARKET (THE "GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")**

The Company was incorporated in Hong Kong with limited liability on 25th October, 1999 under the Companies Ordinance. Pursuant to a series of group reorganisation steps to rationalise the structure of the Group in preparation for the listing of the Company's shares on GEM, the Company became the holding company of the Group on 10th March, 2000. Details of the group reorganisation are set out in the paragraphs headed "Corporate Reorganisation" in appendix IV of the prospectus issued by the Company dated 27th March, 2000 (the "Prospectus").

The shares of the Company have been listed on GEM since 31st March, 2000.

### **ARTICLES OF ASSOCIATION**

By a written resolution of the shareholders of the Company dated 15th March, 2000, the Company adopted a new set of Articles of Association.

### **CHANGE OF NAME**

Pursuant to a written resolution of all the shareholders of the Company dated 13th January, 2000, the Company changed its name from RHO BETA 16 Limited to iMerchants Limited. Pursuant to another written resolution of all the shareholders of the Company dated 31st January, 2000, the Company adopted a Chinese name of 菱控電子商業有限公司.

### **PRINCIPAL ACTIVITIES**

The Company is an investment holding company. The principal activities of its subsidiaries are the provision of internet - based services.

No activity analysis and geographical analysis is provided as substantially all the Group's turnover and contribution to result were derived from the provision of consulting services in Hong Kong for the financial year ended 31st March, 2000.

### **RESULTS**

The results of the Group for the year ended 31st March, 2000 are set out in the consolidated income statement on page 27 of the annual report.

The directors do not recommend the payment of a dividend for the year.

### FINANCIAL SUMMARY

A summary of the results of the Group for each of the three years ended 31st March, 2000 is set out on page 48 of the annual report.

### SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the authorised and issued share capital of the Company during the period are set out in note 14 to the financial statements.

Details of the share option schemes of the Company are set out in note 15 to the financial statements.

### RESERVES

Details of movements in the reserves of the Group and of the Company during the year are set out in note 16 to the financial statements.

### PLANT AND EQUIPMENT

During the year, the Group acquired plant and equipment amounting to approximately HK\$8,729,000. These and other movements in plant and equipment of the Group during the year are set out in note 8 to the financial statements.

### SUBSIDIARIES

Details of the Company's subsidiaries at 31st March, 2000 are set out in note 9 to the financial statements.

### DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The directors of the Company since incorporation and up to the date of this report were:

#### Executive directors:

Mr. Leroy Kung Lin Yuen	(appointed on 31st January, 2000)
Ms. Lena Foo	(appointed on 31st January, 2000)
Mr. Matthew P. Johnston	(appointed on 31st January, 2000)

#### Independent non-executive directors:

Mr. Alex Ko Po Ming	(appointed on 31st January, 2000)
Dr. Alice Piera Lam Lee Kiu Yue	(appointed on 6th March, 2000)
Mr. Ronny Chow Fan Chim	(appointed on 15th March, 2000)
Mr. David Michael Norman	(appointed on 31st January, 2000 and resigned on 6th March, 2000)

**DIRECTORS AND DIRECTORS' SERVICE CONTRACTS - continued**

In accordance with Article 120 of the Company's Articles of Association, Ms. Lena Foo and Mr. Matthew P. Johnston retire and, being eligible, offer themselves for re-election.

Mr. Leroy Kung Lin Yuen, Ms. Lena Foo and Mr. Matthew P. Johnston have entered into service contracts with the Company on 15th March, 2000 for a term of two years, which will continue thereafter unless and until terminated by either party by giving to the other party not less than three months' prior written notice.

**Terms of non-executive directors**

The term of office of each of the non-executive directors is the period up to their retirement by rotation in accordance with the Company's Articles of Association.

Save as disclosed above, none of the directors has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

**DIRECTORS' INTERESTS IN SECURITIES**

At 31st March, 2000, the particulars of the directors' interests in the securities of the Company as recorded in the register maintained by the Company pursuant to Section 29 of Hong Kong Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

Name of director	Number of ordinary shares held as		Number of shares entitled under the share option scheme held as
	personal interests	corporate interests	personal interests
Mr. Leroy Kung Lin Yuen ("Mr. Kung")	—	720,745,000 (Note i)	—
Mr. Matthew P. Johnston ("Mr. Johnston")	100,000	—	11,670,000 (Note ii)

Notes:

- (i) The registered shareholder of 720,745,000 shares is iMerchants Group Limited ("iMerchants Group"). iMerchants Group is wholly-owned by Asian Gold Associates Limited ("Asian Gold"), in which 76% of the issued share capital of Asian Gold is owned by Galaface Limited ("Galaface"). Mr. Kung is deemed to have interests in the 720,745,000 shares owned by iMerchants Group under the SDI Ordinance as he owns the entire interest in Galaface and is entitled to exercise more than one-third of the voting power at general meetings of both Asian Gold and Galaface.
- (ii) The share options were granted under a pre-IPO share option plan, which was approved by the written resolution of the shareholders of the Company dated 15th March, 2000 and as described in note 15 to the financial statements. The share options entitle Mr. Johnston to subscribe for 11,670,000 shares of HK\$0.10 each in the Company at HK\$1.48 each in various stages from 31st March, 2001 to 14th March, 2010.

### DIRECTORS' INTERESTS IN SECURITIES - continued

Save as disclosed above, at 31st March, 2000, none of the directors or any of their associates had any interests in any securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

### DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Other than the share option schemes as described in note 15 to the financial statements, at no time during the year was the Company, any of its holding companies, fellow subsidiaries or subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate and none of the directors, or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such rights.

### SUBSTANTIAL SHAREHOLDERS

At 31st March, 2000, other than the interests disclosed in the section headed "DIRECTORS' INTERESTS IN SECURITIES" above, the Company has not been notified of any other interests at 31st March, 2000 representing 10% or more of the issued share capital of the Company.

### DIRECTORS' INTERESTS IN CONTRACTS

Mr. Alex Ko Po Ming, an independent non-executive director, is the vice chairman and a managing director of BNP Prime Peregrine Capital Limited. Mr. Alex Ko Po Ming is interested in BNP Prime Peregrine Capital Limited, which entered into a mandate letter with the Company in January 2000 in relation to the placing of the Company's shares as described in the Prospectus. In addition, BNP Prime Peregrine Capital Limited entered into a sponsorship agreement with the Company on 30th March, 2000 pursuant to which BNP Prime Peregrine Capital Limited would act as sponsor to the Company, and will receive usual sponsorship fees in connection therewith, up to 31st March, 2002.

