

# iMerchants Limited

Half Year Report 2001-2002

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

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

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

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

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

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

## **CHAIRMAN'S STATEMENT**

Unquestionably the first half of this fiscal year has not been an easy time for many technology companies and their clients and recent world events can be expected to lead to more difficult times ahead. Given the negative sentiments currently being expressed by business people and public commentators, it almost seems as though the conventional wisdom is that the current economic downturn will last forever. However, if history is any guide, the world economy will recover and the entrepreneurial and energetic spirit of people in Asia can be expected to again lead to strong growth in this region.

As business confidence returns, spending on information technology ("IT") solutions can be expected to increase also. Many Asian enterprises have reduced their IT budgets for the current year. However, many of these enterprises were already behind their counterparts in Europe and North America in their use of IT, and in the future will face pressure to increase their investments in IT in order to make intelligent use of technology to open additional distribution channels, improve management information and enhance process efficiency in order to stay competitive.



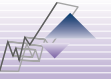


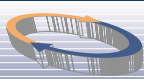

The challenge for a company providing IT solutions, like iMerchants, is to weather the current storm and to take this opportunity to build a stronger organisation and enhance its intellectual property, so that the company will be well positioned when the economy turns around.

Certainly, iMerchants has become a stronger company over the past year. The Company's focus on developing solutions for the financial services industry has resulted in a stronger and more complete set of solutions. iMerchants has aggressively expanded its list of clients and prospective client organisations, again with particular focus on the financial services industry. Furthermore, the Company has formalised its development methodology, strengthened its sales and lead management process and streamlined its reporting structure. I fully expect that the Company will continue to improve and will continue to be well positioned as a leader in the IT industry in Asia.

## BUSINESS OUTLOOK

### **Business Review:**

For more than a year, iMerchants has been working intensely to transform the wealth of intellectual property that it has accumulated during its five years of delivering Internet Technology solutions into licensed application software. The Company has paid particular attention to deepening its solutions for the financial services industry and now is able to offer a rich set of solutions to banks and other financial institutions that span multiple business lines.

Financial Services			
			
<b>Retail Financial Services</b>	<b>Credit Card</b>	<b>Wealth Management</b>	<b>Corporate Financial Services</b>
<ul style="list-style-type: none"> <li>▶ Online Retail Banking</li> <li>▶ PDA Banking</li> <li>▶ Loan Application Management</li> <li>▶ billcentrix™ – Bill Management</li> </ul>	<ul style="list-style-type: none"> <li>▶ Credit Card Statement Publishing &amp; Interactive Customer Care</li> <li>▶ Credit Card Application Management</li> </ul>	<ul style="list-style-type: none"> <li>▶ Mutual Fund Processing</li> </ul>	<ul style="list-style-type: none"> <li>▶ Online Corporate Banking                             <ul style="list-style-type: none"> <li>● Cash Management</li> <li>● Trade Finance</li> </ul> </li> </ul>
▶ Multibank Service Bureau Platform			
Data Security			
<ul style="list-style-type: none"> <li>▶ Secure File Exchange</li> <li>▶ Electronic Transaction Management</li> </ul>			
Commerce			
			
<b>Online Sales</b>	<b>Online Marketplace</b>	<ul style="list-style-type: none"> <li>○ Online Bill Publishing &amp; Interactive Customer Care</li> <li>○ billcentrix™ – Bill Management</li> </ul>	

This set of solutions includes not only those that allow an enterprise to use the Internet as a channel for marketing, distribution or customer service, but also those, such as mutual fund processing and application processing, which allow our clients to automate their internal business processes.

Products which iMerchants has launched during the three-month period ended 30th September, 2001 include:

- *Mutual fund processing*: A growing number of banks, insurers and stock-brokers are offering consumers wealth management services including the marketing of mutual funds. iMerchants' mutual fund processing system supports the operation of retail financial institutions' mutual fund sales efforts by providing sales support functions, order entry, client portfolio administration and tools to support back end settlement and reconciliation processes.
- *PDA banking*: The growing adoption of personal digital assistants (PDAs), or hand-held computers provides an opportunity for banks to enhance customer convenience by offering another electronic distribution channel. iMerchants has developed a solution to enable banks to provide banking services through the PDA, so that the customer has the choice of connecting to the bank using a wireless connection or by synchronising the information on the PDA with the bank via a personal computer. The Company is exploring opportunities to use this technology in other segments of the financial services industry.

