

# iMerchants

iMerchants Limited

**FIRST QUARTERLY REPORT 2000-2001**

## **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 the 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 the GEM website in order to obtain up-to-date information on GEM-listed issuers.**

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

*This announcement, for which the directors of iMerchants Limited collectively and individually accept responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange 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 announcement 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 announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

## **CHAIRMAN'S STATEMENT**

### **iMerchants Limited — Delivering Results**

iMerchants aims to establish itself as Asia's leading e-commerce execution and operations partner — and in so doing, to deliver strong financial results based on the e-commerce revolution. Through our demonstrated capability delivering e-commerce services to major enterprises and our e-commerce platforms, the Company is well positioned to generate strong growth and financial results from the opportunity presented by the adoption of e-commerce.

iMerchants provides major enterprises with focused assistance to help them succeed in the online economy. The Company leverages its demonstrated expertise in online banking systems to build a multi-bank online banking service bureau. Employing leading experience in e-commerce strategy and technology, iMerchants partners with key industry players to develop and operate vertically focused e-commerce businesses. Finally, the Company uses its experience in online financial services through its wholly-owned subsidiary, Asia Financial Network Limited (“AFN”), that serves both banking and commerce clients, to develop a platform for online billing, invoicing and payment.

This past quarter continued our history of high revenue growth. iMerchants generated approximately HK\$8,025,000 in revenue for the three months ended 30th June, 2000 as a result of both a number of continuing relationships with major clients and the addition of new clients. This represents an increase of approximately 285% from the corresponding quarter in 1999.

I am pleased to announce that iMerchants generated an unaudited consolidated net profit for the three months ended 30th June, 2000 of approximately HK\$746,000. In comparison, the Company recorded a consolidated loss of approximately HK\$496,000 for the corresponding quarter in 1999.

The Company is positioning for a healthy financial future, by focusing on increasing scalability and improving operational efficiency. The results of these efforts are now becoming evident. Approximately 28% of the total revenue generated for the three months ended 30th June, 2000 was from recurrent revenue streams and total direct costs plus administrative expenses per employee for the same time frame fell by approximately 14% from their level for the same period in 1999.

A number of exciting developments in this past quarter have highlighted iMerchants' ability to leverage its experience and technology for new opportunities:

- iMerchants progressed from helping to launch one of the first online banking services in Asia in 1997 to participating in the formation of Net Alliance, an online banking service bureau, in May 2000.
- Building on the Company's experience with a successful operating partnership with iSteelAsia, iMerchants developed a similar arrangement with Singapore Technologies Aerospace Limited ("ST Aero") for the formation of iShopAero, an online aerospace parts and services exchange.
- The Company's wholly-owned subsidiary, AFN, publicly announced its business of focusing on building and operating leading-edge platforms that provide online billing, invoicing and payment services.

### **Business Review and Outlook: A Bright Future Ahead**

E-commerce growth in Asia-Pacific is expected to be substantial. For B2B e-commerce, some experts estimate annual revenue growth in Asia to surpass 150% until 2004 at which time the total value will approach US\$1 trillion<sup>1</sup>. Although projections for e-commerce revenues vary dramatically, the message is clear, for businesses whose services support the spread of e-commerce the opportunity is huge.

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<sup>1</sup> *It should be noted that forecasts are by their nature uncertain and that iMerchants Limited bears no responsibility for the accuracy of this projection.*

iMerchants' core expertise is in working with major enterprises to develop e-business strategies, implement e-commerce technologies and operate e-commerce platforms — meaning that we can take online businesses right from concept, through to development and ongoing e-commerce operations. We apply these capabilities in three specific business areas: online banking services, online commerce services and Asia Financial Network, enabling us to build focused expertise.

**Online Banking Services:** In May 2000, iMerchants announced the formation of Net Alliance, in partnership with four prominent local banks. Net Alliance will operate an online banking service bureau that will provide online retail and corporate banking and mobile banking functions for its member banks. These services enable them to capitalise on the advantages offered by new technologies to enhance the quality of online banking services, reduce costs of operation and development, and enhance shareholders' value. Member banks of Net Alliance will be able to realise high quality service, cost efficiency and constant service evolution and innovation, a sharply reduced implementation time in highly competitive online banking market, and increase market presence and influence.

