

iMerchants

iMerchants Limited

HALF YEAR 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.

CHAIRMAN'S STATEMENT

Though the stock market performance of new economy companies has been volatile, the growing adoption of e-commerce is real. The increase in the total value of e-commerce transactions has been substantial and the number of companies engaging in e-business continues to rise.

In line with the rising adoption of e-commerce, iMerchants experienced strong revenue growth over the six months ended 30th September, 2000. During this period, the revenue of the Company increased 227% when compared to the same six-month period in 1999. Furthermore, for the six months ended 30th September, 2000, the Company achieved a net profit of HK\$1,520,000. This compares to a net loss of approximately HK\$309,000 for the six months ended 30th September, 1999.

iMerchants is capitalising on the opportunity presented by e-commerce by focusing on three business areas: (i) online banking services, (ii) online billing, invoicing and payment services, and (iii) online commerce services. In each of these areas, the Company builds and operates platforms that enable transactions to be carried out online.

In each business area, we provide our clients with clear benefits, including helping them to provide their customers with greater convenience, reduce their transaction costs, and reach a broader base of customers or suppliers.

By developing and delivering beneficial e-commerce solutions to our clients, we have successfully established a viable business. We plan to carry on building our business, with an aim of continuing to improve the Company's financial results.

FINANCIAL REVIEW

For the six months ended 30th September, 2000, iMerchants achieved a substantial revenue growth of 227% over the revenue in the corresponding six-month period in 1999.

The Company is pleased to report a profit of approximately HK\$1,520,000 for the six months ended 30th September, 2000, as compared to a loss of approximately HK\$309,000 for the corresponding period last year.

iMerchants' revenue growth was mainly due to an increase in the number of clients iMerchants served, together with an increase in the average revenue earned from each of the Company's major client relationships. In the six months ended 30th September, 2000, iMerchants earned an average revenue of approximately HK\$3,006,000 from each of its top five clients. This represents an increase of approximately 173% over the corresponding period in 1999.

To build a business that can sustain success, the Directors believe the Company must have a healthy balance between business areas that generate current revenue and which will provide revenue growth in the future. Consequently, iMerchants expended resources on developing the services of Asia Financial Network Limited ("AFN") and JETCO Online. These services do not currently produce revenue, but are expected to generate strong revenue in the future. However, the expenditure required to build these services accounts for a large portion of the total increase in the Company's costs for the six months ended 30th September, 2000 when compared to the corresponding period in 1999.

Personnel-related expenditure accounts for over half of the increase in total expenses for the six months ended 30th September, 2000 as compared to the corresponding period in 1999. In turn, a significant portion of this increase can be attributed to the operations of AFN and the development of JETCO Online. Increase in corporate costs such as legal fees, printing and sponsorship fees accounted for close to 12% of the difference in cost between the periods. The one-time expenditure associated with the termination of the iSteelAsia Acquisition contributed a substantial portion of corporate costs and much of the remainder resulted from meeting the obligations of being a public company.

There were also increases in rental, maintenance and office-related expenses as well as an increase in marketing expenditure. In line with the Company's prudent approach to expenditure, these costs were limited to approximately 9% and 6%, respectively, of the total expenses for the six months ended 30th September, 2000.

With approximately HK\$300 million in cash and bank balances, the Company is in a healthy financial position.

BUSINESS REVIEW AND FUTURE PLANS

As a pioneer in providing e-commerce services in Asia since 1996, iMerchants possesses a wealth of experience in working with prominent enterprises to help them perform e-commerce. The Company has capitalised on this experience and focused on three business lines: (i) online banking services, (ii) online billing, invoicing and payment services, and (iii) online commerce services.



Online Banking Services: iMerchants builds online banking platforms that can be shared by multiple banks. The first example of this is Net Alliance Limited, a partnership between iMerchants and four local banks.

The Company believes it is well-positioned to succeed in this area. In comparison to other vendors of online banking solutions, iMerchants is not selling a piece of software. Rather, the Company offers a solution that enables several banks to share the same online banking platform and thus reduce each bank's investment and operations costs.

