

iMerchants Limited

Annual 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 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.

This annual report, 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 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

Legal advisers

Deacons

Auditors and reporting accountants

Deloitte Touche Tohmatsu
Certified Public Accountants

Sponsor

BNP Paribas 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
Citibank N.A.
Standard Chartered Bank
The Hongkong and Shanghai Banking
Corporation Limited

CHAIRMAN'S STATEMENT



Mr. Leroy Kung Lin Yuen
Chairman and Chief Executive Officer

iMerchants Limited is one of the leading providers of Internet technology solutions to businesses in Asia. By developing, selling and implementing application software and operating service bureaus that make use of Internet technologies, the Company helps enterprises conduct business and operate more efficiently.

The past financial year has been very productive and exciting for iMerchants. The Company increased its revenues by 177% when compared to last year. Throughout the financial year, the Company has worked to launch services with the goal of generating recurring revenues in the future and, in recent quarters, has aggressively been developing new application software products and transforming the knowledge gained from projects into products.

This annual report will highlight some of iMerchants' accomplishments during the last financial year and will describe our current portfolio of products and services.

Delivering Exciting Solutions to Clients

One of the themes throughout iMerchants' history has been "execution". More specifically, the Company has sought to conceive of and deliver complex projects and services that leverage Internet technologies. The year 2000/01 has been no different, with highlights including:

- Forming Net Alliance Co. Limited with four local banks and completing the customisation of the multi-bank online banking service bureau platform for NET Alliance. This platform enables the banks to make use of a shared infrastructure to operate their online banking services, and to share the costs of implementing and operating this service, while allowing each bank to maintain its own brand and keep control over its customer data;
- Working with JETCO to launch JETCO Online, a strategic alliance among the Company, iMerchants Group Limited and JETCO, the consortium of more than 50 banks in Hong Kong. The first service offered by JETCO Online enables consumers to manage their bills and initiate direct debit payments for them online; and
- Helping Singapore Technologies Engineering's division, Singapore Technologies Aerospace, to launch iShopAero.com, an online exchange allowing companies in the aerospace industry to trade parts and services. This online marketplace is extremely feature-rich and was extensively tailored to meet the trading practices employed in the aerospace industry.

Building Products and Services to Prepare for the Future

Now that the craze for "dotcoms" has passed, we see the Internet and the technologies that make use of it entering another more important stage. In the coming years, the Internet can be expected to become more of an integral part of the way that businesses is conducted and, consequently there will be an increasingly strong demand for the technologies that enable companies to take advantage of the Internet as a business tool. Already, the Internet serves as a viable distribution channel for myriad goods and services and as a means of developing more efficient customer and supplier relationships. Furthermore, Internet technologies support more than online buying and selling, as they can also support the automation of internal business processes.

CHAIRMAN'S STATEMENT

The technology companies that succeed in this environment will be those which can efficiently deliver business solutions built on a solid base of experience. I believe that iMerchants' history of delivering leading Internet solutions positions us well in this changing environment.

This does not mean that we can stand still, though. We have been working aggressively to transform our intellectual property into a suite of products, to shift the focus of our business away from custom development projects, and to deepen iMerchants' position as an Internet application software and service bureau company, focused in three complimentary business lines: Online Banking, Online Billing, Invoicing & Payment and Online Commerce.

This evolution from a focus on performing custom development work to being a provider of application software products and services is an important step for iMerchants. This has involved capturing and consolidating the wealth of intellectual property that iMerchants has created during its history, developing co-operative partnerships with application software companies and committing team-members to performing research and development projects. Consequently, it has demanded that the Company devote a lot of management attention and resources to this effort and will continue to require focused attention throughout the early part of the year 2001/02.



Over the past financial year, iMerchants' has focused its development efforts along the three lines of business mentioned above and each business line has a clearly defined set of application software products. Our current products are:

Online Banking Services

- Online corporate banking solution
- Online retail banking solution
- Multi-bank service bureau platform

Online Billing, Invoicing & Payment, offered through Asia Financial Network Limited ("AFN"), iMerchants' wholly-owned subsidiary

- Online bill management solution
- Online bill publishing & interactive customer care solution

Online Commerce Services

- Online sales solution
- Online marketplace solution
- Collaborative document exchange solution

The software of the Online Banking Services team and AFN has also been used by bureaus that operate online services - the NET Alliance online banking service bureau and JETCO Online. While iMerchants earns revenue by selling licences and charging implementation fees for its software products, these services are expected to generate recurring revenue, as clients for the services are charged either on a usage basis or a recurring fee.

Even with this greater focus on products, iMerchants will not abandon customisation projects altogether. Such projects provide a very good way to begin relationships with new clients and to gain exposure to new functions and industries. Furthermore, a sound base of customisation skills is necessary to tailor products to suit the needs of an individual client.

This increased focus on products and specific services is expected to bring the Company significant benefits. In particular, products provide a means of capturing the intellectual property the Company creates so that it can be more effectively leveraged in the future and it allows the Company's intellectual property to be more clearly identified and valued. The result of this can reasonably be expected to be a more scaleable business.

CHAIRMAN'S STATEMENT

iMerchants is an aggressive, adaptable company - characteristics that we expect will serve the business well into the future. The Company will continue to evolve and to enhance our position as providers of products and services by improvement and by selectively adding new products and services.

So, what is the foundation that we are building as a company? We are a leading player in the Internet application software space that operates a selected set of online services bureaus. We see that our increased focus on products will yield us future benefits by enabling the Company to better leverage its knowledge and capabilities, allowing it to deliver solutions to clients in a more cost effective way and to help deepen our team's technical and industry skills.

Leroy Kung Lin Yuen

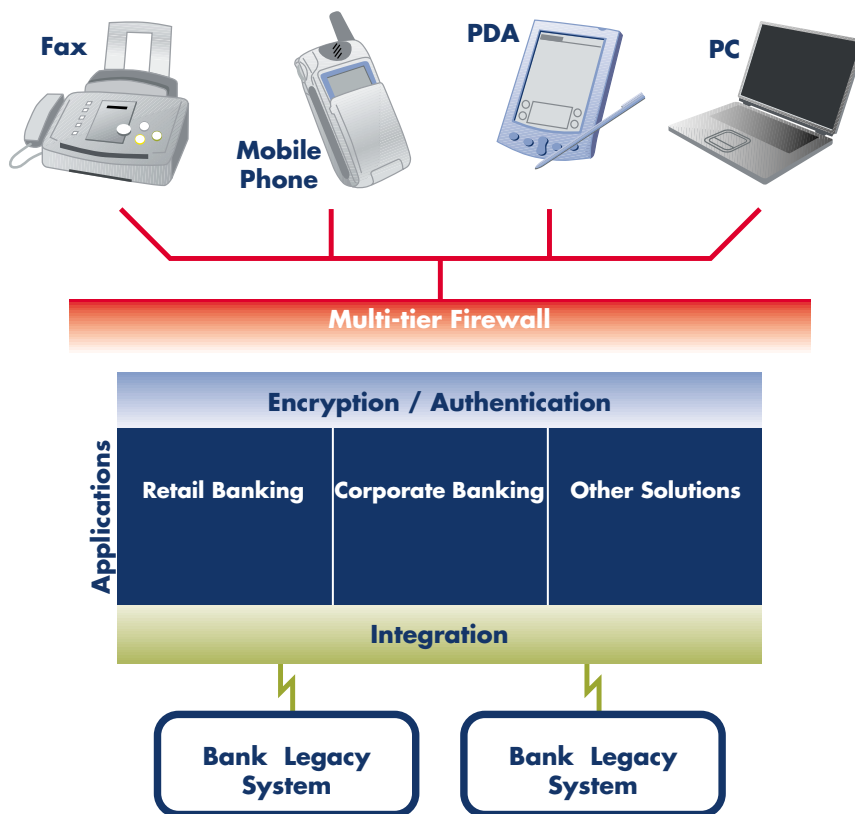
Chairman

Hong Kong, 21st June, 2001

iMERCHANTS' BUSINESS LINES AND PORTFOLIO OF PRODUCTS AND SERVICES

Online Banking Services

iMerchants' Online Banking Services team aims to use Internet technologies to help banks enhance their competitive positions by improving their customer service and their process efficiency. The applications that the team has developed that run on the iMerchants Online Banking Platform provide electronic distribution channels for banks' products and services - through the Internet and other channels such as personal digital assistants (PDAs) - and also support the direct electronic processing of transactions.