Other solutions that the Company is promoting to the financial services industry include:

- *Internet retail banking*: iMerchants' solution that enables a bank to provide retail banking functions to consumers is being used by several banks in Hong Kong.
- *Internet corporate banking*: Incorporating cash management and trade finance modules, iMerchants' solution enables a bank to allow its corporate customers to access banking services via the Internet. The solution includes a customer-configurable maker-checker approval process and productivity enhancement tools.
- *Application processing solution*: Initially supporting the processing of credit card and loan applications, iMerchants' application processing solution aims to enable a financial institution to streamline and automate its process for managing incoming application forms.

- *Credit card statement publishing and online customer care:* iMerchants' statement publishing solutions use the Internet as a medium to enhance customer service and contribute to customer retention. By providing a mechanism for publishing statement information online, customers have better access to information and are then able to perform numerous self-service functions so as to improve customer convenience and reduce customer service costs.
  
- *Secure File Exchange (SFX):* The Company used its SFX product to implement a public key infrastructure (PKI)-enabled secure document transfer system with JETCO, a consortium of more than 50 banks in Hong Kong, southern China and Macau, to enable the secure transmission of settlement files. Other companies needing to control the distribution and transmission of highly sensitive information can use the product.

In addition to iMerchants' own product development efforts, the Company is committed to expanding the breadth and depth of its solution offering by partnering with leading solution providers from overseas. The Company's partnership with Avolent Inc., a leading provider of enterprise software solutions for Electronic Bill Presentment and Payment, Electronic Invoice Presentment and Payment and Interactive Customer Care, enables iMerchants to bring next generation bill publishing solutions to Asia.

In October 2001, iMerchants concluded a strategic marketing alliance with Spectra Securities Software, a leading provider of wealth management software solutions. Spectra's Wealthware software suite provides financial institutions with a comprehensive solution for straight-through-processing order management for equities, fixed income and managed funds, portfolio management, financial planning and market data and information management. For more than a decade, Spectra has successfully delivered a full range of wealth management solutions that help banks, brokerages, insurance companies and financial planners to grow their business and manage client assets. This alliance is part of iMerchants' thrust to offer a more comprehensive suite of solutions to enable its clients to enhance their ability to manage their customers' assets.

In July 2001, iMerchants became an IBM Business Partner. This gives the Company an opportunity to offer IBM hardware bundled with the solutions it delivers to clients and can be expected to be a source of additional revenue and profit for the Company in the future. Furthermore, IBM's penetration in the banking and financial services industry is expected to help the Company in its business development efforts.

***Future initiatives:***

The major issue facing iMerchants is growth and the Company has a number of initiatives underway to increase its revenues.

First, iMerchants is beginning to expand into the People's Republic of China ("PRC"). The Company has recruited an individual who has a solid base of sales, strategy and technical experience and deep knowledge of the IT industry in the PRC as Vice-President, China Operations. The Company will be leveraging on its base of contacts with local and global technology companies in the PRC to build its operations there.

In addition, the Company's commitment to product development continues. In the near future, iMerchants will be publicly launching a product that enables customers to make use of digital certificates to capture digital signatures on electronic transactions. This product will be sold as a module that customers can integrate into their existing web applications. iMerchants also has a product development team focused on enhancing its application processing solution for credit card and loan applications.

**FINANCIAL RESULTS**

The six months ended 30th September, 2001 were a challenging time for companies in the information technology industry. However, iMerchants remains resolutely focused on building its set of solutions and client relationships, so that the Company continues to be well-positioned for the future.

The Company generated a net loss of approximately HK\$16,650,000 for the six months ended 30th September, 2001. Several reasons underlie this performance. Delays and cancellations of projects have led revenues to be lower than expected. Also, gross margins fell significantly in the six months ended 30th September, 2001, when compared to the same period in the previous year, in part as a result of the Company's strategy to penetrate more deeply into a number of accounts by using aggressive pricing and hardware sales. iMerchants expects that accepting lower margins from these accounts at this stage will pave the way for more sales in the future. In addition, as the Company drives to generate license fee income from its developed products, it aims to increase its gross profit margins on future services.