The revenue model for the service is designed to break even at launch as all expenditures are being recovered from the inaugural member banks, and to be profitable as additional banks join the consortium and use its services.

In addition to being an equity partner, iMerchants will also be a service provider to Net Alliance, enabling the Company to leverage its expertise in developing and launching online banking services. Based on the clear value proposition of an online banking service bureau, iMerchants intends to form similar consortiums around Asia to provide online banking services in other countries.

iMerchants Online Banking Services earn revenue from recurring service fees and development fees.

**Online Commerce Services:** In June 2000, iMerchants and ST Aero agreed to co-operate to launch iShopAero.com, an online hub to enable the trading of aerospace parts and services. iMerchants brings its proven expertise in launching and operating business-to-business trading hubs to this partnership while ST Aero brings its strong and neutral position in the global aerospace industry. (ST Aero is a division of Singapore Technologies Engineering Limited, one of the largest companies by market capitalisation listed with Singapore Exchange Securities Trading Limited.)

iMerchants offers clients high quality service, greatly reduced time to market, cost efficiency and constant service evolution and innovation. Through its integrated links to partners providing value-added services such as content, payment, fulfillment, logistics, insurance partners and customer care, iMerchants can enable its clients to complete transaction cycles online.

In the online commerce area we will continue to identify additional industries and potential partners so that we can leverage the powerful synergy that results from combining our e-commerce expertise with the industry expertise of leading players to expand our vertically focused online commerce services.

iMerchants earns revenue from development fees, recurring operations and maintenance service fees, and, in selected cases, equity holdings.

**Asia Financial Network:** iMerchants' wholly owned subsidiary, AFN, is developing and will operate a platform for online billing, invoicing and payment services. It is planned that AFN's first service will rollout later this year through JETCO Online, iMerchants' joint venture with JETCO, the Hong Kong consortium of over 50 banks.

AFN is partnering with leading US-based technology partners to develop its online billing, invoicing and payment platform.

AFN will provide service billing first and plans to extend its services to include trade invoicing and payment for business-to-business online transactions.

AFN offers an excellent means for iMerchants to expand our client base through our planned regional expansion as well as to deepen the level of service provided to existing clients as we enhance our service offering to meet the needs of vertical online commerce businesses.

AFN will earn revenue from transaction fees.

iMerchants' three focused but complementary business lines allow us to provide clients with specialised technology and operations service while working to take advantage of the synergies between our services. Our solid business model offers investors the benefit of multiple revenue streams both one time and recurrent in nature with great potential for the future. iMerchants is indeed well positioned to participate in and benefit from the ongoing development of the new economy.

**Leroy Kung Lin Yuen**  
*Chairman*

Hong Kong, 3rd August, 2000

## RESULTS

The board of Directors (the "Board") of the Company is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the three months ended 30th June, 2000 together with the comparative unaudited figures for the corresponding period in 1999 as follows:

|                                  | <i>Notes</i> | <b>Three months ended<br/>30th June</b> |                 |
|----------------------------------|--------------|---|-----------------|
|                                  |              | <b>2000</b>                             | <b>1999</b>     |
|                                  |              | <i>HK\$'000</i>                         | <i>HK\$'000</i> |
| Turnover                         | 2            | 8,025                                   | 2,086           |
| Direct costs                     |              | <u>(3,760)</u>                          | <u>(732)</u>    |
| Gross profit                     |              | 4,265                                   | 1,354           |
| Other revenue                    | 3            | 5,586                                   | 91              |
| Administrative expenses          |              | <u>(9,105)</u>                          | <u>(1,941)</u>  |
| Profit(loss) for the period      |              | <u>746</u>                              | <u>(496)</u>    |
| Earnings(loss) per share - basic | 5            | 0.064 cent                              | (0.059) cent    |

*Notes:*

### 1. **Basis of preparation of the 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 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 reorganization steps (the "Group Reorganization") to rationalize the Group structure in preparation for the listing of the Company's shares on GEM of the Stock Exchange, the Company became the holding company of the Group on 10th March, 2000.

The Group Reorganization 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 Reorganization 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.

In addition, the Group acquired a wholly-owned subsidiary in May 2000 from its immediate holding Company. The acquisition of this subsidiary had been accounted for using the acquisition accounting basis.

## 2. **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 period.

## 3. **Other revenue**

Other revenue for the period comprised, among others, interest income of approximately HK\$5,258,000 (1999: Nil).