Multi-Bank Service Bureau Platform: iMerchants' Multi-Bank Service Bureau Platform provides an open, flexible and secure foundation for a number of online banking applications. The platform is scalable, and enables integration into a wide range of bank legacy systems.

iMerchants designed the platform with the specific requirements of banks firmly in mind. It provides the high-availability computing environment required by mission critical applications in the banking industry. Multi-tier, best-practice encryption and authentication technologies are employed to protect both the bank and its clients. Also, in order to allow a bank to use the platform regardless of its existing legacy systems, iMerchants uses a number of integration tools and common messaging standards including XML and SWIFT.

iMerchants also offers a number of applications that make use of this platform:

Online Corporate Banking: iMerchants' online corporate banking application allows banks to provide corporate customers with secure, cost-effective access to account information, cash management tools and trade finance and payment products. This web-based corporate banking system enables corporate clients to manage their cash and trade accounts and even payroll online from any location.

This product provides clear value to a bank's corporate customers. It allows them to enhance their control over financial transactions by supporting a user-controlled maker-checker and approval hierarchy. Improved access to information and easier access to financial instruments improves the management of cash, whilst the electronic submission of transactions and template-supported transaction application forms improve efficiency.

For a bank, this software improves customer service and helps to reduce costs. A bank saves costs by offering an electronic alternative to branch visits and by receiving transactions electronically, so they can be processed in a more automated way. As iMerchants' online corporate banking application is Internet-based, it is more cost effective to deploy and maintain for an individual customer than a software installed on the customer's premises.

Online Retail Banking: With iMerchants' online retail banking application, banks can offer consumers the ability to access account information and perform transactions through the Internet. This software offers a wide range of functions involving account information update and maintenance, transaction initiation, online application form completion and submission, and credit card account information.

Online Billing, Invoicing and Payment

AFN offers a suite of software products and services related to online billing, invoicing and payment that covers the entire billing cycle - from providing software to enable bills and statements to be put online to managing payment of bills via the Internet.

AFN's online bill management solution is offered to companies issuing bills, as well as to banks and consumers as a service that is operated by AFN. AFN's online bill publishing & interactive customer care solution is currently licensed to clients as a software product, and AFN is exploring opportunities to work with partners to launch this on a service bureau basis.

Online Bill Management Solution : iMerchants estimates that there are more than 300 million bills issued in Hong Kong every year, many of which are paid by cheque or cash. Due to the effort required to write cheques, deliver payments either in person or through the post and then manage the clearing and reconciliation of payments, there is a tremendous amount of inefficiency in the current billing process. AFN is offering the billcentrix™ service to improve the bill payment process by bringing it online and integrating it with billing information and bill management tools.

The billcentrix™ service uses AFN's technology to offer services to companies that issue bills, as well as to banks and end-consumers. It enables consumers to pay their bills online, store bill payment information, and make use of other bill management functions such as scheduled payment reminders. For a company that has its own online bill presentment site, billcentrix™ allows it to provide its customers with a direct link to a bill payment service. For banks, billcentrix™ can power the bill payment section of a bank's Internet banking site and be presented under the bank's own branding. Billers pay a fee for each bill that is paid online and banks which choose to use billcentrix™ to operate their online bill payment service pay an annual service fee.

billcentrix™ is being offered as one of the services of JETCO Online. Through JETCO Online, it provides bill management functions and an Internet interface linked to JETCO's payment switch to enable the payment of bills by customers of JETCO member banks. This JETCO Online service was successfully launched in late February 2001.

AFN is currently working to add financial information consolidation capabilities to its bill management solution. This will allow consumers to view billing and other financial information from numerous sources on a single web page.

Online Bill Publishing & Interactive Customer Care Solution: AFN believes that, when billing is used properly, it is an extremely effective customer relationship management tool. Since a bill issued online can attract customers to visit a company's web site, the billing site is an effective place to offer customer self-service functions and, to use personalisation capabilities to market and cross-sell other products or services. The online bill becomes a significant customer interaction point. In addition, electronic bill publishing can change the cost structures associated with the distribution of bills and statements.

The online bill publishing & interactive customer care solution being offered by AFN manages the translation of billing data into an Internet-ready format, presents the information online and provides a platform on which customer service applications can be developed.

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 publishing and interactive customer care. Through this co-operation, AFN gains access to Avolent products and will be working to customize and localize these products to suit the specific needs of targeted Asian markets.

Online Commerce Services

iMerchants' Online Commerce Services team focuses on providing software that allows companies to trade with each other more efficiently and enhance the efficiency of internal business processes.

**iMERCHANTS' BUSINESS
LINES AND PORTFOLIO
OF PRODUCTS
AND SERVICES**

One of the most exciting developments in the past year for the Online Commerce Services team has been the growth of its relationship with Intel. iMerchants and Intel entered into an agreement in November 2000 that enables iMerchants to more effectively deliver solutions based on Intel® Architecture. The two companies agreed to join forces in both business development activities and technology development and delivery. This has allowed iMerchants to leverage on Intel's regional network to support its business development and marketing. In addition, the parties will apply Intel's advanced technologies and on-going research and development to enhance the technology solutions that iMerchants delivers to its clients.

In April 2001, Intel and iMerchants announced the opening of a joint e-Business Solutions Lab. The expressed aim of the laboratory is to develop Hong Kong's e-Business environment and strengthen the city's standing as a global business and technology hub. Intel provides iMerchants with the hardware, software and technical information for the laboratory.



Enterprise's customers

Marketing	Sales	Fulfillment
<ul style="list-style-type: none"> • Promotions • Rules-based cross and up-sell • Rules-based pricing • Volume rebates • Loyalty programs • Secure member's area • Affiliate and channel programs • Commission processing 	<ul style="list-style-type: none"> • Multi-attribute, multi-tier and multi-media catalogue • Auction / Reverse auction • RFI / RFQ • PO generation • Order confirmation and validation • Online credit card payment • Refund / exchange 	<ul style="list-style-type: none"> • Shipping selection • Order status • In-site shipment tracking
Administration		
<ul style="list-style-type: none"> • Batch and real-time data upload • Activity audit and reporting 	<ul style="list-style-type: none"> • Marketing program administration • Affiliate and channel management 	

Enterprise

Online Sales Solution: iMerchants' online sales solution provides companies with an online distribution channel for both business-to-business and business-to-consumer trading. The solution enables enterprises to provide their customers with easy online access for comprehensive catalogue viewing, product selection, order processing, credit card payment and self-care capabilities. It is designed to support both product and service sales, and accommodates a wide variety of sales requirements to meet each enterprise's unique needs for catalogue sales, spot sales and contract sales. This solution allows enterprises to integrate offline and online sales information into a single customer relationship interface so that regardless of whether a sale is initiated online or offline, an enterprise's customers can track it using the Internet.

iMerchants has implemented its Online Sales Solution to support numerous enterprises. The solution is being used by B.S.C. Group Limited in a business-to-business context to help the company service and manage its distributors more effectively. Other enterprises, such as she.com (hong kong) limited and iCare.com Limited (a subsidiary of Henderson Cyber Limited) use the solution to power their online retail activities.

The solution's support of integration with internal and external systems such as inventory, point-of-sales, accounting, payment and logistics has helped to remove offline operational bottlenecks and helps an enterprise to enhance the efficiency with which it services its customers.



Online Marketplace Solution: iMerchants believes that a shift is happening in the market for online trading platforms. Whereas at the beginning of this financial year there was a strong demand for public marketplaces - marketplaces that are open to all buyers and sellers within an industry, there is currently an increasing demand for private marketplaces - marketplaces that provide a trading environment for a selected group of known buyers and sellers. This is part of a more general trend in how the Internet is being used. While many public marketplaces aim to create value by offering a liquid market that allows buyers to lower the prices of items they procure, private marketplaces are more focused on improving the efficiency of the trading process between buyers and sellers.

iMerchants' online marketplace solution is designed to power private markets, vertical industry markets or horizontal markets. Trading functions support a range of varied and complex trading processes such as auction, online negotiation process, lease, long-term contract execution and buyer specific pricing. A full set of member, trade and marketplace administration and support services ensure a total solution. Industry standards such as XML are used to ease integration with trading partners' internal systems, such as accounting and inventory. To enable even greater member accessibility, the system also accommodate batch uploads of data in comma-separated value format. Many of these features are used in the solution iMerchants delivered to iShopAero.com.

Collaborative Document Exchange Solution: Since the Company was founded, iMerchants has been delivering solutions based on Internet technologies to help clients enhance their internal process efficiency. It is becoming more commonly recognised that Internet technologies can also support process automation and easier transmission of information among geographic locations or different companies.

iMerchants' collaborative document exchange solution is designed to help organisations save costs and to better manage the transmission of sensitive information among different entities. This product provides a platform using which process and industry specific applications can be built. Based on this product, iMerchants and JETCO will jointly develop a PKI-enabled file transfer system for use within the JETCO consortium.

The application's workflow functionality supports business process digitisation - meaning that business processes can move from being paper-based to being electronic. This benefits organisations by allowing information to be processed more efficiently. Improved efficiency reduces costs and the ability to track the status of items as they are processed enhances management control.