The Company continues to be in a solid financial position, with current assets, plus an investment in liquid securities totaling approximately HK\$289,786,000 without bank borrowings.

## REVIEW OF BUSINESS OBJECTIVES

### 1. Enhance service offering

#### **Objectives Stated in the Prospectus Dated 27th March, 2000 (“the Prospectus”) for the Six Months Ended 30th September, 2001**

- Make additional online payment methods and options available to clients
- Explore opportunities to offer e-commerce services through additional delivery channels
- Continue to develop industry-focused solutions

#### **Actual Business Progress**

- 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 launched its PDA banking product and is exploring other opportunities to make use of the PDA device in the financial services industry.
- The Company has also incorporated fax servers and short messaging services (“SMS”) into its solutions.
- The Company has successfully delivered its online banking service bureau platform to Net Alliance Co. Ltd., a service bureau for banks in Hong Kong.
- The Company has developed numerous industry-focused solutions, including its Internet-retail banking, Internet corporate banking, PDA banking and mutual fund processing solutions.



**Objectives Stated in the Prospectus Dated 27th March, 2000 (“the Prospectus”) for the Six Months Ended 30th September, 2001**

- Explore third-party software solutions that can enhance service bureau offering

**Actual Business Progress**

- The Company’s subsidiary, AFN reached an agreement with Avolent Inc., to customise Avolent’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.
- The Company established a strategic marketing alliance with Spectra Securities Software to market Spectra’s solutions to iMerchants’ clients.

## 2. Enhance knowledge creation and management processes

**Objectives Stated in the Prospectus Dated 27th March, 2000 (“the Prospectus”) for the Six Months Ended 30th September, 2001**

- Enhance knowledge management system

### **Actual Business Progress**

- 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 has documented an enhanced software development and implementation methodology.

## 3. Expand capacity to deliver services

**Objectives Stated in the Prospectus Dated 27th March, 2000 (“the Prospectus”) for the Six Months Ended 30th September, 2001**

- Enhance country management for new offices
- Continue to recruit professional staff, and additional management, as required

### **Actual Business Progress**

- The Company has recruited a Vice-President, China Operations, who will be overseeing the establishment of the Company's operations in the PRC.
- The Company is currently focused on maintaining its core team of staff and is engaging in selective recruiting to augment its sales force.

#### **4. Pursue geographic expansion in Asia**

**Objectives Stated in the Prospectus Dated 27th March, 2000 (“the Prospectus”) for the Six Months Ended 30th September, 2001**

- Explore other markets for opportunities for market entry, alliance, joint-venture or acquisition

#### **Actual Business Progress**

- The Company continues to be open to acquisition opportunities. However, it is focusing its efforts and activities on the PRC market.

#### **5. Invest in business development and marketing**

**Objectives Stated in the Prospectus Dated 27th March, 2000 (“the Prospectus”) for the Six Months Ended 30th September, 2001**

- Execute channel partner relationships in Taiwan and Japan
- Roll-out channel partner relationship management program to Taiwan and Japan
- Execute marketing and PR strategy

#### **Actual Business Progress**

- At present, the Company is focusing its market expansion efforts on entering the PRC market.
- Based on an assessment of the returns from advertising and public relations in the current market environment, the Company is focusing its marketing initiatives on direct sales efforts and on participating in targeted industry events.

## **6. Strengthen corporate infrastructure**

**Objectives Stated in the Prospectus Dated 27th March, 2000 ("the Prospectus") for the Six Months Ended 30th September, 2001**

- Implement infrastructure software

### **Actual Business Progress**

- The Company has implemented a new human resources management system.
- The Company has purchased additional modules to enhance its accounting system.

