

# iMerchants

iMerchants Limited

**THIRD QUARTERLY REPORT 2000-2001**

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

**THE 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 the 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 the GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on the GEM, there is a risk that securities traded on the 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 the GEM.**

**The principal means of information dissemination on the GEM is publication on the GEM internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid document 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.**

*This document, 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 document 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 document misleading; and (3) all opinions expressed in this document have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

## **iMerchants Limited - Continued Progress and Positive Results**

This year continues to be the most exciting one in iMerchants' history to date. The Company continues to leverage its skills and experience to build itself to be a solid technology company. Evidence of this is found in the level of revenue growth it has achieved during the nine months ended 31st December, 2000, when compared to the corresponding period of the previous year. In addition to the Company's rapid growth, iMerchants was able to generate its third consecutive profitable quarter. Furthermore, the Company is experiencing success in each of its lines of business and the management believes that they are taking the right steps to position iMerchants for a successful future. iMerchants continues to provide the advice, technology and services that established companies need to take advantage of the Internet in three focused business areas:

- Online Billing, Invoicing & Payment — iMerchants' subsidiary, Asia Financial Network Limited ("AFN"), offers businesses and financial institutions Electronic Bill Presentment & Payment technology and services;
- Online Banking — iMerchants works with banks to build and operate online banking service bureaus to be used by multiple banks. These enable multiple banks to provide their customers with various online financial services in a cost effective manner by using a shared system; and
- Online Commerce Services — iMerchants works with business- and consumer-focused enterprises to help them use Internet technologies to perform transactions more efficiently.

The Internet is developing continuously. In Asia, the increasingly sophisticated use of technology, and acceptance of the Internet by businesses and consumers are creating the conditions for it to provide a truly useful environment for conducting business transactions. iMerchants believes that this evolution will increase the benefits that its clients could derive from the solutions and services it offers. iMerchants also believes that this forms the foundation of a successful business and, for this reason, the Company is heading for a bright future.

## FINANCIAL RESULTS

iMerchants has experienced strong revenue growth this year. For the three months ended 31st December, 2000, iMerchants generated revenue of approximately HK\$14,017,000, bringing its total revenue for the nine months ended on that date to approximately HK\$35,594,000. For the three months ended 31st December, 2000, this represented a growth of approximately 412% as compared to that of the same period in 1999, while the total revenue for the nine months represents a 281% growth relative to the corresponding nine-month period in 1999.

In the quarter ended 31st December, 2000, the Company again generated net income totalling HK\$531,000, meaning that for the nine-months ended 31st December, 2000, iMerchants' cumulative net income was approximately HK\$2,051,000. This may be compared to losses of approximately HK\$3,843,000 and approximately HK\$4,152,000 for the three months and nine months ended 31st December, 1999 respectively.

iMerchants' net income reflects the consolidation of its share of the net loss of associated companies. The net loss of such associated companies amounted to approximately HK\$1,344,000 for the nine months ended 31st December, 2000, and consequently, iMerchants' net income before consolidating the net loss of associated companies was approximately HK\$3,395,000. These losses resulted from iShopAero being in its start up phase.

Turning to other parts of the income statement, direct costs have increased more quickly than revenues in the nine months ended 31st December, 2000 as compared to the corresponding period in 1999. To a large extent, this increase resulted from the Company changing the method used to calculate direct costs to better capture all the staff costs incurred in delivering iMerchants' projects and services. This change provides the management with better and more complete information on the Company's costs.

The growth in iMerchants' business led to increases in administrative expenses for the nine months ended 31st December, 2000 from those of the corresponding period in 1999. Personnel expenses accounted for approximately 37% of the total increase in administrative expenses, and was amplified by the payment of the Chinese New Year bonus to an increased number of staff. Corporate expenses, such as printing costs and professional advisors' fees accounted for approximately 22% of the total increase in administrative expenses. Depreciation expenses and office expenses accounted for approximately 14% and approximately 13% of the difference in administrative expenses respectively.

## BUSINESS REVIEW

Each of iMerchants' three business areas continues to mature. Details of some of the recent developments and events for each area are detailed below.



### Online Billing, Invoicing & Payment

AFN has been making good progress in implementing its Electronic Bill Presentment & Payment (EBPP) service.

The first service that AFN is launching is bill payment which is being launched through JETCO Online, an internet platform created by iMerchants' co-operative partnership with JETCO. This service will enable customers of JETCO member banks to pay their bills using the Internet. While AFN is preparing for the official launch of the bill payment service in the first quarter of 2001, the service has been undergoing a pilot study since December 2000. The study is a closed trial and includes test banks, billers and a restricted group of users which tests the entire service flow using real transactions with funds being transferred between banks and from banks to billers through the JETCO Online and JETCO payment exchange systems. Effectively, this live tests the entire service on a controlled scale. The pilot study has been progressing well and AFN is eagerly anticipating the full launch of the service.

The next major service that AFN will be rolling-out is electronic bill publishing. Electronic bill publishing offers companies the technology required for the delivery of interactive electronic bills or statements to their customers via the Internet. Core functionalities include:

- designing online bills;
- extracting data from companies' billing systems in a format that is compatible with web-based publishing; and
- publishing the billing information in an online bill template, ready for customer viewing and online interaction.

Electronic bill presentment has the potential to dramatically change the cost structures associated with the distribution of bills and invoices and to enhance the frequency and efficiency of interaction between companies and their customers.

