

iMerchants Limited  
Annual Report 2001-2002

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## **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 risk 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 risk 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 of the Stock Exchange 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 (“GEM website”). Listed companies are not generally required to issue paid announcement 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

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## Executive Directors

Mr. Leroy Kung Lin Yuen (*Chairman*)  
Ms. Lena Foo  
Mr. Matthew P. Johnston  
Mr. Edward Un Ding Bong  
(*effective from 25th June 2002*)

## 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](http://www.imerchants.com)

## Legal advisers

Deacons  
Vincent TK Cheung, Yap & Co.

## Auditors

Deloitte Touche Tohmatsu  
*Certified Public Accountants*

## Principal share registrar and transfer office

Tengis Limited  
4th Floor, Hutchison House  
10 Harcourt Road  
Hong Kong

## Principal bankers

The Bank of East Asia, Limited  
Chekiang First Bank Limited  
Citibank N.A.  
Saloman Smith Barney  
Hong Kong Limited  
Standard Jardine Fleming Bank  
Standard Chartered Bank  
The Hongkong and Shanghai Banking  
Corporation Limited

## Chairman's Statement



**Mr. Leroy Kung Lin Yuen**

*Chairman and Chief Executive Officer*

For the information technology (“IT”) industry in Hong Kong, the recent years have been a time of great change. The late 1990s saw a period during which the implementation of applications using web technologies by many companies led the IT industry in Hong Kong to an unprecedented boom and numerous new firms were created to capitalize on this opportunity. By 2001, this boom had turned into a bust. The environment that we find ourselves in today is a vicious one. Clients, many of them believing that they over-invested in IT during the late 1990s and feeling the bite of the global economic recession on their businesses, have cut back on their IT expenditure dramatically. In addition, while many of the IT companies formed during the boom have disappeared, the industry continues to be characterized by overcapacity and intense price competition.

## Chairman's Statement

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Although the negative business environment hurt iMerchants' financial results for the year ended 31st March 2002, iMerchants is striving to be one of the companies that will emerge from this downturn as a stronger and more competitive company. In the year ended 31st March 2002, the Company continued to evolve and build itself in a number of important ways by launching several key initiatives that we believe will be important for the Company's future business success:

- **Targeting clients in the financial services industry and the Government of the Hong Kong SAR ("Government"):** The Company focused its sales, and product development efforts on the financial services industry and the Government. We believe that by adopting an industry focus, the Company is able to provide more precise solutions to our target client-base and this will lead us to become even more competitive;
- **Developing software products:** Through dedicated product development efforts, the Company has created a number of software products with the intention of being able to deliver solutions to our clients more quickly, at a lower cost, and with lower project risk and earning a higher profit margin for the Company;
- **Launching operations in the People's Republic of China (the "PRC"):** Our Beijing office has been opened and is pursuing a number of potential projects with the goal of providing profitable revenue growth for the Company;
- **Enhancing our methodology and process for delivering solutions to clients:** In April 2002, iMerchants' core solution development and maintenance services processes were certified as compliant with the ISO9001:2000 quality standard by the Hong Kong Quality Assurance Agency. We believe that by having a formal quality management system in place, the Company will be able to reduce project risk and ensure quality delivery of solutions on increasingly complex technology projects. It is our belief that this will help to differentiate iMerchants from the other companies competing in the IT market;
- **Enhancing our sales organization:** By building a pre-sales team with expertise in the financial services industry and by expanding the existing sales team, iMerchants is improving its ability to sell its services to clients; and
- **Partnering with international hardware and software providers:** Through these partnerships, iMerchants is able to draw on leading international technologies and deliver a wider range of solutions to our clients.

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## Chairman's Statement

These strategic priorities have been important to iMerchants' development and through our progress on each one, iMerchants is a stronger company today than it was a year ago. A more detailed description of these initiatives will be provided later in this report.

Though it has been a very hard year, signs indicate that the year ahead may be better. Demand for iMerchants' services appears to be increasing. Furthermore, in many cases it will not be until the coming years that iMerchants will begin to reap significant benefits from the key initiatives outlined above. I believe that iMerchants has become a more competitive company, with a stronger set of products and capabilities during the past year, and I am optimistic about iMerchants' future.