Mr. Alex Ko Po Ming is also interested in BNP Prime Peregrine Securities Limited, which entered into an underwriting agreement with, inter alia, the Company on 27th March, 2000 in relation to the placing of the Company's shares.

Mr. Ronny Chow Fan Chim, an independent non-executive director, is a partner of Deacons Graham & James, legal advisers to the Company. Deacons Graham & James will receive usual professional fees in connection with the legal services it provides to the Company from time to time.

Other than as disclosed above and the transactions as disclosed in note 21 to the financial statements, in which Mr. Kung and Ms. Lena Foo have beneficial interests, no contracts of significance to which the Company, any of its holding companies, fellow subsidiaries or 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 year or at any time during the year.

## **DONATIONS**

During the year, the Group made charitable and other donations amounting to HK\$650,000.

## **SPONSOR'S INTEREST**

As at 31st March, 2000, BNP Paribas Peregrine Investment Limited, a fellow subsidiary of BNP Prime Peregrine Capital Limited, was interested in 2,976,000 shares of the Company. Save as disclosed herein, none of BNP Prime Peregrine Capital Limited, its directors, employees or associates had any interest in the securities of the Company or any members of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any members of the Group.

BNP Prime Peregrine Capital Limited has entered into a sponsorship agreement with the Company on 30th March, 2000 pursuant to which BNP Prime Peregrine Capital Limited would act as sponsor to the Company, and will receive usual sponsorship fees in connection therewith, up to 31st March, 2002.

## **CONNECTED TRANSACTIONS**

During the period from the date of listing of the Company's shares on GEM to the balance sheet date of 31st March, 2000, the Group had the following transactions with iMerchants Group, which is deemed to be a connected party pursuant to the Rules Governing the Listing of Securities on GEM ("Listing Rules"):

	HK\$'000
1. Office tenancy agreement (note 1)	20
2. Composite services agreement (note 2)	3
3. Consulting and service bureau transactions (note 3)	—

Notes:

1. This refers to the rental income received from iMerchants Group by the Group for sub-leasing to iMerchants Group a portion of the office with a total floor area of about 945 square feet from 16th March, 2000 to 31st March, 2000.
2. This refers to the service fee income received from iMerchants Group by the Group for the provision of certain services (including management, financial and accountancy services) to iMerchants Group, on 31st March, 2000.
3. This refer to the provision of e-commerce solutions to iMerchants Group by the Group. No service was provided on 31st March, 2000.
4. Details of the aforementioned agreements were disclosed in the paragraph headed "Connected transactions" in the section headed "Relationship with iMerchants Group" in the Prospectus.

Save as disclosed herein, there were no other transactions which need to be disclosed as connected transactions in accordance with the requirements of the Listing Rules.



### CONNECTED TRANSACTIONS - continued

The independent non-executive directors are required to review annually the connected transactions in respect of the composite service agreement dated 15th March, 2000 and the e-commerce solution services provided to iMerchants Group after the listing of the Company's shares on GEM. The independent non-executive directors have reviewed the connected transaction set out in item 2 above and in their opinion, this transaction entered into by the Group was:

- (i) in the ordinary and usual course of business of the Group; and
- (ii) in accordance with the relevant agreement governing them on terms that as disclosed in the paragraph headed "Waiver in respect of ongoing connected transactions" in the section headed "Relationship with iMerchants Group" in the Prospectus, are fair and reasonable and in the interests of the shareholders of the Company as a whole.

### MAJOR CUSTOMERS AND SUPPLIERS

The five largest suppliers of the Group in aggregate accounted for about 63% of its direct costs for the year. Purchases from the single largest supplier accounted for about 32% of its direct costs.

During the year, the five largest customers of the Group accounted for about 73% of the turnover of the Group and the largest customer accounted for about 27% of the total turnover. iSteelAsia Limited ("iSteelAsia") and Asia Financial Network Limited ("AFN"), two of the five largest customers, accounted for about 27% and 9% of the Group's turnover for the year, respectively. At 31st March, 2000, iMerchants Group Limited (a company in which Mr. Kung and Ms. Lena Foo, both directors of the Company, have 76% and 24% attributable interests respectively) holds 20% and 100% of the issued share capital of iSteelAsia and AFN, respectively.

Save as disclosed above, none of the directors, their respective associates and shareholders of the Company (which to the knowledge of the directors own more than 5% of the issued capital of the Company) had any interest in any of the five largest customers and the five largest suppliers of the Group for the financial year ended 31st March, 2000.

All transactions between the Group and the customers concerned were carried out on normal commercial terms.

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

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

**AUDIT COMMITTEE**

The Company's audit committee was formed on 15th March, 2000, comprising all the independent non-executive directors, namely, Dr. Alice Piera Lam Lee Kiu Yue and Messrs. Alex Ko Po Ming and Ronny Chow Fan Chim. The terms of reference of the audit committee have been established with regard to "A Guide for the Formation of an Audit Committee" issued by the Hong Kong Society of Accountants in December 1997.

As the shares of the Company were listed on GEM since 31st March, 2000, the audit committee did not hold any meeting during the period. However, a meeting of the audit committee will be arranged in early June 2000 to discuss matters in relation to the financial year ended 31st March, 2000.

**PENSION SCHEME**

Currently, the Group does not provide any provident fund or other similar pension scheme for its employees but may be required to introduce a provident fund scheme for employees at a time to comply with the Mandatory Provident Fund Schemes Ordinance.

**YEAR 2000 COMPLIANCE**

The use of two digits to represent year in certain computer databases to save storage space has created the Year 2000 issue in computers. Computer hardware and software which are not Year 2000 compliant may generate incorrect results for processing or retrieving time-related information.

To date, the Group has not been affected by the Year 2000 compliance issue and it is anticipated that the Year 2000 compliance issue will not cause any significant influence on the Group's operation.

**POST BALANCE SHEET EVENTS**

Details of significant post balance sheet events are set out in note 22 to the financial statements.

**AUDITORS**

Messrs. Deloitte Touche Tohmatsu were appointed as auditors of the Company during the period. A resolution will be submitted to the annual general meeting of the Company to re-appoint them as auditors.

On behalf of the Board

**Leroy Kung Lin Yuen**  
*Chairman*

Hong Kong, 31st May, 2000

**Deloitte Touche  
Tohmatsu**



**Certified Public Accountants**  
26/F, Wing On Centre  
111 Connaught Road Central  
Hong Kong

**德勤·關黃陳方會計師行**  
香港中環干諾道中111號  
永安中心26樓

**TO THE SHAREHOLDERS OF IMERCHANTS LIMITED**

菱控電子商業有限公司

*(incorporated in Hong Kong with limited liability)*

We have audited the financial statements on pages 27 to 47 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

**Respective responsibilities of directors and auditors**

The Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion 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 of 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 31st March, 2000 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Ordinance.