The application also supports the extension of business processes outside of the organisation by enabling the secure transmission of documents. Users can be authenticated using personal identification number and password, using digital certificates or with smart-cards, so that the identity of the sender of a document and its recipient can be confirmed. For situations where numerous parties are working with and sharing a common set of information, the application allows for secure, centralized document storage, which can handle documents of all types including scanned images, and has features including document audit trails and version control. This supports knowledge capture and improves the efficiency with which teams from multiple organisations can work together.



COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

1. *Enhance service offering*

Objectives Stated in the Prospectus Dated 27th March, 2000 ("the Prospectus") for the Six Months Ended 31st March, 2001

Actual Business Progress

- Make additional online payment methods and options available to clients
 - Begin to develop initial set of industry-focused solutions
 - Explore opportunities to offer e-commerce services through additional delivery channels
 - Explore third party software solutions that can enhance service bureau offering
- The Company has successfully launched JETCO Online, which enables JETCO member banks to accept debit card payment instructions for bills via the Internet.
 - The Company has successfully delivered its online banking service bureau platform to Net Alliance Co. Limited, a service bureau for banks in Hong Kong.
 - The Company has developed an Internet corporate banking application.
 - The Company has developed prototypes of services making use of mobile short messaging and fax-servers and is exploring the possibility of developing access to its applications through other devices.
 - The Company's subsidiary, AFN reached an agreement with Avolent Limited, a leading US-based provider of online bill publishing and interactive customer care technology, to customise the company's technology for Asian markets and to operate the technology on a service bureau basis.
 - The Company has incorporated IBM's WebSphere Application Server and MQSeries technology into its online banking platform.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

2. *Enhance knowledge creation and management processes*

Objectives Stated in the Prospectus for the Six Months Ended 31st March, 2001

Actual Business Progress

- | | |
|--|--|
| <ul style="list-style-type: none">• Grow PRC research and development team
• Roll-out knowledge management 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 time. The Company is working with Hong Kong and Indian based development companies to assist with its R&D efforts.
• The Company has implemented processes to improve the quality of management information.
• The Company has implemented an Intranet system to improve information sharing amongst staff.
• The Company is working to document an enhanced software development and implementation methodology. |
|--|--|

3. *Expand capacity to deliver services*

Objectives Stated in the Prospectus for the Six Months Ended 31st March, 2001

Actual Business Progress

- | | |
|---|---|
| <ul style="list-style-type: none"> • Hire country management for new offices | <ul style="list-style-type: none"> • 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 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. |
| <ul style="list-style-type: none"> • Continue to recruit professional staff | <ul style="list-style-type: none"> • The Company is engaging in very focused hiring and, consequently, staff numbers grew from 108 at 30th September, 2000 to 111 as at 31st March, 2001. |

4. *Pursue geographical expansion in Asia*

Objectives Stated in the Prospectus for the Six Months Ended 31st March 2001

Actual Business Progress

- | | |
|---|--|
| <ul style="list-style-type: none"> • Launch consulting and service bureau operations in Taiwan | <ul style="list-style-type: none"> • The Company has decided to use a less resource intensive partnership model to expand into international markets including Taiwan. 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 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. |
| <ul style="list-style-type: none"> • Launch consulting and service bureau operations in Japan | <ul style="list-style-type: none"> • After further appraisal of the Japanese market, the Company has elected to focus its business development activities in Greater China, including Hong Kong, Taiwan and the PRC, and in Singapore. |

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

5. *Invest in business development and marketing*

Objectives Stated in the Prospectus for the Six Months Ended 31st March, 2001

Actual Business Progress

- | | |
|---|--|
| <ul style="list-style-type: none"> • Execute channel partner relationships in Singapore and the PRC • Begin to develop channel partner relationships in Taiwan and Japan • Roll-out channel partner relationship management program to Singapore and the PRC • Grow regional business development team • Execute marketing and PR strategy • Undertake focused marketing activities to support office launches in the PRC, Taiwan and Japan | <ul style="list-style-type: none"> • The Company is working with a number of global technology companies to build partnerships to market its products in Singapore, Taiwan and the PRC. In addition, the Company continues to perform direct business development activities in Singapore. • The Company is working with a number of international technology companies to leverage their regional networks to assist with iMerchants' business development. • The Company is seeking to recruit additional senior business development executives. • 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 has not launched offices in the PRC, Taiwan and Japan. |
|---|--|

6. *Strengthen corporate infrastructure*

Objectives Stated in the Prospectus for the Six Months Ended 31st March, 2001

Actual Business Progress

- | | |
|---|--|
| <ul style="list-style-type: none"> • Implement infrastructure software | <ul style="list-style-type: none"> • The Company is currently implementing a human resources management system. • The Company has purchased additional modules to enhance its accounting system. |
|---|--|

**COMPARISON OF
BUSINESS OBJECTIVES
WITH ACTUAL BUSINESS
PROGRESS**

7. Explore synergistic acquisition and investment opportunities

Objectives Stated in the Prospectus for the Six Months Ended 31st March, 2001 **Actual Business Progress**

- Explore opportunities to acquire or ally with companies providing synergy and to invest in e-commerce related ventures
- The Company continues to be open to such opportunities.

Use of proceeds

The net proceeds raised from the public listing on 31st March, 2000 were approximately HK\$325 million. The proceeds had been applied to achieve the business objectives as set out in the Prospectus and detailed below:

April 2000 to March 2001	Actual HK\$ million
Enhance service offerings	6.20
Enhance knowledge creation and management processes	0.97
Expand capacity to deliver services	15.36
Pursue geographical expansion in Asia	1.35
Invest in business development and marketing	3.33
Strengthen corporate infrastructure	9.81
Explore synergistic acquisition and investment opportunities	24.08
	<hr/>
Total	61.10
	<hr/> <hr/>

The remaining net proceeds have been placed with licensed banks in Hong Kong.



MANAGEMENT DISCUSSION AND ANALYSIS

During the financial year, the Company earned total revenues of approximately HK\$41,960,000, which represents an increase of 177% when compared to the year before. The Company recorded a loss from operations of approximately HK\$1,876,000, as compared to a loss from operations of approximately HK\$8,952,000 last year. Report revenues and loss from operations have excluded approximately HK\$3,537,000 unrealised revenue and gain adjusted on consolidation for services that had been rendered to the Group's associated company and jointly controlled entity and were recorded in respective company's balance sheet. The unrealised gain will be realised to our Group's income statement in the coming years in parallel with the amortization of the corresponding intangible assets in these investee companies. If the abovementioned item were not adjusted, the Company would have generated a profit from operations of approximately HK\$1,661,000. The operating loss represents approximately 4% of the revenues earned this financial year as compared to a loss that totaled approximately 59% of revenues in the prior year. After including taxes and the Company's share of the results of associated companies, the Company's consolidated net loss for the year totaled HK\$7,972,000, or 0.68 cent per share, as compared to approximately HK\$9,277,000 last year.

In this financial year, iMerchants consolidated a substantial loss from one of its associated companies. To a large extent, the Company's consolidated loss is resulted from that associated company amortizing all the capital investment on its technology platform to its income statement for this year.

For the year 2000/01, approximately 75% of the revenue came from the Online Commerce team, while the remaining 25% of revenue was generated by the Online Banking team. AFN is still a nascent business line that launched its service in late February 2001 and did not make a significant contribution to revenues. The Company's management forecasts that in the year 2001/02, AFN will begin to generate revenues in the coming years and that the Online Commerce and Online Banking will each contribute a similar share of iMerchants' revenues.

Of the Company's administrative expenses, salaries and benefits continued to comprise the largest category at approximately 44% of the total. This figure grew from approximately 39% for the year before, due to the Company's increase in the size of its team from 65 people at 31st March 2000 to 111 at 31st March 2001. This increased headcount was driven by the Company's desire to increase its capacity to deliver solutions to clients and to increase its product and service development capabilities. Consequently, technology professionals accounted for more than 89% of the total increase in headcount. More staff led to higher rental and related office administration expenses and the increase in these costs amounted to 12% of the total increase in administrative expenses. Corporate expenses, including legal fees, printing costs, and other professional fees increased as a result of corporate expansion and the Company's public listing and accounted for 32% of the difference in administrative expenses between the years. In contrast, increases in marketing expenditure accounted for only 1% of the total change in administrative expenses.

The Company continues to be in a very healthy financial position and ended the year with a net cash balance at a comfortable level of over HK\$287 million without any bank borrowings.

The management believes that iMerchants has the financial resources necessary to continue to build its business and to maintain its role as one of the leading Internet technology software and solution companies in Asia.