**Leroy Kung Lin Yuen**

*Chairman*

Hong Kong, 24th June 2002

## **BUSINESS REVIEW**

### **Targeting clients in the financial services industry and the Government**

During the past year, iMerchants identified the financial services industry and the Government as the industries where it would focus its sales efforts. While the Company continues to serve a small number of strategic clients from outside of these industry segments, the financial services industry and the Government attract the majority of the Company's attentions. The management believes that these industries will have an ongoing need to spend on information technology solutions and will seek specialist solution providers to meet these needs.

The case for developing an industry focus is a compelling one. The Company believes that by focusing on particular industries, the Company's marketing and sales efforts will be more efficient and it will be able to more effectively understand the needs of prospective clients and deliver solutions with more precision in resolving the issues that these prospective clients face. Ultimately, iMerchants' management believes that this focus will lead prospective clients to choose us in priority to less-focused competitors.

Given that the Company has been serving the financial services industry since shortly after it was founded in 1996 and many of the Company's staff members have been recruited for their experience working in this industry, the Directors believe that iMerchants is well-positioned to target this industry. This focus has been further augmented with industry-specific marketing activities, by directing sales effort on the financial services industry and by developing a range of industry-specific software solutions such as iMerchants' mutual fund system, online corporate banking system and online retail banking system.

One of iMerchants' most notable successes in the financial services industry in the year ended 31st March 2002 was the official launch of the NET Alliance banking service bureau in July 2001. This is a partnership between iMerchants and four local banks that enables the sharing of application software amongst the banks using the service and, in doing so, aims to enable each bank to gain access to superior solutions at a lower cost than they would have had to pay on their own.

iMerchants' focus on the Government is founded on its track record of handling complex technology projects in other industry sectors. Through the Company's formal project delivery methodology and the experience of its staff, iMerchants believes that it is well-placed to meet the needs of Government for the delivery of complicated technology projects on time and on budget.



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## Business Review and Outlook

### Developing software products

During the year ended 31st March 2002, one of the most significant initiatives for iMerchants has been to continue its efforts to build a solid base of application software products. The rationale for this strategy is to turn its intellectual property into more tangible assets that the Company can then use to deliver technology solutions more efficiently to its clients, with a lower project risk, while earning higher margins through license fee income. The years of implementing technology projects by iMerchants have given it a rapid start in this effort, as the Company was able to turn the knowledge and software developed in those projects to build products. Also, the Company committed a significant amount of management attention and concentrated many of its team members on research and product development activities to further broaden its product range.

A selection of the products that iMerchants has developed and is actively marketing to prospective clients includes:

- *Mutual Fund System*: A growing number of banks, insurers and stock-brokers are seeking to offer consumers wealth management services, and are including the marketing of mutual funds as a key component of their wealth management service offerings. iMerchants' mutual fund 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. The system provides cost-savings through more efficient back-office operations and more accurate order entry, and sales support tools to help the institution generate more revenue from its mutual fund business.
- *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.
- *Secure File Exchange ("SFX")*: The Company has used its SFX product to implement a Public Key Infrastructure ("PKI") -enabled secure document transfer system to enable the transmission of settlement files among the members of a large Asian banking consortium. This product also has application in other industries needing to control the distribution and transmission of highly sensitive information.

## Business Review and Outlook

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- *Electronic Bill Publishing System:* iMerchants' electronic bill and statement publishing solutions use the Internet as a medium to enhance customer service and contribute to customer retention. By providing a mechanism for publishing bills and statement online, clients' 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. In addition, by distributing bills using electronic means, billers can significantly reduce the cost of billing.
- *Electronic Transaction Management ("ETM"):* iMerchants is offering ETM to help organizations make use of PKI in conducting electronic transactions. ETM integrates into the clients' existing online applications and enables them to authenticate users using digital certificates: ensure that they are who they claim to be, by validating their digital certificates when they sign in and perform transactions; ensure confidentiality and data integrity using digital certificates to decrypt information sent to them; and ensure non-repudiation of transactions by capturing legal-grade proof that transactions occurred. iMerchants believes that there will be growing demand for this solution as an increasing number of high-value transactions move online and the platform secured using digital signatures.
- *Secure Wireless Banking:* iMerchants has integrated technology from Diversinet Corporation ("Diversinet") into its wireless banking solution, to provide an application that can be used to perform wireless banking transactions wirelessly using a Personal Digital Assistant ("PDA") and secured using the mobile e-Cert offered by Hongkong Post. This application makes use of other cutting-edge technologies such as Bluetooth, a communication standard that enables devices to transmit data with each other wirelessly over short distances, and General Packet Radio Services ("GPRS"), a service that enables mobile phone and computer users to transmit data wirelessly at speeds from 56 to 114 kilobits per second using a continuous connection to the Internet. iMerchants is currently promoting this solution to financial institutions which seek to lead the market in their provision of convenient access channels to their customers.