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*

Hong Kong, 31st May, 2000

## CONSOLIDATED INCOME STATEMENT

For the year ended 31st March, 2000

	<i>Notes</i>	<b>2000</b> <i>HK\$'000</i>	<b>1999</b> <i>HK\$'000</i>
Turnover		15,169	4,655
Direct costs		<u>(3,790)</u>	<u>(1,288)</u>
Gross profit		11,379	3,367
Other revenue		61	20
Administrative expenses		<u>(20,392)</u>	<u>(8,037)</u>
Operating loss		(8,952)	(4,650)
Financial expenses		<u>(325)</u>	<u>(7)</u>
Loss for the year	4&6	<u><u>(9,277)</u></u>	<u><u>(4,657)</u></u>
Loss per share	7		
- Basic		<u><u>1.09 cent</u></u>	<u><u>0.56 cent</u></u>

There was no recognised gains or losses other than the loss for the year.

# CONSOLIDATED BALANCE SHEET

At 31st March, 2000

	<i>Notes</i>	<b>2000</b> <i>HK\$'000</i>	<b>1999</b> <i>HK\$'000</i>
<b>NON-CURRENT ASSETS</b>			
Plant and equipment	8	<u>7,523</u>	<u>1,354</u>
<b>CURRENT ASSETS</b>			
Amounts due from customers for contract work	11	748	—
Trade and other receivables		5,194	1,031
Amount due from immediate holding company	12	908	—
Amount due from a related company	13	3,900	—
Bank balances and cash		<u>340,612</u>	<u>649</u>
		<u>351,362</u>	<u>1,680</u>
<b>CURRENT LIABILITIES</b>			
Amounts due to customers for contract work	11	—	224
Trade and other payables		6,383	347
Amounts due to directors		—	12,558
		<u>6,383</u>	<u>13,129</u>
<b>NET CURRENT ASSETS (LIABILITIES)</b>		<u>344,979</u>	<u>(11,449)</u>
		<u>352,502</u>	<u>(10,095)</u>
<b>CAPITAL AND RESERVES</b>			
Share capital	14	116,548	16
Reserves	16	<u>235,954</u>	<u>(10,111)</u>
		<u>352,502</u>	<u>(10,095)</u>

The financial statements on pages 27 to 47 were approved by the Board of Directors on 31st May, 2000 and are signed on its behalf by:

**Leroy Kung Lin Yuen**  
*CHAIRMAN*

**Lena Foo**  
*DIRECTOR*



## BALANCE SHEET

At 31st March, 2000

	<i>Notes</i>	<i>HK\$'000</i>
<b>NON-CURRENT ASSETS</b>		
Investment in a subsidiary	9	31,994
Loan to a subsidiary	10	<u>324,850</u>
		<u>356,844</u>
<b>CURRENT ASSETS</b>		
Trade and other receivables		1,930
<b>CURRENT LIABILITIES</b>		
Trade and other payables		<u>2,078</u>
<b>NET CURRENT LIABILITIES</b>		
		<u>(148)</u>
		<u>356,696</u>
<b>CAPITAL AND RESERVES</b>		
Share capital	14	116,548
Reserves	16	<u>240,148</u>
		<u>356,696</u>

**Leroy Kung Lin Yuen**  
*CHAIRMAN*

**Lena Foo**  
*DIRECTOR*

# CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st March, 2000

	<i>Notes</i>	<b>2000</b> <i>HK\$'000</i>	<b>1999</b> <i>HK\$'000</i>
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	17	<u>(10,311)</u>	<u>(5,804)</u>
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest paid		(325)	(7)
Interest received		<u>12</u>	<u>20</u>
NET CASH (OUTFLOW) INFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		<u>(313)</u>	<u>13</u>
CASH OUTFLOW FROM INVESTING ACTIVITIES			
Purchase of plant and equipment		<u>(8,729)</u>	<u>(677)</u>
NET CASH OUTFLOW BEFORE FINANCING		<u>(19,353)</u>	<u>(6,468)</u>
FINANCING	18		
Issue of shares (net of expenses of HK\$23,423,000)		325,082	—
Contribution from a strategic investor before the Share Exchange as described in note 1		46,792	—
Short-term bank loan raised		28,250	—
Repayment of short-term bank loan		(28,250)	—
(Repayment to) advances from directors		<u>(12,558)</u>	<u>6,082</u>
CASH INFLOW FROM FINANCING		<u>359,316</u>	<u>6,082</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		339,963	(386)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		<u>649</u>	<u>1,035</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash		<u><u>340,612</u></u>	<u><u>649</u></u>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2000

### 1. GROUP REORGANISATION AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Company was incorporated in Hong Kong with limited liability on 25th October, 1999 under the Companies Ordinance. Its ultimate holding company is Galaface Limited, a company incorporated in the British Virgin Islands (the "BVI").

The Company is an investment holding company. The principal activities of its subsidiaries are the provision of internet-based services.

Pursuant to a series of group reorganisation steps (the "Group Reorganisation") to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the Group on 10th March, 2000.

The Group Reorganisation principally involved the exchange of fully-paid shares of the Company with the entire issued shares of iMerchants Asia Limited (the "Share Exchange").

A strategic investor, Pacific Century CyberWorks Limited ("PCCW") has, through its indirect wholly-owned subsidiary Network Initiatives Limited, invested into the Group prior to the Share Exchange.

The shares of the Company were listed on GEM of the Stock Exchange on 31st March, 2000.

The Group resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, these financial statements of the Group have been prepared on the merger accounting basis as if the Company had always been the holding company of the Group.

Details of the Group Reorganisation are set out in the prospectus ("Prospectus") issued by the Company dated 27th March, 2000.

### 2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out below:

#### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st March each year.



**2. SIGNIFICANT ACCOUNTING POLICIES - continued**

**Basis of consolidation - continued**

The consolidated financial statements incorporate the effects of the Group Reorganisation and the reorganisation has been accounted for by using merger accounting.

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

**Investments in subsidiaries**

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

Investments in subsidiaries are stated at carrying value, as reduced by any decline in the value of the subsidiary that is other than temporary. Results of subsidiaries are accounted for by the Company on the basis of dividends received or receivable during the year.

**Turnover**

Turnover represents revenue generated from contracts for consultancy and software development, including the sale of the related equipment and the amounts received and receivable for other related services rendered, by the Group to customers during the year.