The Company anticipates that growth in this service area will come from increasing the number of banks and other financial institution using Net Alliance's services, replicating the service in other countries in Asia, and expanding and deepening the functions offered. As the financial benefits of this service for users are immediate and direct, the Company is optimistic about its ability to find other customers for this service. Furthermore, iMerchants believes that once it has launched this service in the sophisticated Hong Kong banking market, the technology that the Company has developed, its expertise and its track record will greatly facilitate its efforts to develop this service in other international markets.

Online Billing, Invoicing & Payment: iMerchants' online billing, invoicing and payment services are operated by AFN, the Company's subsidiary. AFN's first service involves building and operating a platform to provide electronic bill presentment and payment ("EBPP") services through JETCO Online. This is a service to banks and billers that will enable banks to offer their customers bill payment services online and allow billers to present bills on the Internet.

The JETCO Online service is expected to launch in late 2000. Planned future developments include adding further payment methods and the launch of the EBPP service into other Asian markets.

As AFN is currently in the development stage, its services are not currently earning revenues for iMerchants. However, it is expected to contribute to the continued success of iMerchants' business in the future.

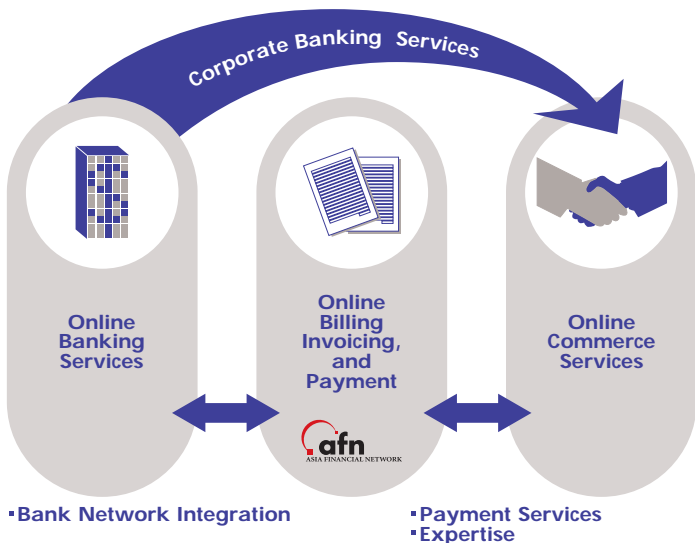
Online Commerce Services: iMerchants focuses on working with clients who are themselves experts in their respective industries to develop industry-focused business-to-business exchanges. Fees earned from such projects are expected to continue to be a major source of iMerchants' revenues this year.

Growth in this area is expected to come from leveraging relationships the Company has established with international technology companies like Intel to assist in business development and also from enhancing the Company's business-to-business exchange software application so that additional services can be offered to the clients.

General Overview and Conclusions: iMerchants' business areas have been established to provide revenues and profit in both the short and longer terms. The Company's commerce services currently generate strong and growing revenues today and industry analysts forecast rapid growth in the market for e-commerce solutions in the coming years. In addition, the Company's online banking services are just beginning to contribute to the Company's turnover. AFN is addressing the nascent market for online billing, invoicing and payment services, which is positioned to be an attractive business in the future.

The Company expects the financial result of this to be a change in the composition of iMerchants' revenue in the future. Revenue for commerce services comes from a mix of project income and fees for hosting and operating sites. Online banking services and AFN emphasise operating shared platforms for providing either banking or billing and payment services. As these services grow, it can be expected that the proportion of the Company's total revenue coming from projects will decline, while the stream of recurring revenue will increase.

These three business areas also fit together from strategic perspective. The connections to banks established through the Company's online banking services support AFN's payment services and support AFN's business development activities. In turn, AFN's future initiatives to develop payment methods appropriate for business-to-business e-commerce will find a ready market in the online exchanges built by iMerchants' commerce services.



Independently, each of iMerchants' business lines is a potentially attractive business, but as their capabilities are brought together in the future, the Company expects the synergy to be particularly powerful.