### Launching operations in the PRC

iMerchants is pleased to be able to announce the official launch of our business in the PRC. In April 2002, iMerchants Technologies (Beijing) Ltd. opened its office in Zhong Guan Cun in Beijing. The office is staffed by a mix of staff from Hong Kong and the PRC and includes a number of IT industry veterans.

Like the parent company in Hong Kong, in the PRC, iMerchants is focusing on serving the financial services industry.

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## Business Review and Outlook

The attitude of iMerchants' management to the opportunity in the PRC can be characterized as realistically optimistic. We recognize the importance of building our business in the PRC, but also recognize the challenges of doing business there. For this reason we are adopting a phased approach to our entry into the market with additional investment being tied to measurable business results.

### **Enhancing our methodology and process for delivering solutions to clients**

In April 2002, iMerchants' core solution development and maintenance services processes were certified as compliant with the ISO9001: 2000 quality standard by the Hong Kong Quality Assurance Agency and our quality management process is now recognised by international quality assurance bodies in Hong Kong and the PRC.

This has been a very important accomplishment for iMerchants. Particularly as IT firms from the PRC and other low-cost environments are able to compete very aggressively on price, the management believes that iMerchants will be able to differentiate itself on the basis of quality. The management team believes that through its formal quality management system and system development methodology, iMerchants will be able to give its clients additional confidence in its ability to deliver increasingly complex and large-scale projects, to reduce project risk for our clients, and to deliver quality solutions.

### **Enhancing our sales organisation**

The Company has been working to enhance its ability to sell solutions to the market. One major element of this has been to begin to formally identify a pre-sales team, formed of iMerchants' staff with particular industry expertise who can serve as pre-sales consultants to understand more fully a client's issues and to recommend how iMerchants' capabilities and solutions could help to meet the client's needs. The Company expects to continue to build this pre-sales team. iMerchants has also expanded its existing sales team by recruiting staff with long experience selling IT solutions to banks and other financial services companies.

### **Partnering with international hardware and software providers**

In addition to its own software development activities, iMerchants has been broadening the range of solutions it can offer to prospective clients through partnerships with international software vendors. Through these partnerships, iMerchants is able to draw on leading international technologies and deliver a wider range of solutions to our clients.

## Business Review and Outlook

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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.

In October 2001, iMerchants concluded a strategic marketing alliance with Spectra Securities Software (which Sanchez Computer Associates Inc. recently announced its intention to acquire). Spectra is a leading provider of wealth management software solutions and its 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 January 2002, iMerchants announced that it had become one of the first solution providers to incorporate Diversinet's mobile-commerce security technology into its solutions. Diversinet is a leading provider of mobile commerce security solutions and Hongkong Post's technology partner in offering digital certificates for mobile devices ("mobile e-Certs"), such as PDAs and mobile telephones. iMerchants is using Diversinet's technology to develop applications that enable the use of the mobile e-Cert to verify and authenticate the validity of each party involved in a wireless electronic transaction and to encrypt the data being transmitted between the parties, in essence giving participants in mobile commerce the confidence of high security.

### **OUTLOOK**

Although this has been a very difficult year for iMerchants and Hong Kong's IT industry in general, the Company is cautiously optimistic about the future. The short and medium-term demand for the Company's services appears to be improving when compared to the situation towards the end of 2001. The Company's target clients are again planning to spend money on IT solutions and many have defined specific projects along with budgets and target timelines for completion.

As the Company bids for these and other projects, it expects that its industry knowledge, its formalized development methodology and ISO9001: 2000-certified quality management system and its track record of successful project delivery will position it well to compete for these opportunities. Furthermore, as the Company begins to see demand for its software products, the Directors expect that iMerchants will be able to profitably deliver solutions to clients for a lower and thus more competitive price, while at the same time earning revenue and higher margins from licence sales.