**Revenue recognition**

When the outcome of a contract for consultancy and software development can be estimated reliably, revenue from fixed price contracts is recognised on the percentage of completion method, measured by reference to the proportion that costs incurred to date bear to estimated total costs for each contract. When the outcome of a contract cannot be estimated reliably, revenue is recognised to the extent of contract costs incurred that it is probable that they will be recoverable.

Interest income from bank deposits is accrued on a time basis, with reference to the principal outstanding and at the interest rates applicable.

Rental income, including rentals invoiced in advance from properties under operating leases, is recognised on a straight-line basis over the relevant lease term.

**2. SIGNIFICANT ACCOUNTING POLICIES** - continued

**Plant and equipment**

Plant and equipment are stated at cost less depreciation at the balance sheet date.

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

The gain or loss arising from the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Where the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected future cash flows are not discounted to their present values.

Depreciation is provided to write off the cost of plant and equipment over their estimated useful lives, using the straight-line method, at the following rates per annum:

Leasehold improvements	Over the term of the lease
Furniture, fixtures and office equipment	20%
Computer equipment	30%

**Contract costs**

When the outcome of a contract for consultancy and software development can be estimated reliably, contract costs are charged to the income statement by reference to the stage of completion of the contract activity at the balance sheet date, as measured by the proportion that costs incurred to date bear to estimated total costs for the contract.

When the outcome of a contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

**2. SIGNIFICANT ACCOUNTING POLICIES - continued**

**Taxation**

The charge for taxation is based on the results for the year after adjusting for items which are non-assessable or disallowed. Certain items of income and expense are recognised for tax purposes in a different accounting period from that in which they are recognised in the financial statements. The tax effect of the resulting timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

**Operating leases**

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the relevant lease term.

**Foreign currencies**

Transactions in currencies other than Hong Kong dollars are initially recorded at the rates of exchange ruling on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are re-translated at the rates ruling on the balance sheet date. Profits and losses arising on translation are dealt with in the income statement.

The financial statements of the subsidiaries are maintained in Hong Kong dollars.

**Cash equivalents**

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

**3. TAXATION**

No provision for Hong Kong Profits Tax has been made as the Group incurred tax losses for the year.

Details of unrecognised deferred taxation are set out in note 19.

**4. LOSS FOR THE YEAR**

	<b>2000</b> <i>HK\$'000</i>	<b>1999</b> <i>HK\$'000</i>
Loss for the year has been arrived at after charging:		
Auditors' remuneration	304	58
Depreciation	1,488	916
Interest on bank borrowings wholly repayable within five years	325	7
Loss on disposal of plant and equipment	1,072	—
Operating lease rentals in respect of rented premises	1,670	900
Staff costs	10,249	5,170
and after crediting:		
Interest income	12	20
Rental income	20	—
	<u>          </u>	<u>          </u>

**5. DIRECTORS' EMOLUMENTS AND EMPLOYEES' EMOLUMENTS**

	<b>2000</b> <i>HK\$'000</i>	<b>1999</b> <i>HK\$'000</i>
Directors' Emoluments		
Independent non-executive directors		
Fees	—	—
Executive directors		
Fees	—	—
Basic salaries and allowances	160	—
Bonus	—	—
Retirement benefits scheme contributions	—	—
	<u>160</u>	<u>—</u>
Total directors' emoluments	<u>160</u>	<u>—</u>

The amount represented the emoluments payable to a director. The other directors did not receive any emoluments during the year.

During the year, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors have waived any emoluments during the year.

**5. DIRECTORS' EMOLUMENTS AND EMPLOYEES' EMOLUMENTS - continued**

**Employees' Emoluments**

During the year, the five highest paid individuals did not include any director of the Company. The emoluments of those five (1999: five) individuals were as follows:

	<b>2000</b> <i>HK\$'000</i>	<b>1999</b> <i>HK\$'000</i>
Salaries and other benefits	1,960	2,045
Performance related incentive payments	—	170
	<u>1,960</u>	<u>2,215</u>

The aggregate emoluments of each of the highest paid individuals were within the band of HK\$nil to HK\$1,000,000 for both years.

**6. LOSS FOR THE YEAR**

Of the Group's loss for the year, a loss of HK\$380,000 has been dealt with in the financial statements of the Company.

**7. LOSS PER SHARE**

The calculation of the loss per share for the year ended 31st March, 2000 is based on the loss for the year of HK\$9,277,000 and on the weighted average of 853,832,745 shares that would have been in issue throughout the year as if the Company had been the holding company of the Group since the beginning of the year.

The calculation of the loss per share for the year ended 31st March, 1999 is based on the loss for the year of HK\$4,657,000 and on the 837,000,000 shares in issue immediately preceding the placing and new issue of 232,500,000 shares and the issue of 2,976,000 shares on exercise of the BNP Prime Peregrine option referred to in note 14 and excluding 93,000,000 shares representing the adjustment for the effect of the contribution from PCCW before the Share Exchange during the year.

No diluted loss per share has been presented as the exercise of the Company's outstanding share options would result in a decrease in loss per share.

**8. PLANT AND EQUIPMENT**

	Leasehold improvements <i>HK\$'000</i>	Furniture, fixtures and office equipment <i>HK\$'000</i>	Computer equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>THE GROUP</b>				
<b>COST</b>				
At 1st April, 1999	623	634	2,214	3,471
Additions	4,213	2,798	1,718	8,729
Disposals	(1,168)	(964)	—	(2,132)
	<u>3,668</u>	<u>2,468</u>	<u>3,932</u>	<u>10,068</u>
At 31st March, 2000	<u>3,668</u>	<u>2,468</u>	<u>3,932</u>	<u>10,068</u>
<b>DEPRECIATION</b>				
At 1st April, 1999	238	291	1,588	2,117
Provided for the year	494	199	795	1,488
Eliminated on disposals	(624)	(436)	—	(1,060)
	<u>108</u>	<u>54</u>	<u>2,383</u>	<u>2,545</u>
At 31st March, 2000	<u>108</u>	<u>54</u>	<u>2,383</u>	<u>2,545</u>
<b>NET BOOK VALUES</b>				
At 31st March, 2000	<u>3,560</u>	<u>2,414</u>	<u>1,549</u>	<u>7,523</u>
At 31st March, 1999	<u>385</u>	<u>343</u>	<u>626</u>	<u>1,354</u>

The Company did not have any plant and equipment at the balance sheet date.

**9. INVESTMENT IN A SUBSIDIARY**

**THE COMPANY**  
*HK\$'000*

Unlisted shares	<u>31,994</u>
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The carrying value of investment in a subsidiary reflects the underlying net asset value of the subsidiary at the date of the acquisition.