## **7. Explore synergistic acquisition and investment opportunities**

**Objectives Stated in the Prospectus Dated 27th March, 2000 ("the Prospectus") for the Six Months Ended 30th September, 2001**

- Explore opportunities to acquire or ally with companies providing synergy and to invest in e-commerce related ventures

### **Actual Business Progress**

- 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 dated 27th March, 2000 and detailed below:

### April 2001 to September 2001

	<b>Actual</b> <i>HK\$ million</i>
Enhance service offerings	6.5
Enhance knowledge creation and management processes	0.8
Expand capacity to deliver services	5.0
Pursue geographical expansion in Asia	0.1
Invest in business development and marketing	0.3
Strengthen corporate infrastructure	1.8
Explore synergistic acquisition and investment opportunities	0.0
	<hr/>
Total	14.5
	<hr/> <hr/>

The remaining net proceeds have been partly placed with licensed banks in Hong Kong and partly invested in interest-bearing securities pending appropriate investments.

## RESULTS

The board of Directors (the “Board”) of the Company presents the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the three months and the six months ended 30th September, 2001 together with the comparative unaudited figures for the corresponding periods in 2000 as follows:

	Notes	Three months ended 30th September,		Six months ended 30th September,	
		2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Turnover	2	4,673	13,553	13,278	21,578
Direct costs		(4,858)	(7,110)	(13,048)	(10,870)
Gross profit		(185)	6,443	(230)	10,708
Other revenue	3	2,778	5,354	6,326	10,940
Administrative expenses		(10,703)	(11,023)	(21,274)	(20,127)
(Loss) profit from operations		(8,110)	774	(14,718)	1,521
Finance costs		(7)	—	(7)	(1)
Share of results of associates		(147)	—	(1,925)	—
Share of results of a jointly controlled entity		—	—	—	—
(Loss) profit for the period		<u>(8,264)</u>	<u>774</u>	<u>(16,650)</u>	<u>1,520</u>
(Loss) earnings per share - basic	5	<u>(0.710) cent</u>	<u>0.066 cent</u>	<u>(1.430) cent</u>	<u>0.130 cent</u>

Notes:

## 1. **Basis of preparation of the financial statements**

The Company was incorporated in Hong Kong with limited liability on 25th October, 1999 under the Companies Ordinance. Its ultimate holding company is Galaface Limited, a company incorporated in the British Virgin Islands. The Company is an investment holding company. The principal activities of its subsidiaries are the provision of internet-based services.

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

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

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

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

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

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

## 2. **Turnover**

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

## 3. **Other revenue**

Other revenue for the six-month period comprised, among others, interest income of approximately HK\$5,967,000 (2000: HK\$10,119,000).

#### 4. Taxation

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

#### 5. (Loss) earnings per share

The calculation of the loss per share for the three months and the six months ended 30th September, 2001 is based on the loss of the Group of approximately HK\$8,264,000 (2000: profit of approximately HK\$774,000) and approximately HK\$16,650,000 (2000: profit of approximately HK\$1,520,000), respectively, and on the weighted average number of ordinary shares of 1,164,026,721 (2000: 1,165,476,000).

No diluted loss per share has been presented for the three months and six months ended 30th September, 2001 as the exercise of the Company's outstanding share options would result in a decrease in loss per share.

No diluted earnings per share has been presented for the corresponding periods in 2000 as the exercise price of the Company's outstanding share options was higher than the average market price for those periods.

#### 6. Dividend

The Directors do not recommend the payment of an interim dividend for the six months ended 30th September, 2001 (2000: Nil).

#### 7. Movements of reserves

	Share premium <i>HK\$'000</i>	Merger reserve <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Accumulated Goodwill <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st April, 2001	207,130	46,715	—	(3,016)	(27,360)	223,469
Reserve arising on repurchase of own shares	—	—	331	—	(671)	(340)
Loss for the period	—	—	—	—	(16,650)	(16,650)
At 30th September, 2001	<u>207,130</u>	<u>46,715</u>	<u>331</u>	<u>(3,016)</u>	<u>(44,681)</u>	<u>206,479</u>



## PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30th September, 2001, the Company repurchased on the Stock Exchange a total of 3,331,000 ordinary shares of HK\$0.10 each in the share capital of the Company at an aggregate price of HK\$00.00 and the details are as follows:

Month of repurchase	Price per share		Number of Shares Repurchased	Aggregate Price Paid
	Lowest <i>HK\$</i>	Highest <i>HK\$</i>		
April 2001	0.20	0.20	1,284,000	256,800.00
August 2001	0.215	0.219	400,000	86,440.00
September 2001	0.18	0.20	1,626,000	310,080.00
			<u>3,310,000</u>	<u>653,320.00</u>

The Directors of the Company considered that the above repurchases were made with a view to enhancing the net asset per share of the Company. These shares were cancelled upon repurchase and the issued share capital of the Company was reduced correspondingly.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30th September, 2001.