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## Business Review and Outlook

In addition, the Directors believe that iMerchants' entry into the PRC will lead to future growth. However, the Company is not making the mistake of being unrealistically optimistic about this market. Clearly, the PRC offers a far larger market than Hong Kong, but business practices are different and the market is rapidly becoming quite competitive. However, iMerchants is aiming to define a position for itself in the PRC's IT market by offering clients solutions founded on the Company's own software solutions or other leading-edge technology solutions from overseas, and delivered by a combined team of experienced professionals from both Hong Kong and the PRC, using the Company's proven quality management process for technology projects. Through this combination, the Company aims to be able to differentiate itself from its competitors by combining knowledge of local and overseas business practices, consistent quality project delivery and strong technology.

The Directors believe that the positive changes the Company has made during the past year and the improving market sentiment will lead to a brighter future for iMerchants.

# Comparison of Business Objectives with Actual Business Progress

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## 1. *Enhance service offering*

**Objectives Stated in the Prospectus Dated 27th March 2000 (“the Prospectus”) for the Six Months Ended 31st March 2002**

### **Actual Business Progress**

- |   |  |
|---|--|
| <ul style="list-style-type: none"><li>• Make additional online payment methods and options available to clients</li></ul>                 | <ul style="list-style-type: none"><li>• The Company made use of its payment system expertise and worked to develop a software solution to provide an integrated platform for managing multiple online and offline payment methods.</li></ul>   |
| <ul style="list-style-type: none"><li>• Explore opportunities to offer e-commerce services through additional delivery channels</li></ul> | <ul style="list-style-type: none"><li>• The Company enhanced its wireless banking solution with the addition of the Mobile e-Cert.</li></ul>   |
| <ul style="list-style-type: none"><li>• Explore third-party software solutions that can enhance service bureau offering</li></ul>         | <ul style="list-style-type: none"><li>• The Company’s focus is on delivering solutions directly to clients rather than through service bureaux. However, iMerchants is working to offer third party software solutions to its clients including products such as IBM’s WebSphere Application Server and MQSeries technologies, and technology from Diversinet.</li></ul> |
| <ul style="list-style-type: none"><li>• Continue to develop industry-focused solutions</li></ul>  | <ul style="list-style-type: none"><li>• The Company has developed numerous industry-focused solutions, including its mutual fund, Internet retail banking, Internet corporate banking, and wireless banking solutions.</li></ul>   |

# 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 2002**

- Enhance knowledge management system

### **Actual Business Progress**

- The Company's software development and support process and methodology has successfully obtained ISO9001: 2000 certification. Through the documentation required for this methodology, the management believes that the Company will be better positioned to capture and make use of its intellectual property.
- The Company has added functions and information to its Intranet system.

## 3. *Expand capacity to deliver services*

### **Objectives Stated in the Prospectus for the Six Months Ended 31st March 2002**

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

### **Actual Business Progress**

- The Company is currently focused on maintaining its core team of staff and has selectively added experienced staff to its sales and pre-sales teams.
- The Company has recruited a Vice President, China Operations, who is overseeing the Company's operations in the PRC.

# Comparison of Business Objectives with Actual Business Progress

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## 4. *Pursue geographic expansion in Asia*

### **Objectives Stated in the Prospectus for the Six Months Ended 31st March 2002**

- 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 and is focusing international expansion its efforts and activities on the PRC market.

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

### **Objectives Stated in the Prospectus for the Six Months Ended 31st March 2002**

- Develop channel partner relationships in other markets as appropriate
- Grow regional business development team
- Refresh regional advertising campaign
- Execute marketing and PR strategy

### **Actual Business Progress**

- At present, the Company is focusing its market expansion efforts on entering the PRC market and has recruited sales staff for this 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 participation in targeted industry seminars.



## Comparison of Business Objectives with Actual Business Progress

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

#### **Objectives Stated in the Prospectus for the Six Months Ended 31st March 2002**

- 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 and detailed below:

<b>April 2000 to March 2002</b>	<b>Actual HK\$ million</b>
Enhance service offering	15.66
Enhance knowledge creation and management processes	1.89
Expand capacity to deliver services	30.16
Pursue geographical expansion in Asia	1.84
Invest in business development and marketing	21.54
Strengthen corporate infrastructure	12.15
Explore synergistic acquisition and investment opportunities	24.08
Total	<u>107.32</u>

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

# Management Discussion and Analysis

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## **REVENUE, GROSS PROFIT AND ADMINISTRATIVE EXPENSES**

The year ended 31st March 2002 was a difficult one for the IT industry in general in Hong Kong. Reduced demand and increased price competition had a negative effect on iMerchants' financial results. In the year ended 31st March 2002, iMerchants revenues were approximately 50% lower than the year before. This reflected a number of factors including that our target clients found their businesses under pressure and reduced their capital expenditure on IT solutions accordingly.