**9. INVESTMENT IN A SUBSIDIARY - continued**

Details of the Company's subsidiaries, all of which are held indirectly by the Company except for iMerchants Asia Limited, at 31st March, 2000, are as follows:

Name of subsidiary	Place of incorporation	Issued and fully paid share capital	Attributable equity interest of the Group	Principal activity
iMerchants Asia Limited (formerly known as Megagram International Limited and Motif International Holdings Limited)	BVI	Ordinary shares US\$6,001,000	100%	Investment holding and provision of internet-based services
iMerchants Consulting Limited (formerly known as WIHO Limited and iMerchants Limited)	Hong Kong	Ordinary shares HK\$100	100%	Provision of internet-based services
iMerchants Services Limited (formerly known as Pearl Yard Limited and Motif Asia Limited)	BVI	Ordinary shares US\$1,000	100%	Provision of internet-based services
The Interactive Merchants Limited (formerly known as Omedata International Limited)	BVI	Ordinary shares US\$100	100%	Provision of internet-based services

All subsidiaries operate in Hong Kong.

None of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year.

**10. LOAN TO A SUBSIDIARY**

**THE COMPANY**

The amount is non-interest bearing, unsecured and has no fixed repayment terms. In the opinion of directors, the amount will not be demanded for repayment in the coming financial year and therefore it is classified as non-current.

**11. AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONTRACT WORK**

	THE GROUP	
	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Costs incurred	804	393
Less: Progress billings	(56)	(617)
	<u>748</u>	<u>(224)</u>

**12. AMOUNT DUE FROM IMMEDIATE HOLDING COMPANY**

The amount of the Group was unsecured, non-interest bearing and fully settled subsequent to the balance sheet date.

**13. AMOUNT DUE FROM A RELATED COMPANY**

Particulars of the amount due from a related company, in which Mr. Leroy Kung Lin Yuen and Ms. Lena Foo have beneficial interest, are as follows:

Name of company	THE GROUP		
	Balance at 31.3.2000 <i>HK\$'000</i>	Balance at 1.4.1999 <i>HK\$'000</i>	Maximum amount outstanding during the year <i>HK\$'000</i>
iSteelAsia Limited	<u>3,900</u>	<u>—</u>	<u>3,900</u>

The amount was unsecured, non-interest bearing and derived from the Group's usual course of business. The amount was fully settled subsequent to the balance sheet date.



**14. SHARE CAPITAL**

	<b>Number of ordinary shares</b>	<b>Amount HK\$'000</b>
Authorised:		
Ordinary shares of HK\$1.00 each	1,000	1
Subdivision of ordinary shares of HK\$1.00 each into HK\$0.10 each	10,000	1
Increase of ordinary shares of HK\$0.10 each	7,999,990,000	799,999
At 31st March, 2000 (Ordinary shares of HK\$0.10 each)	8,000,000,000	800,000
Issued and fully paid:		
Issue of ordinary shares of HK\$1.00 each to initial subscribers	2	—
Subdivision of ordinary shares of HK\$1.00 each into HK\$0.10 each	20	—
Issue of ordinary shares on acquisition of subsidiaries	929,980	93
Placing of ordinary shares to professional and institutional investors	232,500,000	23,250
Issue of ordinary shares by capitalisation of share premium	929,070,000	92,907
Issue of ordinary shares on exercise of the BNP Prime Peregrine option	2,976,000	298
At 31st March, 2000 (Ordinary shares of HK\$0.10 each)	1,165,476,000	116,548

- (a) The Company was incorporated on 25th October, 1999 with an authorised share capital of HK\$1,000 divided into 1,000 ordinary shares of HK\$1.0 each, two of which were allotted and issued to the subscribers of the Company on the same date.

**14. SHARE CAPITAL - continued**

- (b) Pursuant to the written resolutions passed by the shareholders of the Company on 10th March, 2000, each of the issued and unissued shares of HK\$1.00 each of the Company was subdivided into 10 shares of HK\$0.10 each and the authorised share capital of the Company was increased from HK\$1,000 to HK\$800,000,000 by the creation of an additional 7,999,990,000 shares. These new shares rank pari passu in all respects with the existing shares.
- (c) By written resolutions of the shareholders of the Company dated 15th March, 2000, the Company issued a total of 929,980 new ordinary shares of HK\$0.10 each for the acquisition of subsidiaries pursuant to the Group Reorganisation as stated in note 1.
- (d) Subject to certain conditions which were subsequently fulfilled, by means of placing of new shares to professional and institutional investors, the Company issued 232,500,000 new ordinary shares of HK\$0.10 each at a price of HK\$1.48 per share on 30th March, 2000.
- (e) The Company issued 929,070,000 shares of HK\$0.10 each in the Company to the then existing shareholders, excluding those referred to in (d) above, in proportion to their then existing shareholdings in the Company by capitalising the Company's share premium account.
- (f) Pursuant to the underwriting agreement dated 27th March, 2000, BNP Prime Peregrine Securities Limited ("BNP Prime Peregrine") was granted an option by the Company pursuant to which the Company was required to issue and allot up to an aggregate of 2,976,000 additional new shares of HK\$0.10 each in the Company at HK\$1.48 each to BNP Prime Peregrine (or its nominee(s)) in lieu of payment of all or part of the underwriting and management fee. BNP Prime Peregrine exercised the option to require the Company to issue such 2,976,000 additional new ordinary shares at a price of HK\$1.48 per share. The additional new ordinary shares were issued and allotted on 30th March, 2000.

The Company intends to use the net proceeds from the new issue of shares to finance the Group's improvement in technology, business development and marketing activities, hiring of staff, opening new offices in different regions, acquisition or investment in ventures and general working capital requirements.

All the shares which were issued during the period rank pari passu with the then existing shares in all respects.

The amount of share capital at 31st March, 1999 represented the aggregate of the share capitals of the subsidiaries immediately before the Group Reorganisation.

## **15. SHARE OPTION SCHEMES**

Pursuant to the Company's share option scheme adopted on 15th March, 2000 (the "Share Option Scheme"), the Company may grant options to executive directors and employees of the Company or its subsidiaries to subscribe for shares in the Company for a consideration of HK\$1 for each lot of share options granted. Options granted are exercisable at any time not less than three years and not more than ten years from the date of grant of the options. The subscription price is not less than the higher of the closing price of the Company's shares as quoted on the date of the offer of the options and the average closing prices of the Company's shares for the five trading days immediately preceding the date of the offer of the option. The maximum number of shares in respect of which options may be granted under the Share Option Scheme and the pre-IPO share option plan, as described below, shall not, in aggregate, exceed 10% of the entire issued ordinary share capital of the Company on 31st March, 2000, or 30% of the entire issued ordinary share capital of the Company on the date of shareholders' approval for refreshment as stated below (as the case may be). In determining the said 30% limit, the following shares shall be excluded:

- (1) shares to be Issued pursuant to the Share Option Scheme and any other share option schemes; and
- (2) any pro rata entitlements to subscribe for further shares pursuant to the issue of shares mentioned in (1) above.