Leroy Kung Lin Yuen
Chairman

Hong Kong, 13th November, 2000

REVIEW OF BUSINESS OBJECTIVES

1. *Enhance service offering*

Objectives Stated in the Prospectus Dated 27th March, 2000 (“the Prospectus”) for the Six Months Ended 30th September, 2000

- Make additional online payment methods and options available to clients
- Explore opportunities to offer transaction management and escrow payment services
- Develop service bureau to support clients offering online banking and stock trading services
- Launch mobile phone access to selected e-commerce modules

Actual Business Progress

- The Company is in the process of completing development on JETCO Online, which will enable JETCO member banks to accept debit card payment instructions for bills via the Internet
- The Company has held discussions with numerous multinational banks and third parties regarding the potential to develop B2B transaction management and payment services
- The Company formed Net Alliance Limited (“Net Alliance”), a joint venture between iMerchants and four local banks. Net Alliance is an online banking service-bureau that will build and operate a shared platform for providing online banking services to local banks
- In co-operation with a major local mobile phone operator, the Company launched a WAP auction
- The Company is currently exploring opportunities to add mobile capabilities to AFN’s EBPP services

- Aim to deepen logistics and fulfilment partnerships
- Explore third party software solutions that can enhance service bureau offering
- The Company engaged in detailed discussions with a number of local and global logistics companies
- iMerchants linked a business-to-business e-marketplace to a major shipping company
- The Company's subsidiary, AFN has reached agreement with one leading, US-based technology company to provide additional functionality to AFN's EBPP platform and is currently in negotiation with another US-based technology provider that offers complimentary software
- The Company is employing Oracle database and IBM MQSeries messaging technology in support of the online banking service bureau
- The Company is implementing Microsoft's XML (Extensible Mark-up Language) parse technology to enable a business-to-business trading platform to integrate more closely with its users. XML provides a flexible way to create common information formats and share data
- The Company has held discussions with solution providers for content management, ERP (enterprise resource management) system integration, online marketplaces and e-procurement and is examining a range of product offerings

2. *Enhance knowledge creation and management processes*

Objectives Stated in the Prospectus for the Six Months Ended 30th September, 2000

Actual Business Progress

- | | |
|--|--|
| <ul style="list-style-type: none">• Start PRC research and development team
• Define requirements for knowledge management system and design system | <ul style="list-style-type: none">• In order to reduce risk and manage costs, iMerchants is exploring a number of outsourcing strategies rather than building a remote R&D team at this stage of the Company's development. The Company has explored alternative strategies by holding discussions with potential development partners in the Philippines, Vietnam and India
• The Company has divided the implementation of knowledge management into a number of phases. Staff have defined the requirements for a system to enhance the management information available and the implementation of this system is proceeding
• The Company is working with a leading professional services firm to define a best practice set of policies and procedures for the various stages of the project sales, engagement and delivery process |
|--|--|

- Hire country management for new offices
- The Company has decided to use a less resource intensive partnership model to expand into international markets. Rather than incur the cost and financial risk of establishing full offices in each market it works in, the Company is working with global technology companies such as Intel and IBM to develop new additional sales opportunities and is seeking to identify local companies with established networks of contacts in their home markets, who will provide local delivery capability and support business development activities
- Continue to recruit professional staff
- Staff grew from 66 at 31st March, 2000 to 108 as at 30th September, 2000

4. *Pursue geographical expansion in Asia*

Objectives Stated in the Prospectus for the Six Months Ended 30th September, 2000

Actual Business Progress

- Launch PRC research and development centre
- In order to reduce risk and manage costs, iMerchants is exploring a number of outsourcing strategies rather than building a remote R&D team at this stage of the Company's development. The Company has explored alternative strategies by holding discussions with potential development partners in the Philippines, Vietnam and India