DIRECTORS AND SENIOR MANAGEMENT PROFILE

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 34, 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 Master's 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 36, 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 16 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, currently known as Pacific Century CyberWorks 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 28, 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 61, 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 of over 18 years. Further, she formerly held the following posts: managing director and deputy chief executive of Hang Seng Bank Limited; director of Cable and Wireless HKT Limited (currently known as Pacific Century CyberWorks Limited); co-chairman of Sotheby's Asia; and 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 42, is the Chairman of BNP Paribas Peregrine Capital Limited. Mr. Ko graduated from the Chinese University of Hong Kong in 1982 with a Bachelor degree in Business Administration. Mr. Ko has over 18 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 32, is a practising solicitor in Hong Kong and a partner of Deacons. 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 37, 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 35, 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 34, 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.

Kevin Cheng Wai Keung — Vice President, Information Technology — Commerce: Mr. Cheng, aged 37, manages the development and implementation of the Group's online commerce solutions. Mr. Cheng possesses deep knowledge in advance web application development skills and expertise in commerce application systems. He also built strong skills in project management, system development, implementation and integration. Prior to joining the Group in June 2000, Mr. Cheng had extensive experience working at Internet content provider, Internet service provider and software consulting firms. Mr. Cheng graduated from Laurentian University, Canada, where he earned a Bachelor of Arts Degree majoring in Computer Science and Economics.

Horace Ma Chi Shing — Senior Manager, Human Resources: Mr. Ma, aged 32, 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 33, 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.

The directors present their annual report and the audited financial statements for the year ended 31st March, 2001.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its subsidiaries, associates and jointly controlled entity are the provision of internet-based services.

SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITY

Details of the Company's subsidiaries, associates and the Group's jointly controlled entity as at 31st March, 2001 are set out in notes 13, 14 and 15 to the financial statements, respectively.

RESULTS

The results of the Group for the year ended 31st March, 2001 are set out in the consolidated income statement on page 32 of the annual report.

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

RESERVES

Details of movements in the reserves of the Group and of the Company during the year are set out in note 23 to the financial statements.

FINANCIAL SUMMARY

A summary of the results of the Group for the past four financial years is set out on page 64 of the annual report.

PLANT AND EQUIPMENT

During the year, the Group acquired plant and equipment at a cost of approximately HK\$8,636,000. Details of these and other movements in the plant and equipment of the Group during the year are set out in note 12 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of the share capital of the Company are set out in note 21 to the financial statements.

Details of the share option schemes of the Company are set out in note 22 to the financial statements.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

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

Executive directors:

Mr. Leroy Kung Lin Yuen
 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

In accordance with Article 120 of the Company's Articles of Association, Messrs. Alex Ko Po Ming and Ronny Chow Fan Chim 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 written notice.

The term of office of each non-executive director is the period up to his/her 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, 2001, the interests of the directors of the Company and their associates in the securities of the Company as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

Name of director	Number of ordinary shares of the Company held as		Number of shares entitled under the share option scheme held as personal interests
	personal interests	corporate interests	
Mr. Leroy Kung Lin Yuen ("Mr. Kung")	—	720,745,000 (Note i)	—
Mr. Matthew P. Johnston ("Mr. Johnston")	100,000	—	23,340,000 (Note ii)

DIRECTORS' INTERESTS IN SECURITIES - continued

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) Among the balance, 11,670,000 share options were granted on 15th March, 2000 under a 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.

The remaining 11,670,000 share options were granted on 23rd August, 2000 under a 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 during the various periods from 31st March, 2001 to 23rd August, 2010.

Save as disclosed above, at 31st March, 2001, 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 22 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, 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 during the year.

CONNECTED TRANSACTIONS

During the year, 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 ("Listing Rules") on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"):

1. The Group received service fee income amounting to approximately HK\$442,000 from iMerchants Group for the provision of certain services (including management, financial and accountancy services) during the year (the "Service Fee Income").

Details of the Service Fee Income agreement was disclosed in the paragraph headed "Connected Transactions" in the section headed "Relationship with iMerchants Group" in the prospectus issued by the Company dated 27th March, 2000 (the "Prospectus").

CONNECTED TRANSACTIONS - continued

The independent non-executive directors are required to review annually the transactions of the Service Fee Income after the listing of the Company's shares on the GEM on 31st March, 2000. The independent non-executive directors have reviewed the connected transaction set out 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 as disclosed in the paragraph headed "Waiver in respect of ongoing connected transactions" in the section headed "Relationship with iMerchants Group" in the Prospectus, is fair and reasonable and in the interests of the shareholders of the Company as a whole.
2. The Company entered into a conditional sale and purchase agreement dated 15th March, 2000 with iMerchants Group pursuant to which the Company agreed to acquire from iMerchants Group its entire interest of 204,800,000 shares in iSteelAsia.com Limited ("iSteelAsia"), a company incorporated in Bermuda (the "iSteelAsia Acquisition"). Completion of the iSteelAsia Acquisition was subject to the listing of the shares of iSteelAsia on the GEM, which was completed on 20th April, 2000, and the approval of the Company's shareholders at an extraordinary general meeting of the Company.

In view of the prevailing volatile equity market conditions for shares of new economy companies, the Company entered into a termination agreement with iMerchants Group dated 12th August, 2000 to terminate the iSteelAsia Acquisition (the "Termination Agreement"). The Termination Agreement was approved at the extraordinary general meeting of the Company dated 18th September, 2000.

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

SUBSTANTIAL SHAREHOLDERS

At 31st March, 2001, 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, 2001 representing 10% or more of the issued share capital of the Company.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

During the year, the Group had the following significant transactions in which the directors of the Company had beneficial interests:

1. Mr. Alex Ko Po Ming, an independent non-executive director, is the chairman of BNP Paribas Peregrine Capital Limited (formerly known as BNP Prime Peregrine Capital Limited). Mr. Alex Ko Po Ming is interested in BNP Paribas Peregrine Capital Limited, which 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 the usual sponsorship fees in connection therewith, up to 31st March, 2002.
2. Mr. Ronny Chow Fan Chim, an independent non-executive director, is a partner of Deacons (formerly known as Deacons Graham & James), legal advisers to the Company. Deacons will receive the usual professional fees in connection with the legal services it provides to the Company from time to time.
3. On 13th April, 2000, the Company entered into an outsourcing agreement (the "Outsourcing Agreement") with iSteelAsia (Hong Kong) Limited ("iSteelAsia Hong Kong"), a wholly-owned subsidiary of iSteelAsia in which Mr. Kung and Ms. Lena Foo ("Ms. Foo"), executive directors of the Company, are deemed to have interests in iSteelAsia Hong Kong through their interests in iSteelAsia in which iMerchants Group holds 14.11% of the issued share capital of iSteelAsia as at 31st March 2001.

Pursuant to the Outsourcing Agreement, the Group would provide certain services (including maintenance and certain specified man-day of enhancement services) to iSteelAsia Hong Kong and its group companies up to 31st December, 2001, which would continue until terminated by either party by giving to the other party not less than 30 days notice in non-defaulting situations. During the year, the Group received service fee income amounting to approximately HK\$7,956,000.

4. Pursuant to an agreement entered into between the Company and iSteelAsia Hong Kong dated 2nd April, 2001, the balances derived from the services rendered by the Group to iSteelAsia Hong Kong as set out in item 3 above, amounting to approximately HK\$6,756,000 as at 31st March, 2001, would be settled by 16 monthly instalments commencing April 2001. The amount is unsecured and non-interest bearing.

Other than as disclosed above and the transactions as disclosed in note 33 to the financial statements, in which Mr. Kung and Ms. 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 approximately HK\$160,000.

SPONSOR'S INTERESTS

At 31st March, 2001, none of the Company's sponsor, BNP Paribas Peregrine Capital Limited (the "Sponsor"), its directors, employees or associates had any interest in the securities of the Company or any member of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group.

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

COMPETING INTERESTS

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

MAJOR CUSTOMERS AND SUPPLIERS

The five largest suppliers of the Group in aggregate accounted for approximately 34% of its direct costs for the year. Purchases from the single largest supplier accounted for approximately 17% of its direct costs.

During the year, the five largest customers of the Group accounted for approximately 80% of the turnover of the Group and the largest customer accounted for approximately 24% of the total turnover. iSteelAsia Hong Kong, one of the five largest customers, accounted for approximately 21% of the Group's turnover for the year. As at 31st March, 2001, iMerchants Group (a company in which Mr. Kung and Ms. Foo, executive directors of the Company, have 76% and 24% attributable interests, respectively) is deemed to have 14.11% interest in the issued share capital of iSteelAsia Hong Kong.

iShopAero Pte. Ltd. ("iShopAero"), Net Alliance Co. Limited ("Net Alliance") and Tiger Moth Services Limited ("Tiger Moth"), three of the five largest customers, had accounted for about 24%, 16% and 10% of the Group's turnover for the year, respectively. As at 31st March, 2001, iMerchants Group is deemed to have interests in these companies as iShopAero and Net Alliance are associates of the Company and Tiger Moth is a jointly controlled entity of the Group. Ultimately, Mr. Kung and Ms. Foo are deemed to have interests in these companies through their interests in iMerchants Group. All transactions between the Group and the customers concerned were carried out on normal commercial terms.