The Company may seek approval from shareholders in general meeting for refreshing the 10% limit or for granting further options beyond the 10% limit, provided that the options in excess of the 10% limit are granted to participants specifically identified by the Company before such approval is sought.

At the balance sheet date, no option was granted by the Company under the Share Option Scheme.

Pursuant to a written resolution of the shareholders of the Company dated 15th March, 2000, the Company also adopted a pre-IPO share option plan (the "Pre-IPO Share Option Plan"). The Pre-IPO Share Option Plan has terms same as those under the Share Option Scheme except that:

- (1) the subscription price is set equal to HK\$1.48;
- (2) the total number of ordinary shares of the Company subject to the Pre-IPO Share Option Plan is 46,500,000;
- (3) employees include full-time employees of the Group, employees who are not in full time employment of the Group and consultants and advisers to the Group;
- (4) no further option will be offered or granted under the Pre-IPO Share Option Plan other than those already granted as mentioned in the Prospectus; and
- (5) options granted are exercisable in various stages during the exercisable period from 31st March, 2001 to 14th March, 2010.

**15. SHARE OPTION SCHEMES - continued**

On 15th March, 2000, the Company granted options under the Pre-IPO Share Option Plan to subscribe for an aggregate of 46,500,000 ordinary shares of HK\$0.10 each in the Company to employees and Mr. Matthew P. Johnston ("Mr. Johnston"). Mr. Johnston is a director of the Company and he was granted options to subscribe for 11,670,000 ordinary shares of HK\$0.10 each in the Company.

The aggregate consideration received by the Company during the period for the options granted under the Pre-IPO Share Option Plan was insignificant.

**16. RESERVES**

	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Merger reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE GROUP					
As at 1st April, 1998	—	—	—	(5,454)	(5,454)
Loss for the year	—	—	—	(4,657)	(4,657)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31st March, 1999	—	—	—	(10,111)	(10,111)
Reserve arising on acquisition of subsidiaries	—	—	46,715	—	46,715
Premium arising on issue of shares	324,957	—	—	—	324,957
Capitalisation issue	(92,907)	—	—	—	(92,907)
Expenses incurred in connection with the issue of shares	(23,423)	—	—	—	(23,423)
Loss for the year	—	—	—	(9,277)	(9,277)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31st March, 2000	<u>208,627</u>	<u>—</u>	<u>46,715</u>	<u>(19,388)</u>	<u>235,954</u>
THE COMPANY					
Reserve arising on acquisition of subsidiaries	—	31,901	—	—	31,901
Premium arising on issue of shares	324,957	—	—	—	324,957
Capitalisation issue	(92,907)	—	—	—	(92,907)
Expenses incurred in connection with the issue of shares	(23,423)	—	—	—	(23,423)
Loss for the period	—	—	—	(380)	(380)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31st March, 2000	<u>208,627</u>	<u>31,901</u>	<u>—</u>	<u>(380)</u>	<u>240,148</u>

**16. RESERVES - continued**

The merger reserve of the Group represents the difference between the nominal amount of the share capital of the subsidiaries at the date on which they were acquired by the Group and the nominal amount of the Company's share issued as consideration for the acquisition.

The contributed surplus of the Company represents the difference between the net assets of the subsidiaries acquired by the Company and the nominal value of the Company's shares issued for the acquisition.

Under the Companies Ordinance, the contributed surplus of the Company is available for distribution if:

- (1) at the time the distribution is made, the amount of its net assets is not less than the aggregate of its called up share capital and undistributable reserves; and
- (2) the distribution does not reduce the amount of its net assets to less than the aggregate of its called up share capital and undistributable reserves.

The Company's reserves available for distribution to shareholders of approximately HK\$31,521,000 as at 31st March, 2000 represented the net amounts of the contributed surplus, subject to compliance with the above provisions, and the accumulated losses.

**17. RECONCILIATION OF LOSS FOR THE YEAR TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES**

	<b>2000</b>	<b>1999</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss for the year	(9,277)	(4,657)
Interest expenses	325	7
Interest income	(12)	(20)
Depreciation	1,488	916
Loss on disposal of plant and equipment	1,072	—
Increase in trade and other receivables	(4,163)	(458)
Increase in trade and other payables	6,036	160
Decrease in amounts due to customers for contract work	(224)	(1,752)
Increase in amounts due from customers for contract work	(748)	—
Increase in amount due from immediate holding company	(908)	—
Increase in amount due from a related company	(3,900)	—
	<hr/>	<hr/>
Net cash outflow from operating activities	<u>(10,311)</u>	<u>(5,804)</u>

**18. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR**

	Share capital, share premium, and merger reserve <i>HK\$'000</i>	Short-term bank loan <i>HK\$'000</i>	Amounts due to directors <i>HK\$'000</i>
At 1st April, 1998	16	—	6,476
Advances made	—	—	6,082
	<hr/>	<hr/>	<hr/>
At 31st March, 1999	16	—	12,558
Issue of shares to professional and institutional investors	344,100	—	—
Issue of shares on exercise of the BNP Prime Peregrine option granted	4,405	—	—
Contribution from PCCW before the Share Exchange as described in note 1	46,792	—	—
Expenses incurred for the issue of shares	(23,423)	—	—
Loan raised during the year	—	28,250	—
Repayment during the year	—	(28,250)	(12,558)
	<hr/>	<hr/>	<hr/>
At 31st March, 2000	<u>371,890</u>	<u>—</u>	<u>—</u>

**19. NET UNRECOGNISED DEFERRED TAX ASSET**

	<b>THE GROUP</b>	
	<b>2000</b> <i>HK\$'000</i>	<b>1999</b> <i>HK\$'000</i>
At beginning of the year	1,528	796
Credit for the year	1,336	732
	<hr/>	<hr/>
At end of the year	<u>2,864</u>	<u>1,528</u>

At the balance sheet date, the net unrecognised deferred tax asset represented principally the tax effect of timing differences attributable to tax losses available to offset future assessable profits. The net deferred tax asset has not been recognised as it is not certain that the tax benefit will be realised in the foreseeable future.