- Launch consulting and service bureau operations in the PRC
- Launch consulting and service bureau operations in Singapore
- Launch business development office in San Francisco
- In order to more cost effectively service the PRC market, iMerchants is actively seeking local partners who can support the expansion of its business in the PRC
- The Company has engaged in business development activities in Singapore and, as a result of these activities, is working with Singapore Technologies Aerospace, a division of Singapore Technologies Engineering, to develop and launch iShopAero
- The Company is focusing its business development efforts in Asia, but is also in direct contact with technology companies in the US and will continue to consider opening a US representative office in the future

5. *Invest in business development and marketing*

Objectives Stated in the Prospectus for the Six Months Ended 30th September, 2000

Actual Business Progress

- Implement JETCO Online JV and deepen relationships with JETCO member banks
- The Company expects that JETCO Online's first service, EBPP, will be launched by the end of 2000

- Roll-out channel partner relationship management program in HK
- The Company has dedicated a manager to deepening relationships with JETCO's member banks and co-ordinating marketing activities with them. This manager is supported by other Company team members
- One of the Company's senior management has also been focused on establishing working relationships with other channel partners
- Begin to develop channel partner relationships in Singapore and PRC
- The Company is working with a number of international technology companies, such as Intel and IBM, to leverage their regional networks to assist with iMerchants' business development
- Open business development office in San Francisco
- The Company has not found that a business development office in San Francisco is necessary at this time as it is focusing its business development efforts in Asia. However, it is in direct contact with technology companies in the US and will continue to consider opening a US representative office in the future
- Grow regional business development team
- The Company has changed the focus of its engagement team to include business development

- Launch regional branding campaign
- Execute marketing and public relations strategy
- Undertake focused marketing activities to support offices launched in Singapore and San Francisco
- The Company has been successful at gaining a presence in the press and at targeted industry events. It has been quoted or profiled in leading regional publications, local journals and representatives have appeared on a number of global television news networks. iMerchants has also had representatives speak at a range of industry events
- The Company continues to work with a leading international public relations agency to help it build market awareness of the services it is offering
- The Company will be involved in a number of events in Singapore focused on promoting e-commerce solutions

6. *Strengthen corporate infrastructure*

Objectives Stated in the Prospectus for the Six Months Ended 30th September, 2000

Actual Business Progress

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|--|--|
| <ul style="list-style-type: none">• Broaden senior management team | <ul style="list-style-type: none">• Edward Un joined the Company as Vice President Advanced Technology. Edward is a Silicon Valley veteran and has been involved in developing, managing and delivering software products and online services. He has held senior technical positions with Sun Microsystems and was a co-founder of Avolent , Inc. (formerly Just-in-Time Solutions), one of the leading providers of EBPP solutions |
| <ul style="list-style-type: none">• Select infrastructure software | <ul style="list-style-type: none">• The Company is researching various solutions to enhance its management information systems and human resources management processes |

7. *Explore synergistic acquisition and investment opportunities*

Objectives Stated in the Prospectus for the Six Months Ended 30th September, 2000

Actual Business Progress

- | | |
|--|--|
| <ul style="list-style-type: none">• Explore opportunities to acquire or ally with companies providing synergy and to invest in e-commerce related ventures | <ul style="list-style-type: none">• The Company has formed joint ventures with Singapore Technologies Aerospace to launch iShopAero, an online exchange for the trading of aerospace parts and services and with four local banks to launch Net Alliance, an online banking service bureau |
|--|--|

iMerchants raised net proceeds of approximately HK\$325 million through the placing of shares upon the listing of the Company. During the period from 31st March, 2000 (the date of listing) to 30th September, 2000, the Company has incurred approximately HK\$40 million to achieve the business objectives as set out in the Prospectus. The remaining net proceeds have been placed with licensed banks in Hong Kong.

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 and the six months ended 30th September, 2000 together with the comparative unaudited figures for the corresponding periods in 1999 as follows:

	Notes	Three months ended 30th September 2000		Six months ended 30th September 2000	
		HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Turnover	2	13,553	4,507	21,578	6,593
Direct costs		(7,110)	(979)	(10,870)	(1,711)
Gross profit		6,443	3,528	10,708	4,882
Other revenue	3	5,354	—	10,940	91
Administrative expenses		(11,023)	(3,341)	(20,128)	(5,282)
Profit/(loss) for the period		774	187	1,520	(309)
Earnings/(loss) per share - basic	5	0.066 cent	0.022 cent	0.130 cent	(0.037) 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 the 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 the 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\$10,119,000 (1999: Nil).