Save as disclosed above, at no time during the year was a director, an associate of a director or a shareholder of the Company (which to the knowledge of the directors owns more than 5% of the issue share capital of the Company) had an interest in any of the five largest customers and the five largest suppliers of the Group.

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

During the year, 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 comprises all the independent non-executive directors, Dr. Alice Piera Lam Lee Kiu Yue, Messrs. Alex Ko Po Ming and Ronny Chow Fan Chim.

During the year, the audit committee held two meetings and performed the following duties:

1. reviewed and commented on the Company's annual report, half-yearly report and quarterly reports;
2. reviewed and commented on the Company's internal credit control system;
3. met with external auditors and discussed the financial matters of the Company arose during the course of the audits for the years ended 31st March, 2000 and 31st March, 2001; and
4. participated in the re-appointment and assessment of the performance of the external auditors.

RETIREMENT BENEFITS SCHEME

Details of the Group's retirement benefits scheme are set out in note 32 to the financial statements.

AUDITORS

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

On behalf of the Board

Leroy Kung Lin Yuen

Chairman

Hong Kong, 21st June, 2001



AUDITORS' REPORT

德勤•關黃陳方會計師行

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

執業會計師
香港中環干諾道中111號
永安中心26樓

**Deloitte
Touche
Tohmatsu**

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 32 to 63 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, 2001 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

21st June, 2001



CONSOLIDATED INCOME STATEMENT

For the year ended 31st March, 2001

	Notes	2001 HK\$'000	2000 HK\$'000
Turnover	3	41,960	15,169
Direct costs		<u>(24,494)</u>	<u>(3,790)</u>
Gross profit		17,466	11,379
Other revenue	4	19,935	61
Administrative expenses		<u>(39,277)</u>	<u>(20,392)</u>
Loss from operations	3 & 5	(1,876)	(8,952)
Finance costs	7	(2)	(325)
Share of results of associates		(5,655)	—
Share of result of a jointly controlled entity		<u>(2)</u>	<u>—</u>
Loss before taxation		(7,535)	(9,277)
Taxation	8	<u>(437)</u>	<u>—</u>
Loss for the year	9	<u><u>(7,972)</u></u>	<u><u>(9,277)</u></u>
Loss per share	10		
- Basic		<u><u>0.68 cents</u></u>	<u><u>1.09 cents</u></u>



CONSOLIDATED BALANCE SHEET

At 31st March, 2001

	Notes	2001 HK\$'000	2000 HK\$'000
NON-CURRENT ASSETS			
Platform development costs	11	6,069	—
Plant and equipment	12	12,523	7,523
Interests in associates	14	8,170	—
Interest in a jointly controlled entity	15	4,316	—
Investments in securities	16	3,602	—
Accounts receivable - due after one year	17	1,820	—
		<u>36,500</u>	<u>7,523</u>
CURRENT ASSETS			
Amounts due from customers for contract work	18	12	748
Trade and other receivables		10,926	5,194
Amount due from immediate holding company	19	195	908
Amount due from an associate		4,200	—
Amount due from a related company	20	—	3,900
Accounts receivable - due within one year	17	4,936	—
Short-term bank deposits		253,531	—
Bank balances and cash		33,913	340,612
		<u>307,713</u>	<u>351,362</u>
CURRENT LIABILITIES			
Trade and other payables		3,760	6,383
Tax liabilities		436	—
		<u>4,196</u>	<u>6,383</u>
NET CURRENT ASSETS			
		<u>303,517</u>	<u>344,979</u>
		<u>340,017</u>	<u>352,502</u>
CAPITAL AND RESERVES			
Share capital	21	116,548	116,548
Reserves	23	223,469	235,954
		<u>340,017</u>	<u>352,502</u>

The financial statements on pages 32 to 63 were approved by the Board of Directors on 21st June, 2001 and are signed on its behalf by:

Leroy Kung Lin Yuen
DIRECTOR

Lena Foo
DIRECTOR



BALANCE SHEET

At 31st March, 2001

	<i>Notes</i>	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
NON-CURRENT ASSETS			
Interests in subsidiaries	13	313,079	356,844
Interests in associates	14	15,205	—
		<u>328,284</u>	<u>356,844</u>
CURRENT ASSETS			
Other receivables		469	1,930
Short-term bank deposit		25,000	—
Bank balances		2,989	—
		<u>28,458</u>	<u>1,930</u>
CURRENT LIABILITIES			
Other payables		145	2,078
Amounts due to subsidiaries		3,845	—
		<u>3,990</u>	<u>2,078</u>
NET CURRENT ASSETS (LIABILITIES)		<u>24,468</u>	<u>(148)</u>
		<u>352,752</u>	<u>356,696</u>
CAPITAL AND RESERVES			
Share capital	21	116,548	116,548
Reserves	23	236,204	240,148
		<u>352,752</u>	<u>356,696</u>

Leroy Kung Lin Yuen
DIRECTOR

Lena Foo
DIRECTOR



CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

For the year ended 31st March, 2001

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Loss for the year and total recognised losses	(7,972)	(9,277)
Capital reserve arising on acquisition of a subsidiary	1,884	—
Goodwill arising on investing in an associate	<u>(4,900)</u>	<u>—</u>
	<u><u>(10,988)</u></u>	<u><u>(9,277)</u></u>

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st March, 2001

	Notes	2001 HK\$'000	2000 HK\$'000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	24	<u>(16,536)</u>	<u>(10,311)</u>
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		15,331	12
Interest paid		<u>(2)</u>	<u>(325)</u>
NET CASH INFLOW (OUTFLOW) FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		<u>15,329</u>	<u>(313)</u>
TAXATION PAID			
Hong Kong Profits Tax paid		<u>(1)</u>	<u>—</u>
INVESTING ACTIVITIES			
Increase in short-term bank deposits		(155,000)	—
Investments in associates		(16,480)	—
Purchase of plant and equipment		(8,636)	(8,729)
Increase in accounts receivable		(6,756)	—
Loan advanced to a jointly controlled entity		(6,100)	—
Expenditure on platform development		(4,888)	—
Loan advanced to an associate		(4,000)	—
Investments in securities		(3,602)	—
Investment in a jointly controlled entity		<u>(1)</u>	<u>—</u>
CASH OUTFLOW FROM INVESTING ACTIVITIES		<u>(205,463)</u>	<u>(8,729)</u>
NET CASH OUTFLOW BEFORE FINANCING		<u>(206,671)</u>	<u>(19,353)</u>
FINANCING	26		
Additional expenses incurred in connection with the issue of shares		(1,497)	—
Issue of shares (net of expenses of HK\$23,423,000)		—	325,082
Contribution from a strategic investor before the group reorganisation in March 2000		—	46,792
Short-term bank loan raised		—	28,250
Repayment of short-term bank loan		—	(28,250)
Repayment to directors		<u>—</u>	<u>(12,558)</u>
NET CASH (OUTFLOW) INFLOW FROM FINANCING		<u>(1,497)</u>	<u>359,316</u>

CONSOLIDATED CASH FLOW STATEMENTS

For the year ended 31st March, 2001

	<i>Notes</i>	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(208,168)	339,963
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		<u>340,612</u>	<u>649</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	27	<u><u>132,444</u></u>	<u><u>340,612</u></u>



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2001

1. GENERAL

The Company is a listed public limited company incorporated in Hong Kong with its shares listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM"). 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.

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.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant inter-company transactions and balances within the Group have been eliminated on consolidation.

Goodwill

Goodwill represents the excess of the purchase consideration over the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of a business and is written off to reserves immediately on acquisition. Capital reserve, which represents the excess of the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of a business over the purchase consideration is credited to reserves.

Any premium or discount arising on the acquisition of an interest in an associate or a jointly controlled entity, representing the excess or shortfall respectively of the purchase consideration over the fair value ascribed to the Group's share of the separable net assets of the associate or jointly controlled entity at the date of acquisition, is dealt with in the same manner as that described above for goodwill.

On disposal of investments in subsidiaries, associates and jointly controlled entities, the attributable amount of goodwill previously eliminated against or credited to reserves is included in the determination of the profit or loss on disposal of the subsidiary, associate or jointly controlled entity.

2. SIGNIFICANT ACCOUNTING POLICIES - continued**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 included in the Company's balance sheet at cost, 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 and receivable during the year.

Investments in associates

An associate is an enterprise over which the Group is in a position to exercise significant influence, including participation in financial and operating policy decisions.

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates.

When the Group transacts with its associates, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associates, except where unrealised losses provide evidence of an impairment of the asset transferred.

Investments in associates are included in the Company's balance sheet at cost, as reduced by any decline in the value of the associate that is other than temporary. Results of associates are accounted for by the Company on the basis of dividends received and receivable during the year.