## 4. **Taxation**

No provision for Hong Kong Profits Tax has been made as the Group incurred tax losses for the period (1999: Nil).

## 5. **Earnings(loss) per share**

The calculation of the earnings per share for the three months ended 30th June, 2000 is based on the profit for the period of approximately HK\$746,000 and on 1,165,476,000 ordinary shares in issue throughout the period.

The calculation of the loss per share for the three months ended 30th June, 1999 is based on the loss for the period of HK\$496,000 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 (as defined in the prospectus of the Company dated 27th March, 2000) and excluding 93,000,000 shares representing the adjustment for the effect of the contribution from PCCW before the Share Exchange.

No diluted earnings per share has been presented for the three months ended 30th June, 2000 as the exercise price of the Company's outstanding share options was higher than the average market price for the period.

No diluted loss per share has been presented for the three months ended 30th June, 1999 as the Company did not have any dilutive potential ordinary shares.

## 6. Dividend

The Directors do not recommend the payment of an interim dividend for the three months ended 30th June, 2000 (1999: Nil).

## 7. Purchase, sale or redemption of shares

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

## COMPETING INTERESTS

During the period under review, none of the directors or the management shareholders (as defined in the GEM Listing Rules) of the Company had an interest in a business which competed with the Group or might compete with the business of the Group.

## DIRECTORS' INTERESTS IN SECURITIES

At 30th June, 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 share held as |                         | Number of shares entitled under the shares option scheme held as |
|---|----------------------------------|-------------------------|--|
|   | personal interests               | corporate interests     | personal interests   |
| Mr Leroy Kung Lin Yuen<br>("Mr Kung")     | —                                | 720,745,000<br>(Note i) | —  |
| Mr Matthew P. Johnston<br>("Mr Johnston") | 100,000                          | —                       | 11,670,000<br>(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. 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.

Save as disclosed above, at 30th June, 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.

## **OUTSTANDING SHARE OPTIONS**

On 15th March, 2000, the Company adopted two share option schemes — the Pre-IPO Share Option Plan and the Share Option Scheme, details of which are as follows:

### **1. Pre-IPO Share Option Plan**

As at 30th June, 2000, options to subscribe for an aggregate of 46,500,000 ordinary shares of HK\$0.10 each in the Company at HK\$1.48 each pursuant to the Pre-IPO Share Option Plan were outstanding. Options held by Mr Matthew P. Johnston, an executive director of the Company, entitles him to subscribe for 11,670,000 ordinary shares of HK\$0.10 each in the Company. Option pursuant to the Pre-IPO Share Option Plan were not exercisable during the period from 1st April, 2000 to 30th June, 2000.

### **2. Share Option Scheme**

During the period from 1st April, 2000 to 30th June, 2000, no option was granted by the Company under the Share Option Scheme. As at 30th June, 2000, no option pursuant to the Share Option Scheme was outstanding.

Save as disclosed above, during the three months ended 30th June, 2000, none of the directors and employees of the Company or its subsidiaries was granted options to subscribe for shares in the Company.

## **DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES**

Other than the share option schemes as described in the section headed "OUTSTANDING SHARE OPTIONS" above, at no time during the period was the Company, any of its holding companies, fellow subsidiaries or subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate and none of the directors, or their 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 30th June, 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 30th June, 2000 representing 10% or more of the issued share capital of the Company.

## **SPONSOR'S INTERESTS**

As updated and notified by the Company's sponsor, BNP Paribas Peregrine Capital Limited (the "Sponsor"), as at 30th June, 2000, an associate of the Sponsor held 2,976,000 shares in the Company.

Save as disclosed above, neither the Sponsor nor its directors or employees or associates (as referred to in Note 3 to rule 6.35 of the GEM Listing Rules) had any interests in the securities of the Company or any member of the Group or any rights to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group.

Pursuant to the agreement dated 30th March, 2000 entered into between the Company and the Sponsor, the Sponsor will receive usual sponsorship fees for acting as the Company's retained sponsor for the period from 31st March, 2000 to 31st March, 2002.

## **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.

## **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. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control procedures of the Group.

A meeting of the audit committee was held on 14th June, 2000 to discuss matters in relation to the financial year ended 31st March, 2000.

*This announcement will remain on the GEM website on the "Latest Company Announcement" page for 7 days from the day of its posting.*