4. **Taxation**

No provision for Hong Kong Profits Tax has been made in the accounts 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 and the six months ended 30th September, 2000 is based on the profit of the Group of approximately HK\$774,000 (1999: profit of approximately HK\$187,000) and approximately HK\$1,520,000 (1999: loss of approximately HK\$309,000), respectively, and on 1,165,476,000 (1999: 837,000,000) ordinary shares in issue throughout both periods.

The 837,000,000 shares represent ordinary 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 and the six months ended 30th September, 2000 as the exercise price of the Company's outstanding share options was higher than the average market price for the periods.

No diluted earnings/(loss) per share has been presented for the three months and the six months ended 30th September, 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 six months ended 30th September, 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 that competed with the Group or might compete with the business of the Group.

DIRECTORS' INTERESTS IN SECURITIES

At 30th September, 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 schemes 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	—	23,340,000 (Notes ii and iii)

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) 11,670,000 share options were granted under the Pre-IPO Share Option Plan, which was approved by the written resolution of the shareholders of the Company dated 15th March, 2000. These 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.

(iii) 11,670,000 share options were granted under the Share Option Scheme, which was approved by the written resolution of the shareholders of the Company dated 15th March, 2000. These share options entitle Mr Johnston to subscribe for 11,670,000 shares of HK\$0.10 each in the Company at HK\$0.53 each in various stages from 31st March, 2001 to 23rd August, 2010.

Save as disclosed above, at 30th September, 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

Pursuant to the Pre-IPO Share Option Plan and Share Option Scheme, the principle terms of which were set out in the Prospectus, there were 44,670,000 and 47,240,000 share options, respectively, granted to and held by the optionees (which include the options granted to a director of the Company, as disclosed above) as at 30th September, 2000. Details of which are as follows:

	No of share options outstanding at 30th September, 2000	Exercise price per Share	Exercise period
Pre-IPO Share Option Plan (Note 1)	44,670,000	HK\$1.48	31st March, 2001 to 14th March, 2010
Share Option Scheme (Note 2)	47,240,000	HK\$0.53	31st March, 2001 to 23rd August, 2010

Notes:

- 1 An aggregate of 46,500,000 options were granted to the optionees on 15th March, 2000 under the Pre-IPO Share Option Plan. Up to 30th September, 2000, 1,830,000 share options have lapsed. Options pursuant to the Pre-IPO Share Option Plan were not exercisable during the period from 1st April, 2000 to 30th September, 2000.
- 2 An aggregate of 47,240,000 options were granted to the optionees on 23rd August, 2000 under the Share Option Scheme and remained outstanding at 30th September, 2000. Options pursuant to the Share Option Scheme were not exercisable during the period from 1st April, 2000 to 30th September, 2000.

Save as disclosed above, during the six months ended 30th September, 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 arrangements 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 rights to subscribe for the securities of the Company, or had exercised any such rights.

SUBSTANTIAL SHAREHOLDERS

At 30th September, 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 September, 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 September, 2000, an associate of the Sponsor held 2,976,000 shares in the Company.

Save as disclosed above, neither the Sponsor nor its directors, 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.

OTHER DIRECTORS' INTERESTS

Mr Alex Ko Po Ming, an independent non-executive director, is the vice chairman and managing director (the regional head of corporate finance) of BNP Paribas Peregrine Capital Limited. BNP Paribas Peregrine Capital Limited entered into a sponsorship agreement with the Company on 30th March, 2000 pursuant to which BNP Paribas 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. Ronny Chow Fan Chim, an independent non-executive director, is a partner of Deacons, legal advisors to the Company. Deacons will receive usual professional fees in connection with the legal services it provides to the Company from time to time.

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 that 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.