Investments in jointly controlled entities

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and over which none of the participating parties has unilateral control.

Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The consolidated income statement includes the Group's share of the post-acquisition results of its jointly controlled entities for the year. In the consolidated balance sheet, interests in jointly controlled entities are stated at the Group's share of the net assets of the jointly controlled entities.

When the Group transacts with its jointly controlled entities, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant jointly controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred.

2. SIGNIFICANT ACCOUNTING POLICIES - continued

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.

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 is recognised on a straight-line basis over the relevant lease term.

Platform development costs

Expenditure directly associated with the development of a specific platform, which includes the external direct cost of materials and services consumed in developing or obtaining an internal-use platform, is charged to the income statement in the year in which it is incurred except where a clearly-defined project is undertaken and it is reasonably anticipated that development costs will be recovered through future commercial activity. Such development costs are capitalised as an intangible asset and amortised on a straight-line basis over a period of three years from the commencement of commercial operation.

Research and other development costs relating to the platform development and platform maintenance costs are expensed in the period in which they are incurred.

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%

Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss.

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 reference to 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 year 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. Timing differences arises from the recognition for tax purposes of certain items of income and expense 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 under 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.

Foreign currencies

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign 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.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates ruling on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and are recognised as income or as expenses in the period in which the operation is disposed of.

Operating leases

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

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. SEGMENT INFORMATION

Geographical segments:

	Turnover		Contribution to results	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Hong Kong	31,790	15,169	(18,150)	(8,964)
Republic of Singapore	10,170	—	(1,991)	—
	<u>41,960</u>	<u>15,169</u>	<u>(20,141)</u>	<u>(8,964)</u>
Interest income			<u>18,265</u>	<u>12</u>
Loss from operations			<u>(1,876)</u>	<u>(8,952)</u>

No activity analysis has been presented as substantially all of the Group's turnover and contribution to results were derived from the provision of internet consulting and related services.

4. OTHER REVENUE

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Included in other revenue is:		
Bank interest income	<u>18,265</u>	<u>12</u>

5. LOSS FROM OPERATIONS

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Loss from operations has been arrived at after charging:		
Amortisation of platform development costs	137	—
Auditors' remuneration	450	304
Depreciation	4,808	1,488
Less: Amount capitalised to platform development costs	(805)	—
	4,003	1,488
Loss on disposal of plant and equipment	—	1,072
Operating lease charges in respect of rented premises	2,918	1,670
Staff costs including directors' emoluments	36,910	10,249
and after crediting:		
Net property rental income under operating leases after outgoings of HK\$698,000 (2000: Nil)	386	20

6. DIRECTORS' EMOLUMENTS AND EMPLOYEES' EMOLUMENTS

Particulars of the emoluments of the directors and the five highest paid individuals for the year are as follows:

(a) *Directors' emoluments*

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Independent non-executive directors		
Fees	—	—
Executive directors		
Fees	—	—
Basic salaries and allowances	2,108	160
Retirement benefits scheme contributions	8	—
	<u>2,116</u>	<u>160</u>
Total directors' emoluments	<u><u>2,116</u></u>	<u><u>160</u></u>

The emoluments of the directors were within the following bands:

	Number of directors	
	2001	2000
HK\$1,000,000 or below	4	7
HK\$1,000,001 to HK\$1,500,000	2	—
	<u>6</u>	<u>7</u>

For the year ended 31st March, 2001, there were three directors who received emoluments of HK\$1, approximately HK\$1,048,000 and approximately HK\$1,068,000, respectively. The other directors did not receive any emoluments.

For the year ended 31st March, 2000, the amount represented the emoluments paid to a director. The other directors did not receive any emoluments.

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.

6. DIRECTORS' EMOLUMENTS AND EMPLOYEES' EMOLUMENTS - continued

(b) *Employees' emoluments*

During the year, the five highest paid individuals included two directors (2000: Nil) of the Company, details of whose emoluments are set out above. The emoluments of the remaining three individuals (2000: five) were as follows:

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Basic salaries and allowances	3,021	1,960
Retirement benefits scheme contributions	12	—
	<u>3,033</u>	<u>1,960</u>

The emoluments were within the following bands:

	Number of employees	
	2001	2000
HK\$1,000,000 or below	1	5
HK\$1,000,001 to HK\$1,500,000	2	—
	<u>3</u>	<u>5</u>

7. FINANCE COSTS

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Interest on bank overdrafts and borrowings wholly repayable within five years	<u>2</u>	<u>325</u>

8. TAXATION

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
The charge comprises:		
Hong Kong Profits Tax	1	—
Other jurisdictions	436	—
	<u>437</u>	<u>—</u>

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group incurred tax losses in Hong Kong for the year. The taxation charge represents an underprovision for Hong Kong Profits Tax in previous years.

Taxation in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

Details of the unrecognised deferred taxation are set out in note 28.

9. LOSS FOR THE YEAR

Of the Group's loss for the year, a loss of approximately HK\$2,447,000 (2000: loss of approximately HK\$380,000) has been dealt with in the financial statements of the Company.

10. LOSS PER SHARE

The calculation of the loss per share for the year ended 31st March, 2001 is based on the loss for the year of approximately HK\$7,972,000 and on 1,165,476,000 issued ordinary shares.

The calculation of the loss per share for the year ended 31st March, 2000 was based on the loss for the year of approximately HK\$9,277,000 and on the weighted average of 853,832,745 ordinary 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 ended 31st March, 2000.

No diluted loss per share was presented as the exercise of the Company's outstanding share options would result in a decrease in loss per share for both years.

11. PLATFORM DEVELOPMENT COSTS

	THE GROUP	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
COST		
Acquired on acquisition of a subsidiary (note 25)	513	—
Additions	5,693	—
	<u>6,206</u>	<u>—</u>
At end of the year	<u>6,206</u>	<u>—</u>
AMORTISATION		
Provided for the year and at end of the year	137	—
	<u>137</u>	<u>—</u>
NET BOOK VALUE		
At end of the year	<u><u>6,069</u></u>	<u><u>—</u></u>

12. 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>
THE GROUP				
COST				
At 1st April, 2000	3,668	2,468	3,932	10,068
Reclassification	248	(248)	—	—
Acquired on acquisition of a subsidiary (note 25)	—	—	1,685	1,685
Additions	298	975	7,363	8,636
	<u>4,214</u>	<u>3,195</u>	<u>12,980</u>	<u>20,389</u>
At 31st March, 2001				
DEPRECIATION				
At 1st April, 2000	108	54	2,383	2,545
Reclassification	4	(4)	—	—
Acquired on acquisition of a subsidiary (note 25)	—	—	513	513
Provided for the year	1,435	609	2,764	4,808
	<u>1,547</u>	<u>659</u>	<u>5,660</u>	<u>7,866</u>
At 31st March, 2001				
NET BOOK VALUES				
At 31st March, 2001	<u>2,667</u>	<u>2,536</u>	<u>7,320</u>	<u>12,523</u>
At 31st March, 2000	<u>3,560</u>	<u>2,414</u>	<u>1,549</u>	<u>7,523</u>

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

13. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares, at cost	31,994	31,994
Loan to a subsidiary	281,085	324,850
	<u>313,079</u>	<u>356,844</u>

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

Details of the Company's subsidiaries at 31st March, 2001 are as follows:

Name of subsidiary	Place of incorporation/ operations	Issued and fully paid share capital	Proportion of nominal value of issued share capital held by the Company		Principal activity
			Directly	Indirectly	
Asia Financial Network Limited	Hong Kong	Ordinary shares HK\$2,624,253	100%	—	Provision of internet-based services
Claryfield Company Limited	BVI/ Hong Kong	Ordinary shares US\$100	—	100%	Inactive
Extremes Enterprises Limited	BVI/ Hong Kong	Ordinary shares US\$100	100%	—	Investment holdings
Fullion Management Limited	BVI/ Hong Kong	Ordinary shares US\$100	—	100%	Inactive
iMerchants Asia Limited	BVI/ Hong Kong	Ordinary shares US\$6,001,000	100%	—	Investment holdings and management services
iMerchants Consulting Limited	Hong Kong	Ordinary shares HK\$100	—	100%	Provision of internet-based services
iMerchants Services Limited	BVI/ Hong Kong	Ordinary shares US\$1,000	—	100%	Provision of internet-based services
iMerchants Technology Pte. Limited	Republic of Singapore	Ordinary shares SG\$2	100%	—	Provision of internet-based services
The Interactive Merchants Limited	BVI/ Hong Kong	Ordinary shares US\$100	—	100%	Inactive

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

14. INTERESTS IN ASSOCIATES

	THE GROUP		THE COMPANY	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Unlisted shares, at cost	—	—	16,480	—
Share of net assets	4,170	—	—	—
Loan to an associate	4,000	—	4,000	—
	<u>8,170</u>	<u>—</u>	<u>20,480</u>	<u>—</u>
Less: Provision for impairment losses	—	—	(5,275)	—
	<u>8,170</u>	<u>—</u>	<u>15,205</u>	<u>—</u>

Details of the Group's associates at 31st March, 2001 are as follows:

Name of associate	Form of business structure	Place of incorporation and principal operations	Class of shares held	Proportion of nominal value of issued share capital directly held by the Company	Principal activity
iShopAero Pte. Ltd. ("iShopAero")	Incorporated	Republic of Singapore	Ordinary shares	35.3%	Provision of internet-based services
Net Alliance Co. Limited ("Net Alliance")	Incorporated	Hong Kong	Ordinary shares	40%	Provision of internet, banking and financial services

The financial year end dates of iShopAero and Net Alliance are 31st December and are not co-terminus with that of the Group.