In addition, our competitors fought very hard on price, pushing down revenues and profits, leading some projects to generate negative margins. This has not only led to lower revenues, but also led gross margins for the year ended 31st March 2002 to fall to 5% (42% in 2001). For strategic accounts, iMerchants was willing to fight these battles and cut back its fees in order to enter the account. As market conditions improve, it is hoped that these client relationships will generate greater revenues and margins for the Company.

Though revenues were down, the Company did win new projects from a number of key customers.

Other revenue fell by 52% as a result of falling interest rates and reduced cash holdings leading to lower interest income.

Administrative expenses were 23% higher for the year ended 31st March 2002 when compared to the year before. In part, this was due to having a higher average number of staff over the course of the year ended 31st March 2002 than in the year before. Moreover, allowances amounted to approximately HK\$6 million for loans to a jointly controlled entity and an associate were made as the management considered these non-recoverable. Other administrative expenses displayed no significant change from the previous year.

The Company's loss for the year was approximately HK\$79,672,000, of which approximately HK\$40,115,000, or 50%, resulted from the Company's decision to write down the value of a number of investments and intangible assets, and to expense a prepayment for advertising and promotion services. The Company elected to take this conservative decision to write down the value of the investments and intangible assets. However, it should be noted that this does not indicate that the Company believes that all of these assets are valueless or that they will never generate a return for the Company, but rather the conclusion that, in the current environment, the risk associated with these returns has increased and consequently the appropriate valuation for these assets is difficult to ascertain. Regarding the prepayment, this was taken into expenses because in the opinion of the Directors,

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## Management Discussion and Analysis

the advertising and promotion services are not expected to generate significant future economic benefits to the Group.

### INVESTMENTS

The Company has an investment of approximately HK\$9.3 million in Net Alliance Company Ltd (“Net Alliance”), a company which provides online banking service bureau operations to a group of four banks in Hong Kong. iMerchants believes that Net Alliance has been quite successful at implementing new means of delivering IT solutions to financial institutions in Hong Kong and Net Alliance continues to enhance and expand its service offerings. The Company expects Net Alliance’s revenues and costs to be quite stable during the coming years and believes that, as additional services are offered, Net Alliance has the potential to attract additional banks to join and to become a profitable service provider.

The Company has elected to provide for its investment of approximately HK\$3.6 million for its 5% stake in she.com Limited (“she.com”), due to the collapse in valuations for Internet-portal related businesses and the difficulties in assigning an accurate valuation to a minority stake in a relatively small company. However, iMerchants continues to have confidence in she.com, as the company has undergone a transformation from being an operator of an Internet portal focusing on women in Asia, to a focus on providing integrated marketing, communications and design services to prominent companies. The company has had admirable success attracting clients and iMerchants believes that this strategy will yield future returns for she.com.

iMerchants has also elected to provide for its loan advance of approximately HK\$5.5 million to Tiger Moth Services Limited (“TMSL”), a jointly controlled entity that was formed to develop an online service to enable financial institutions and their clients to conduct complex financial transactions online. After lengthy discussions with a major international bank and one of Hong Kong’s leading companies about making an investment in TMSL, the decision was made to stop pursuing this business opportunity and the Directors concluded that the loan amount would not be recoverable.

Finally, the Company has elected to provide for its loan advance of approximately HK\$0.5 million to and write off its goodwill of approximately HK\$4.9 million in iShopAero.com Pte. Ltd. (“iShopAero”), which operates a platform for the international trading of aerospace parts and services. Despite having attracted over 50 prominent buyers and suppliers in the aerospace industry from around the world as members, iShopAero has had difficulty in generating revenues from these members.

### LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Company continues to be in a strong financial position with current assets plus investments in marketable securities and time deposits totaling approximately HK\$249

## Management Discussion and Analysis

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million and without bank borrowings as at 31st March 2002. As 73% of this total consists of bank balances, time deposits and cash held in-hand, and investments in marketable securities account for a further 22% of this total, the Company considers its financial resources to be highly liquid. The Company aims to minimize its financing costs by managing the maturity of financial investments in order to provide sufficient cash to cover ongoing expenses.

The Company's gearing ratio is 0% and it has no charges on its assets and no contingent liabilities.