## COMPETING INTERESTS

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

## DIRECTORS' INTERESTS IN SECURITIES

At 30th September, 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 share option		Number of shares entitled under the shares held as schemes held as
	personal interests	corporate interests	personal interests
	Mr Leroy Kung Lin Yuen ("Mr Kung")	—	720,745,000 (Note i)
Mr Matthew P Johnston ("Mr Johnston")	100,000	—	23,340,000 (Note ii)

Notes:

- (i) The registered shareholder of 720,745,000 shares is iMerchants Group Limited ("iMerchants Group"). iMerchants Group is wholly-owned by Asian Gold Associates Limited ("Asian Gold"), in which 76% of the issued share capital of Asian Gold is owned by Galaface Limited ("Galaface"). Mr Kung is deemed to have interests in the 720,745,000 shares owned by iMerchants Group under the SDI Ordinance as he owns the entire interest in Galaface and is entitled to exercise more than one-third of the voting power at general meetings of both Asian Gold and Galaface.
- (ii) 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 30th September, 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.

## OUTSTANDING SHARE OPTIONS

Pursuant to the Pre-IPO Share Option Plan and Share Option Scheme, the principle terms of which were set out in the Prospectus, there were 38,910,000 and 43,520,000 share options, respectively, granted to and held by the optionees (which include the options granted to a director of the Company, as disclosed above) as at 30th September, 2001. Details of which are as follows:

	<b>No of share options</b>	<b>Exercise price per Share</b>	<b>Exercise period</b>
Pre-IPO Share Option Plan (Note 1)	38,910,000	HK\$1.48	31st March, 2001 to 14th March, 2010
Share Option Scheme (Note 2)	43,520,000	HK\$0.53	31st March, 2001 to 14th March, 2010

Notes:

- 1 An aggregate of 46,500,000 options were granted on 15th March, 2000 under the Pre-IPO Share Option Plan. Up to 30th September, 2001, 7,590,000 share options have lapsed. Options pursuant to the Pre-IPO Share Option Plan may be exercised in accordance with the terms of the relevant scheme as to:
  - a. one quarter of the options (rounded down to the nearest board lot) will be exercisable from 1 April, 2001 ("First Exercise Date");
  - b. an additional one eighth of the options (rounded down to the nearest board lot) will be exercisable after the expiry of each successive six month period from the First Exercise Date; and
  - c. the balance of the options exercisable after the expiry of a period of 48 months from 1 April, 2001.

As of 30th September, 2001, no options under the Pre-IPO Share Option Plan have been exercised.
  
- 2 An aggregate of 47,240,000 options were granted on 23rd August, 2000 under the Share Option Scheme. Up to 30th September, 2001, 3,720,000 share options have lapsed. Options pursuant to the Share Option Scheme may be exercised in accordance with the terms of the relevant scheme which are the same as those of the Pre-IPO Share Option Plan set out in paragraph 1 above.
 

As of 30th September, 2001, no options under the Share Option Scheme have been exercised.

Save as disclosed above, during the six months ended 30th September, 2001, none of the directors and employees of the Company or its subsidiaries was granted options to subscribe for shares in the Company.

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

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

### **SUBSTANTIAL SHAREHOLDERS**

At 30th September, 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 30th September, 2001 representing 10% or more of the issued share capital of the Company.

### **SPONSOR'S INTERESTS**

As updated and notified by the Company's sponsor BNP Paribas Peregrine Capital Limited (the "Sponsor"), at 30th September, 2001, neither the Sponsor nor its directors or employees or associates (as referred to in Note 3 to rule 6.35 of the GEM Listing Rules) had any interests in the securities of the Company or any member of the Group or any rights to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group.

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

## **OTHER DIRECTORS' INTERESTS**

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 usual the sponsorship fees in connection therewith, up to 31st March, 2002.

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

## **AUDIT COMMITTEE**

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

By order of the Board  
**Leroy Kung Lin Yuen**  
*Chairman*

Hong Kong, 12th November, 2001