The Company had no significant unrecognised deferred tax for the period or at the balance sheet date.

## 20. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group was committed to make rental payments in respect of land and buildings in the next twelve months after the balance sheet date under non-cancellable operating leases as follows:

	<b>THE GROUP</b>	
	<b>2000</b> <i>HK\$'000</i>	<b>1999</b> <i>HK\$'000</i>
Operating leases expire:		
Within one year	—	422
In the second to fifth years inclusive	2,718	—
	<u>2,718</u>	<u>422</u>

The Company had no operating lease commitments at the balance sheet date.

## 21. RELATED PARTY DISCLOSURES

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

	<b>2000</b> <i>HK\$'000</i>	<b>1999</b> <i>HK\$'000</i>
Revenue generated from contracts for consultancy and software development performed for		
- a fellow subsidiary	1,321	364
- an associate of the immediate holding company	3,900	—
Rental income from the immediate holding company (note)	20	—
Service fee income from the immediate holding company (note)	3	—
	<u>3</u>	<u>—</u>

Note: These transactions constituted connected transactions as defined under the Listing Rules.

The above related party transactions were carried out in accordance with the relevant agreements governing these transactions.

Details of the balances with a related company and the immediate holding company, which were principally arising from the usual course of business, are set out in notes 12 and 13 respectively.

## **22. POST BALANCE SHEET EVENTS**

- (a) Subsequent to the balance sheet date, the Company entered into an agreement with other parties for the establishment of a joint venture company, Net Alliance Co. Limited, in which the Company will hold an equity interest of 40%. The joint venture company will be engaged in the development of online banking services.
- (b) The Company entered into a conditional sale and purchase agreement dated 15th March, 2000 with iMerchants Group Limited (“iMerchants Group”), the Company’s immediate holding company, pursuant to which the Company agreed to acquire from iMerchants Group its entire interest in the shares in iSteelAsia.com Limited, a company incorporated in Bermuda. Completion of the acquisition of iSteelAsia.com Limited is subject to the listing of the shares of iSteelAsia.com Limited and the approval of the Company’s shareholders at an extraordinary general meeting of the Company. Subsequent to the balance sheet date and on 20th April, 2000, iSteelAsia.com Limited was listed on GEM. Accordingly, on 27th April, 2000, the Company announced to convene an extraordinary general meeting on 18th September, 2000 in order to allow sufficient time for the shareholders of the Company to consider and, if thought fit, to approve the acquisition.
- (c) Subsequent to the balance sheet date, the Company entered into an agreement dated 15th May, 2000 with iMerchants Group to acquire from iMerchants Group its 100% interests in Asia Financial Network Limited at a nominal consideration.



	Year ended 31st March,		
	1998 HK\$'000	1999 HK\$'000	2000 HK\$'000
<b>RESULTS</b>			
Turnover	2,799	4,655	15,169
Direct costs	<u>(1,678)</u>	<u>(1,288)</u>	<u>(3,790)</u>
Gross profit	1,121	3,367	11,379
Other revenue	25	20	61
Administrative expenses	<u>(4,715)</u>	<u>(8,037)</u>	<u>(20,392)</u>
Operating loss	(3,569)	(4,650)	(8,952)
Financial expenses	<u>—</u>	<u>(7)</u>	<u>(325)</u>
Loss for the year	<u><u>(3,569)</u></u>	<u><u>(4,657)</u></u>	<u><u>(9,277)</u></u>

*Notes:*

1. The results for each of the three years ended 31st March, 2000 have been prepared on a combined basis as if the group structure immediately after the Group Reorganisation had been in existence since 1st April, 1997.
2. The Company was incorporated in Hong Kong on 25th October, 1999. Accordingly, the only balance sheet for the Group that has been prepared is that set out on page 28 of the annual report.



## NOTICE OF ANNUAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN THAT** an annual general meeting of the shareholders of iMerchants Limited (the “Company”) will be held at Atrium Room, Level 39, Island Shangri-La Hong Kong, Pacific Place, Supreme Court Road, Central, Hong Kong on 3rd July, 2000 at 3:00 p.m. for the purpose of considering and, if thought fit, passing the following resolutions as ordinary resolutions of the Company:

1. To receive and consider the audited financial statements and the reports of the Directors and auditors of the Company for the year ended 31st March, 2000.
2. To re-elect retiring Directors and authorise the Directors to fix their remuneration.
3. To appoint auditors and authorise the Directors to fix their remuneration.
4. By way of special business, to consider and, if thought fit, pass with or without alterations, the following resolutions (“Resolutions”) as ordinary resolutions:

(1) **THAT:**

- (a) subject to paragraph (c) below, pursuant to the Rules Governing the Listing of Securities on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, the exercise by the Directors during the Relevant Period of all the powers of the Company to allot, issue and deal with unissued shares in the capital of the Company and to make or grant offers, agreements and options which might require the exercise of such powers be and the same is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) above shall authorise the Directors of the Company during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to options or otherwise) by the Directors pursuant to the approval in paragraph (a) above, otherwise than pursuant to (i) a Rights Issue; or (ii) the grant or exercise of any option under the share option scheme of the Company or any other option, scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of the subsidiaries of shares or rights to acquire the Company’s shares; or (iii) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares in accordance with the Articles of Association of the Company in force from time to

## NOTICE OF ANNUAL GENERAL MEETING

time; or (iv) any issue of shares in the Company upon the exercise of rights of subscription or conversion under the terms of any warrants of the Company or any securities which are convertible into shares of the Company, shall not exceed the aggregate of:

- (aa) 20% of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this Resolution; and
- (bb) (if the Directors are so authorised by a separate ordinary resolution of the shareholders of the Company) the nominal amount of any share capital of the Company repurchased by the Company subsequent to the passing of this Resolution (up to a maximum equivalent to 10% of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this Resolution).

and the authority pursuant to paragraph (a) of this Resolution shall be limited accordingly; and

- (d) for the purpose of this Resolution:

“Relevant Period” means the period from the date of the passing of this Resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Memorandum and Articles of Association of the Company, the Companies Ordinance of Hong Kong (Cap.32) or any other applicable law of Hong Kong to be held; and
- (iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the Directors by this Resolution.