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

At the time of subscribing for the shares in iShopAero, the Company agreed to advance a loan of up to approximately HK\$7,800,000, which will be made by the Company at the request of iShopAero. The repayment terms and interest rate of the loan will be determined by the directors of iShopAero. At the balance sheet date, the Company's outstanding commitment under this agreement, amounts to approximately HK\$7,800,000 (2000: Nil).

15. INTEREST IN A JOINTLY CONTROLLED ENTITY

	THE GROUP	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Share of net liability	(1,784)	—
Loan to jointly controlled entity	6,100	—
	<u>4,316</u>	<u>—</u>

Details of the Group's jointly controlled entity at 31st March, 2001 are as follows:

Name of entity	Form of business structure	Place of incorporation/ operations	Class of shares held	Proportion of nominal value of issued share capital indirectly held by the Company	Principal activity
Tiger Moth Services Limited	Incorporated	BVI/ Hong Kong	Ordinary shares	50%	Provision of internet-based services

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

16. INVESTMENTS IN SECURITIES

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Unlisted equity investment securities, at cost	<u>3,602</u>	<u>—</u>

17. ACCOUNTS RECEIVABLE

	THE GROUP	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Accounts receivable	6,756	—
Less: Amount due within one year and shown under current assets	<u>(4,936)</u>	<u>—</u>
Amount due after one year	<u>1,820</u>	<u>—</u>
Maximum amount outstanding during the year	<u>6,756</u>	<u>—</u>

17. ACCOUNTS RECEIVABLE - continued

The amount was derived from the services rendered by the Group to iSteelAsia (Hong Kong) Limited, a wholly-owned subsidiary of iSteelAsia.com Limited in which Mr. Leroy Kung Lin Yuen and Ms. Lena Foo, executive directors of the Company, are deemed to have beneficial interests. Pursuant to the repayment agreement, the amount is unsecured, non-interest bearing and repayable by 16 monthly instalments commencing April 2001.

18. AMOUNTS DUE FROM CUSTOMERS FOR CONTRACT WORK

	THE GROUP	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Costs incurred	12	804
Less: Progress billings	—	(56)
	<u>12</u>	<u>748</u>

19. AMOUNT DUE FROM IMMEDIATE HOLDING COMPANY

The amount is unsecured, non-interest bearing and was derived from the Group's usual course of business.

20. 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 are deemed to have beneficial interests, are as follows:

	THE GROUP	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
iSteelAsia Limited	<u>—</u>	<u>3,900</u>
Maximum amount outstanding during the year	<u>3,900</u>	<u>3,900</u>

The amount was unsecured, non-interest bearing and was derived from the Group's usual course of business. The amount was fully settled during the year.

iSteelAsia Limited is a wholly-owned subsidiary of iSteelAsia.com Limited, a company listed on the GEM on 20th April, 2000. Since 20th April, 2000, iSteelAsia Limited is no longer classified as a related company of the Group as Mr. Leroy Kung Lin Yuen and Ms. Lena Foo's beneficial interests in iSteelAsia Limited had been diluted.

21. SHARE CAPITAL

	Number of ordinary shares	Amount HK\$'000
Authorised:		
Ordinary shares of HK\$1.00 each at the time of incorporation in October 1999	1,000	1
Subdivision of ordinary shares of HK\$1.00 each into HK\$0.10 each in March 2000	10,000	1
Increase of ordinary shares of HK\$0.10 each in March 2000	7,999,990,000	799,999
At 31st March, 2000 and at 31st March, 2001 (Ordinary shares of HK\$0.10 each)	<u>8,000,000,000</u>	<u>800,000</u>
Issued and fully paid:		
Issue of ordinary shares of HK\$1.00 each to initial subscribers in October 1999 <i>(note (a))</i>	2	—
Subdivision of ordinary shares of HK\$1.00 each into HK\$0.10 each in March 2000	20	—
Issue of ordinary shares on acquisition of subsidiaries in March 2000 <i>(note (c))</i>	929,980	93
Placing of ordinary shares to professional and institutional investors in March 2000 <i>(note (d))</i>	232,500,000	23,250
Issue of ordinary shares by capitalisation of share premium in March 2000 <i>(note (e))</i>	929,070,000	92,907
Issue of ordinary shares on exercise of the BNP Prime Peregrine option in March 2000 <i>(note (f))</i>	2,976,000	298
At 31st March, 2000 and at 31st March, 2001 (Ordinary shares of HK\$0.10 each)	<u>1,165,476,000</u>	<u>116,548</u>

(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\$1.00 each, two of which were allotted and issued to the subscribers of the Company on the same date.

(b) Pursuant to the written resolutions passed by the shareholders of the Company on 10th March, 2000, each of the then 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 of HK\$0.10 each. These new shares rank pari passu in all respects with the existing shares.

21. SHARE CAPITAL - continued

- (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 a group reorganisation.
- (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 new ordinary 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 (currently known as BNP Paribas 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.
- (g) There was no change in the Company's share capital in the current year.

Subsequent to the balance sheet date, the Company repurchased 1,284,000 ordinary shares of the Company on the GEM at an averaged price of HK\$0.20 per share for an aggregate consideration of approximately HK\$257,000.

22. 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 during a period to be notified by the Company. The exercisable period must not be less than three years and not more than ten years from the date of grant of the options. The subscription price will not be less than the highest of the following:

- (a) the nominal value of the Company's share;
- (b) the closing price of the Company's shares as quoted on the date of the offer of the options; and
- (c) the average closing prices of the Company's shares for the five trading days immediately preceding the date of the offer of the option.

22. SHARE OPTION SCHEMES - continued

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 at 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.

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 at 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, 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 issued by the Company dated 27th March, 2000; and
- (5) options granted are exercisable in various stages during the exercisable period from 31st March, 2001 to 14th March, 2010.

22. SHARE OPTION SCHEMES - continued

Details of the movements in the number of share options during the year are as follows:

Name of scheme	Date of grant	Exercise price	Exercise period	Granted during the prior year	Balance at 31st March, 2000	Granted during the current year	Lapsed during the current year	Balance at 31st March, 2001
Pre-IPO Share Option Plan	15th March, 2000	HK\$1.48	In various stages from 31st March, 2001 to 14th March, 2010	46,500,000 (Note)	46,500,000	—	(5,300,000)	41,200,000
Share Option Scheme	23rd August, 2000	HK\$0.53	In various periods from 31st March, 2001 to 23rd August, 2010	—	—	47,240,000 (Note)	(1,430,000)	45,810,000

Note: 11,670,000 share options were granted to Mr. Matthew P. Johnston, a director of the Company, in each of the Pre-IPO Share Option Plan and the Share Option Scheme.

The aggregate consideration received by the Company during the year for the options granted under the Share Option Scheme was insignificant.

23. RESERVES

	Share premium HK\$'000	Capital reserve (goodwill) HK\$'000	Contributed surplus HK\$'000	Merger reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
THE GROUP						
At 1st April, 1999	—	—	—	46,715	(10,111)	36,604
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 (note)	(23,423)	—	—	—	—	(23,423)
Loss for the year	—	—	—	—	(9,277)	(9,277)
At 31st March, 2000	208,627	—	—	46,715	(19,388)	235,954
Capital reserve arising on acquisition of a subsidiary	—	1,884	—	—	—	1,884
Goodwill arising on investing in an associate	—	(4,900)	—	—	—	(4,900)
Expenses incurred in connection with the issue of shares (note)	(1,497)	—	—	—	—	(1,497)
Loss for the year	—	—	—	—	(7,972)	(7,972)
At 31st March, 2001	207,130	(3,016)	—	46,715	(27,360)	223,469

23. RESERVES - continued

	Share premium HK\$'000	Capital reserve (goodwill) HK\$'000	Contributed surplus HK\$'000	Merger reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
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 (<i>note</i>)	(23,423)	—	—	—	—	(23,423)
Loss for the period	—	—	—	—	(380)	(380)
At 31st March, 2000	208,627	—	31,901	—	(380)	240,148
Expenses incurred in connection with the issue of shares (<i>note</i>)	(1,497)	—	—	—	—	(1,497)
Loss for the year	—	—	—	—	(2,447)	(2,447)
At 31st March, 2001	207,130	—	31,901	—	(2,827)	236,204

Note : The amounts represent the expenses incurred for the listing of the Company's shares on the GEM on 31st March, 2000.