At 31st March 2002, 23% of the Company's cash and bank balances and investments were denominated in Hong Kong dollars, 77% in US dollars and a nominal amount is held in Renminbi. Given the liquid nature of these investments and the currency peg between the Hong Kong dollar and the US dollar, the Company does not hedge its exchange rate exposures.

The Company has approximately HK\$55 million worth of investments in marketable securities and all are investment-grade bonds, of which approximately 96% in value are are rated A or higher.

The Directors believe that the Company's financial resources are sufficient to provide for expenditure on operations and the development of new software products and do not foresee the need to make any material borrowings or to raise additional capital to execute its long-term plans.

As the Company's customers are predominantly other listed companies, banks, prominent private local enterprises, or divisions of large multinationals, the Company does not believe that it runs a significant risk from non-payment of its fees. Nonetheless, the level of accounts receivable to each individual client is monitored on a monthly basis, with late payments being promptly pursued by the Company's Accounting Department.

The Company did not undertake any material acquisitions and disposals of subsidiaries and affiliated companies in the course of the year.

### **EMPLOYEES**

As at 31st March 2002, iMerchants employed 87 staff (31st March 2001: 111), of whom approximately 68% were technical staff and approximately another 7% were members of the User Experience team responsible for designing and delivering user interfaces for the Company's software products and the solutions it delivers to its clients. The Company has introduced the Pre-IPO Share Option Plan and the Share Option Scheme for issuing share options to employees. These schemes will be amended from time to time to take account of market conditions and GEM Listing Rules.

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## 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 35, is responsible for setting the strategic direction of the Group and spearheading the solutions services which 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 37, 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 17 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 HongkongTelecom's IMS division (now part of the former 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 29, 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 re-orienting their strategic and 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 Diploma in Management Studies from Cambridge University in the United Kingdom.

**Edward Un Ding Bong — Director, Chief Technology Officer and Vice President of Information Technology:** Mr. Un, aged 36, joined the Group in February 2000 and heads the Group's IT Department in developing software products and delivering software solutions to clients. Mr. Un is also responsible for the Group's technology

## Directors and Senior Management Profile

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strategy and research and development initiatives. As a Silicon Valley veteran, Mr. Un has extensive experience in developing, managing and delivering software products and online services. Prior to joining the Group, Mr. Un was co-founder and Vice President of Advanced Technologies of Just in Time Solutions (now Avolent, Inc), one of the leading Electronic Bill Presentment and Payment (EBPP) solution providers in the United States. At Just in Time, Mr. Un was responsible for developing new products including an on-line bill consolidator service for Intuit's Quicken and leading the development of Just in Time's bill publishing software. Always a forward thinker, Mr. Un played an important role in driving industry standards for EBPP. While in the United States, he was one of the key members of the original technical committee of the OFX (Open Financial Exchange) Consortium that defined the specifications for bill presentment. In addition, he was a member of the Board of Directors of the key financial industry standard forming committee the IFX (Interactive Financial Exchange) Forum, Inc. Prior to co-founding Just in Time, Mr. Un held senior technical positions at Sun Microsystems and Ensemble Information Systems. Mr. Un holds a Master of Business Administration degree 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.

### **Independent non-executive Directors**

**Alice Plera Lam Lee Kiu Yue** — Dr. Lam, aged 62, 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 19 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 43, is the Chairman of BNP Paribas Peregrine Capital Limited, Mr. Ko graduated from the Chinese University of Hong Kong in 1982 with a Bachelor's degree in Business Administration. Mr. Ko has over 19 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 33, 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's Degree in Laws in 1990, a Postgraduate Certificate in Laws in 1991 and a Masters degree in Laws in 1996. Mr. Chow was appointed as an independent non-executive Director on 15th March 2000.

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## Directors and Senior Management Profile

### SENIOR MANAGEMENT

**Jagdish Bajaj — Vice President, Product Development:** Mr. Bajaj, aged 35, is responsible for implementing projects to enhance level of services which the Group provides and to improve the efficiency with which services are delivered. He possesses extensive 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 Bachelor's 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.

**Tenny Lam Fung — Vice President, China Operations:** Mr Lam, aged 31, is responsible for development of the Group's business in China. Mr. Lam joined iMerchants in October 2001 bringing a wealth of experience in the technology realm. Most recently prior to joining iMerchants, he was the Vice President of e-Services and Chief Technology Officer at China Resources Logic Ltd. and its subsidiary Resources Link Network respectively. Earlier career experience includes positions as Chief Strategy Officer at Internet PRO, Regional Business Development Manager at Informix Greater China and Application Development Consultant at Hongkong Telecom (now part of Pacific Century Cyber Works Limited). Mr. Lam holds a Bachelor of Engineering degree in Computer Engineering from The City University of Hong Kong and a Master of Management degree in information and Technology Management from Macquarie University.