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

(2) **THAT:**

- (a) the exercise by the Directors during the Relevant Period of all powers of the Company to purchase its shares on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited or any other stock exchange on which the shares of the Company may be listed and recognized by the Securities and Futures Commission and The Stock Exchange of Hong Kong Limited for such purpose, and otherwise in accordance with the rules and regulations of the Securities and Futures Commission, The Stock Exchange of Hong Kong Limited, the Companies Ordinance of Hong Kong (Cap.32) and all other applicable laws in this regard, be and the same is hereby generally and unconditionally approved;
  - (b) the aggregate nominal amount of shares of the Company which may be purchased by the Company pursuant to the approval in paragraph (a) during the Relevant Period shall not exceed 10 per cent. of the aggregate nominal amount of the issued share capital of the Company as at the date of the passing of this Resolution and the authority pursuant to paragraph (a) of this Resolution shall be limited accordingly; and
  - (c) for the purpose of this Resolution, "Relevant Period" means the period from the date of the passing of this Resolution until whichever is the earliest of:
    - (i) the conclusion of the next annual general meeting of the Company;
    - (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Memorandum and Articles of Association of the Company, Companies Ordinance of Hong Kong (Cap.32) or any other applicable law of Hong Kong to be held; and
    - (iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the Directors of the Company by this Resolution.
- (3) **THAT** the Directors of the Company be and they are hereby authorised to exercise the authority referred to in paragraph (a) of Resolution no.4(1) above in respect of the share capital of the Company referred to in sub-paragraph (bb) of paragraph (c) of such Resolution.

## NOTICE OF ANNUAL GENERAL MEETING

- (4) **THAT** the number of shares of the Company in respect of which options may be granted under the share option scheme or any other option, scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares of the Company be renewed to an aggregate of 10% of the entire share capital of the Company in issue on the date of the passing of this Resolution.

By Order of the Board  
**Clement Leung Yuen Wing**  
*Company Secretary*

Hong Kong, 31st May, 2000

Registered Office:  
26th Floor, Great Eagle Centre  
23 Harbour Road  
Wanchai  
Hong Kong

*Notes:*

1. A shareholder entitled to attend and vote at the meeting is entitled to appoint a person or persons as his proxy or proxies to attend and, on a poll, vote instead of him. A proxy need not be a shareholder of the Company.
2. To be valid, a form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a notorially certified copy of that power of attorney or authority must be deposited with the Company's principal share registrar and transfer office, Tengis Limited, 4th Floor, Hutchison House, 10 Harcourt Road, Hong Kong not less than 48 hours before the time appointed for holding the meeting and in default thereof the form of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiry of 12 months from the date of its execution.
3. Delivery of an instrument appointing a proxy shall not preclude a shareholder from attending and voting in person at the meeting and in such event, the instrument appointing a proxy shall be deemed to be revoked.



# iMerchants Limited

(Incorporated in Hong Kong with limited liability under the Companies Ordinance)

## PROXY FORM FOR ANNUAL GENERAL MEETING TO BE HELD ON 3RD JULY, 2000

I/We (note 1) \_\_\_\_\_  
of \_\_\_\_\_  
being the registered holder(s) of (note 2) \_\_\_\_\_ shares of HK\$0.10 each  
in the capital of the Company, HEREBY APPOINT (note 3) \_\_\_\_\_  
of \_\_\_\_\_  
or failing him, the Chairman of the meeting as my/our proxy to act for me/us at the Annual General Meeting (or at any adjournment thereof) of the Company to be held at Atrium Room, Level 39, Island Shangri-La Hong Kong, Pacific Place, Supreme Court Road, Central, Hong Kong on 3rd July, 2000 at 3:00 p.m. and at the said meeting (or at any adjournment thereof) to vote, on a poll, for me/us and in my/our name(s) as hereunder indicated or, if no such indication is given, as my/our proxy thinks fit.

	<b>FOR</b> (Note 4)	<b>AGAINST</b> (Note 4)
1. To receive and consider the audited financial statements and the reports of the Directors and auditors for the year ended 31st March, 2000.		
2. To re-elect the following Directors: (a) Ms. Lena Foo (b) Mr. Matthew P. Johnston To authorise the Directors to fix the remuneration of the Directors.		
3. To re-appoint Messrs. Deloitte Touche Tohmatsu as auditors for the ensuing year and to authorise the Directors to fix their remuneration.		
4(1). To grant an unconditional mandate to the Directors to issue shares. (Note 5)		
4(2). To grant an unconditional mandate to the Directors to repurchase shares. (Note 5)		
4(3). To add nominal amount of the shares repurchased by the Company pursuant to authority granted under resolution no. 4(2) to the nominal amount of shares that may be allotted or agreed to be allotted pursuant to the mandate granted to the Directors under resolution no. 4(1). (Note 5)		
4(4). To refresh the scheme limit under the Share Option Scheme of the Company. (Note 5)		

Date this \_\_\_\_\_ day of \_\_\_\_\_ 2000      Shareholder's Signature \_\_\_\_\_

### Notes:

- Full name(s) and address(es) in **BLOCK CAPITALS**. The names of all joint holders should be stated.
- Please insert the number of shares registered in your name(s). If no number is inserted, this form of proxy will be deemed to relate to all the shares of the Company registered in your name(s).
- Please insert the name and address in **BLOCK CAPITALS** of the proxy desired. **IF NO NAME IS INSERTED, THE CHAIRMAN OF THE MEETING WILL ACT AS YOUR PROXY.**
- IMPORTANT: IF YOU WISH TO VOTE FOR ANY RESOLUTION, TICK IN THE BOX MARKED "FOR" BESIDE THE APPROPRIATE RESOLUTION. IF YOU WISH TO VOTE AGAINST ANY RESOLUTION, TICK IN THE BOX MARKED "AGAINST" BESIDE THE APPROPRIATE RESOLUTION.** Failure to complete the boxes will entitle your proxy to cast his vote at his discretion. Your proxy will also be entitled to vote at his discretion on any resolution properly put to the meeting other than those referred to in the notice convening the meeting.
- The description of this Resolution is by way of summary only. The full text appears in the Notice of Annual General Meeting.
- This form of proxy must be signed by you or your attorney duly authorised in writing or, in the case of corporation, must be either under its common seal or under the hand of an officer, attorney, or other person duly authorised.
- In the case of joint holders, the vote of the senior who tenders a vote shall be accepted to the exclusion of the votes of the other joint holders, and seniority shall be determined by the order in which the names of the holders stand in the Register of Shareholders.
- To be valid, this form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof, must be deposited at the Company's principal share registrar and transfer office, Tengis Limited, 4th Floor, Hutchison House, 10 Harcourt Road, Hong Kong not less than 48 hours before the time for holding the meeting (or adjourned meeting as the case may be).
- The proxy needs not be a shareholder of the Company but must attend the meeting in person to represent you.
- ANY ALTERATION MADE IN THIS FORM OF PROXY MUST BE INITIALLED BY THE PERSON WHO SIGNS IT.**