In November 2000, AFN announced an exciting agreement to co-operate with Avolent Inc., one of the global leaders in the provision of solutions for electronic bill presentment and interactive customer care. Through this co-operation, AFN gains access to Avolent products and will be striving to customize and localize these products to suit the specific needs of targeted Asian markets. By accessing market-leading technology, AFN is positioned to lead the EBPP space in Asia.

AFN's plans include launching bill publishing service bureaus in specific Asian markets, to enable companies to access online billing capabilities without having to operate their own systems in-house. As an alternative, AFN is also offering companies the ability to own and operate their own bill publishing system.

AFN will be aggressively exploring opportunities to launch this service in Hong Kong and overseas. Business development activities for this service have begun and already a number of interesting opportunities have been identified.

## **Online Banking**

iMerchants' online banking service bureaus enable numerous banks to use a shared set of hardware and software to operate their online banking services. Each bank retains its own individually branded Internet presence and maintains control over its customers' data, while benefiting from the cost savings resulting from using a shared platform.

iMerchants' first online banking service bureau is Net Alliance, which is a partnership with four local banks in Hong Kong. The customisation of the online banking system was concluded at the end of 2000 and iMerchants is currently working with each of the user banks to conclude system testing.

While the testing of the Net Alliance system is being completed, iMerchants is developing detailed product plans and identifying partners for additional banking functions to be offered through service bureaus. Current plans are focused on bringing additional banking functions for banks' corporate customers online and adding Internet stock-trading capabilities to the set of services offered to user banks.

In addition to service development, iMerchants is actively working to develop additional banking service bureaus in other parts of Asia. The Company is co-operating with an international technology company to contact potential customers and identify appropriate local implementation partners.

## **Online Commerce**

Since it was founded, iMerchants has served its clients by providing applications that enable the efficient trading of goods and services online.

To support the development of its online commerce division, iMerchants entered into an agreement with Intel in November 2000. This alliance will focus on delivering platforms to enable business to be conducted online - in particular, it will involve both building industry-focused B2B e-markets and, for both new and existing e-markets, establishing linkages to online transaction supporting services such as banking and payment, logistics, insurance and inspection services. iMerchants and Intel have set a target of engaging four projects to roll out B2B e-commerce platforms in 2001.

The two companies will join forces in both business development activities and technology development and delivery. This will allow iMerchants to leverage on Intel's regional network to support its business development. In addition, iMerchants will apply Intel's advanced technologies and on-going research and development to enhance the technology solutions that iMerchants delivers to its clients.

One of the major projects iMerchants' online commerce division completed in December 2000 was iShopAero. This system for sourcing and marketing aerospace parts and services was developed in co-operation with Singapore Technologies Aerospace, one of the leading players in the global aerospace industry. The business has been successfully launched and is being used by a selected group of industry players.

Each of iMerchants' business areas continues to develop and we expect to be able to announce further successes in the future.

**Leroy Kung Lin Yuen**  
*Chairman*

Hong Kong, 13th February, 2001



## 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 nine months ended 31st December, 2000 together with the comparative unaudited figures for the corresponding periods in 1999 as follows:

		Three months ended		Nine months ended	
		31st December		31st December	
	Notes	2000	1999	2000	1999
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	2	14,017	2,740	35,594	9,333
Direct costs		<u>(7,536)</u>	<u>(760)</u>	<u>(18,406)</u>	<u>(2,471)</u>
Gross profit		6,481	1,980	17,188	6,862
Other revenue	3	4,845	—	15,786	91
Administrative expenses		<u>(9,451)</u>	<u>(5,823)</u>	<u>(29,579)</u>	<u>(11,105)</u>
Profit/(loss)					
from operations		1,875	(3,843)	3,395	(4,152)
Share of loss of associates		<u>(1,344)</u>	<u>—</u>	<u>(1,344)</u>	<u>—</u>
Profit/(loss) for the period		<u>531</u>	<u>(3,843)</u>	<u>2,051</u>	<u>(4,152)</u>
Earnings/(loss) per share - basic	5	0.046cent	(0.459)cent	0.176cent	(0.496)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\$14,558,000 (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 nine months ended 31st December, 2000 is based on the profit of the Group of approximately HK\$531,000 (1999: loss of approximately HK\$3,843,000) and approximately HK\$2,051,000 (1999: loss of approximately HK\$4,152,000), 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 nine months ended 31st December, 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 and the nine months ended 31st December, 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 nine months ended 31st December, 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 31st December, 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 <i>(Note i)</i>	—
Mr Matthew P Johnston ("Mr Johnston")	100,000	—	23,340,000 <i>(Notes ii and iii)</i>

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 31st December, 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 42,050,000 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 31st December, 2000. Details of which are as follows:

	<b>No of share options outstanding at 31st December, 2000</b>	<b>Exercise price per Share</b>	<b>Exercise period</b>
Pre-IPO Share Option Plan (Note 1)	42,050,000	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 31st December, 2000, 4,450,000 share options have lapsed. Options pursuant to the Pre-IPO Share Option Plan were not exercisable during the period from 1st April, 2000 to 31st December, 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 31st December, 2000. Options pursuant to the Share Option Scheme were not exercisable during the period from 1st April, 2000 to 31st December, 2000.

Save as disclosed above, during the nine months ended 31st December, 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 31st December, 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 December, 2000 representing 10% or more of the issued share capital of the Company.

## **SPONSOR'S INTERESTS**

None of the Company's sponsor, BNP Paribas Peregrine Capital Limited (the "Sponsor"), 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 as at 31st December, 2000.

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.