The accumulated losses of the Group include losses of approximately HK\$5,655,000 (2000: Nil) attributable to associates of the Company and a loss of approximately HK\$2,000 (2000: Nil) attributable to a jointly controlled entity of the Group.

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 shares issued as consideration for the acquisition in March 2000.

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 in March 2000.

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\$29,074,000 (2000: HK\$31,521,000) represented the net amounts of the contributed surplus, subject to compliance with the above provisions, and the accumulated losses.

24. RECONCILIATION OF LOSS BEFORE TAXATION TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss before taxation	(7,535)	(9,277)
Share of results of associates	5,655	—
Share of result of a jointly controlled entity	2	—
Interest expenses	2	325
Interest income	(18,265)	(12)
Amortisation of platform development costs	137	—
Depreciation	4,003	1,488
Loss on disposal of plant and equipment	—	1,072
Unrealised gain eliminated on consolidation for consultancy and software development services rendered to an associate	1,755	—
Unrealised gain eliminated on consolidation for consultancy and software development services rendered to a jointly controlled entity	1,783	—
Decrease (increase) in amounts due from customers for contract work	736	(748)
Increase in trade and other receivables	(2,408)	(4,163)
Decrease (increase) in amount due from immediate holding company	713	(908)
Increase in amount due from an associate	(4,200)	—
Decrease (increase) in amount due from a related company	3,900	(3,900)
(Decrease) increase in trade and other payables	(2,814)	6,036
Decrease in amounts due to customers for contract work	—	(224)
	<u> </u>	<u> </u>
Net cash outflow from operating activities	<u>(16,536)</u>	<u>(10,311)</u>

25. ACQUISITION OF A SUBSIDIARY

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Net assets acquired		
Platform development costs	513	—
Plant and equipment	1,172	—
Other receivables	390	—
Other payables	(191)	—
	<u>1,884</u>	<u>—</u>
Capital reserve arising on acquisition	(1,884)	—
	<u>—</u>	<u>—</u>
Satisfied by cash	<u>—</u>	<u>—</u>

The subsidiary acquired during the year did not have any significant impact on the Group's cash flows or operating results.

26. 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, 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 a strategic investor before the group reorganisation in March 2000	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)
	<u>371,890</u>	<u>—</u>	<u>—</u>
At 31st March, 2000	371,890	—	—
Additional expenses incurred in connection with the issue of shares	(1,497)	—	—
	<u>370,393</u>	<u>—</u>	<u>—</u>
At 31st March, 2001	<u>370,393</u>	<u>—</u>	<u>—</u>

27. ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Short-term bank deposits	253,531	—
Bank balances and cash	33,913	340,612
Less: Short-term bank deposits with more than three months maturity	<u>(155,000)</u>	<u>—</u>
	<u>132,444</u>	<u>340,612</u>

28. NET UNRECOGNISED DEFERRED TAXATION ASSET

At the balance sheet date, the major components of the net unrecognised deferred taxation asset are as follows:

	THE GROUP	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Tax effect of timing differences attributable to:		
Tax losses	6,987	3,322
Excess of tax allowances over accounting depreciation	<u>(1,265)</u>	<u>(458)</u>
	<u>5,722</u>	<u>2,864</u>

The net deferred taxation asset has not been recognised in the financial statements as it is not certain that the tax benefit will be realised in the foreseeable future.

The major components of the net unrecognised deferred taxation credit for the year are as follows:

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Tax effect of timing differences attributable to:		
Tax losses incurred	3,665	1,729
Excess of tax allowances over accounting depreciation	<u>(807)</u>	<u>(393)</u>
	<u>2,858</u>	<u>1,336</u>

29. 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:

	THE GROUP	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Operating leases which expire:		
Within one year	66	—
In the second to fifth year inclusive	2,767	2,718
	<u>2,833</u>	<u>2,718</u>

In addition, at 31st March, 2001, the Group had a minimum commitment of approximately HK\$170,000 payable within the following year under a non-cancellable operating lease in respect of software licensing, which expires in the second to fifth year inclusive.

The Company had no operating lease commitments at both balance sheet dates.

30. CAPITAL COMMITMENTS

	THE GROUP	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Capital expenditure in respect of the acquisition of plant and equipment contracted for but not provided in the financial statements	535	—
	<u>535</u>	<u>—</u>

31. OTHER COMMITMENTS

During the year ended 31st March, 2001, the Group entered into an advertising contract with a third party in which the Group committed to make a prepayment amounting to approximately HK\$17,940,000 for the access of air-time marketing and promotion media for a term of 2 years commencing January 2002. The full amount was settled subsequent to the year end date.

In addition, during the year ended 31st March, 2001, the Group entered into an agreement with a third party in which the Group committed to make a minimum payment in the following year amounting to approximately HK\$195,000 for software maintenance and support services for a term of 5 years commencing January 2001.

32. RETIREMENT BENEFITS SCHEME

Effective from 1st December, 2000, the Group has joined a Mandatory Provident Fund Scheme (“MPF Scheme”) for all employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at the rate specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contribution payable of future years.

During the year under review, the total amount contributed by the Group to the MPF Scheme and charged to the income statement amounted to approximately HK\$395,000.

33. RELATED PARTY DISCLOSURES

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

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Revenue generated from contracts for consultancy and software development performed for		
- associates	18,171	—
- a jointly controlled entity	6,100	—
- a fellow subsidiary	—	1,321
- an associate of the immediate holding company	—	3,900
Rental income from the immediate holding company	480	20
Service fee income from the immediate holding company	442	3
Service fee income from an associate of the immediate holding company	442	—
	<u>442</u>	<u>—</u>

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

- (2) Details of the balances with the immediate holding company and a related company, which were principally arising from the usual course of business, are set out in notes 19 and 20, respectively.
- (3) Details of the balances with the Group’s associates and a jointly controlled entity are set out in the consolidated balance sheet and also in notes 14 and 15, respectively.
- (4) During the year, the Company also entered into an agreement with its immediate holding company with respect to the termination of the acquisition of shares in iSteelAsia.com Limited held by that company. Details of this are disclosed in the directors’ report under the section “Connected Transactions”.



FINANCIAL SUMMARY

	Year ended 31st March,			
	1998	1999	2000	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
RESULTS				
Turnover	2,799	4,655	15,169	41,960
Direct costs	(1,678)	(1,288)	(3,790)	(24,494)
Gross profit	1,121	3,367	11,379	17,466
Other revenue	25	20	61	19,935
Administrative expenses	(4,715)	(8,037)	(20,392)	(39,277)
Loss from operations	(3,569)	(4,650)	(8,952)	(1,876)
Finance costs	—	(7)	(325)	(2)
Share of results of associates	—	—	—	(5,655)
Share of result of a jointly controlled entity	—	—	—	(2)
Loss before taxation	(3,569)	(4,657)	(9,277)	(7,535)
Taxation	—	—	—	(437)
Loss for the year	<u>(3,569)</u>	<u>(4,657)</u>	<u>(9,277)</u>	<u>(7,972)</u>

Notes:

1. The results for each of the three years ended 31st March, 1998, 1999 and 2000 have been prepared on a combined basis as if the group structure immediately after the group reorganisation in March 2000 had been in existence since 1st April, 1997.
2. The Company was incorporated in Hong Kong on 25th October, 1999. Accordingly, the only balance sheets for the Group that have been prepared are those set out on page 33 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 26/F Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong on 25th July, 2001 at 11:00 a.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, 2001.
2. To re-elect retiring Directors and authorize the board of Directors to fix their remuneration.
3. To appoint auditors and authorize 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 authorize 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 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 time; or (iv) any issue of shares in the Company upon the exercise of rights of subscription or

NOTICE OF ANNUAL GENERAL MEETING

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 authorized 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.

“Right 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 or, any jurisdiction outside Hong Kong or any recognized regulatory body or any stock exchange outside Hong Kong).

2) **THAT:**

- (a) the exercise of 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. 320) 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% 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, 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 of the Company by this Resolution.

- 3) **THAT** the Directors of the Company be and they are hereby authorized 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 passing of this Resolution.

By Order of the Board
Clement Leung Yuen Wing
Company Secretary

Hong Kong, 21st June, 2001

Registered office and principal place of business:
26th Floor, Great Eagle Centre
23 Harbour Road
Wanchai
Hong Kong

Notes:

1. A shareholder entitled 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 of 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.