**Esther Tang Pik Yuk — Senior Technical Services Manager:** Ms. Tang, aged 40, is responsible for system implementation support of the Group. Ms. Tang joined iMerchants in January 2001 following a 12-year career with Joint Electronic Teller Services Limited (JETCO), Asia's 42—member banking consortium. At JETCO, Ms. Tang was the Information Technology Manager responsible for system development and management, project management and online application systems. She holds a Diploma in Business Management and Software Engineering from the Hong Kong Polytechnic University and is currently pursuing a Master of Science degree in Engineering Management from the University of Technology, Sydney.

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

## Directors and Senior Management Profile

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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 the Australian National University.

**Clement Leung Yuen Wing – Financial Controller and Company Secretary:** Mr. Leung, aged 34, 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 an audit manager in KPMG 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.



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## Directors' Report

The Directors present their annual report and the audited financial statements for the year ended 31st March 2002.

### **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 2002 are set out in notes 12, 13 and 14 to the financial statements respectively.

### **RESULTS**

The results of the Group for the year ended 31st March 2002 are set out in the consolidated income statement on page 36 of the annual report.

### **PROPERTY, PLANT AND EQUIPMENT**

Details of movements in the property, plant and equipment of the Group during the year are set out in note 11 to the financial statements.

### **SHARE CAPITAL**

Details of movements in the share capital of the Company are set out in note 22 to the financial statements.

### **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 five financial years is set out on page 71 of the annual report.

## **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, Ms. Lena Foo and Dr. Alice Piera Lam Lee Kiu Yue retire as Directors 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' Report

## DIRECTORS' INTERESTS IN SECURITIES

At 31st March 2002, 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
	personal interests	corporate interests	as personal interests
Mr. Leroy Kung Lin Yuen ("Mr. Kung")	—	732,731,000 <i>(Note i)</i>	—
Mr. Matthew P. Johnston ("Mr. Johnston")	100,000	—	23,340,000 <i>(Note ii)</i>

Notes:

- (i) The registered shareholder of 732,731,000 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 732,731,000 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 a written resolution of the shareholders of the Company dated 15th March 2000 (the "Pre-IPO Share Option Plan"). 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 2002, 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.

## **SUBSTANTIAL SHAREHOLDERS**

At 31st March 2002, 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 2002 representing 10% or more of the issued share capital of the Company.

## **SHARE OPTION SCHEMES**

### **(a) Share Option Scheme**

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. The purpose of the Share Option Scheme was to provide incentives to the participants. 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 price of the Company's shares for the five trading days immediately preceding the date of the offer of the option.

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 follow 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.

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## Directors' Report

### **SHARE OPTION SCHEMES** *(continued)*

#### **(a) Share Option Scheme** *(continued)*

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.

The maximum number of shares in respect of which options might be granted to a participant, when aggregated with shares issued and issuable under any option granted to the same participant under the Share Option Scheme, must not exceed 25% of the maximum shares issuable under the Share Option Scheme from time to time.

The Share Option Scheme will expire on 14th March 2010.

Options granted are exercisable in various stages during the exercisable period from 31st March 2001 to 23rd August 2010 and in accordance with the terms as to:

- (a) one quarter of the options will be exercisable from 1st April 2001 ("First Exercise Date");
- (b) an additional one eighth of the options 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 1st April 2001.

At 31st March 2002, the total number of shares available for issue under the Share Option Scheme was 22,807,600, representing 1.96% of the shares of the Company in issue at that date.

#### **(b) Pre-IPO Share Option Plan**

Pursuant to a written resolution of the shareholders of the Company dated 15th March 2000, the Company also adopted 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;

## SHARE OPTION SCHEMES *(continued)*

### (b) Pre-IPO Share Option Plan *(continued)*

- (2) 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;
- (3) 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
- (4) options granted are exercisable in various stages during the exercisable period from 31st March 2001 to 14th March 2010.

The purpose of the Pre-IPO Share Option Plan was to provide incentives to the participants.

The following table discloses movements in the number of the Company's share options during the year:

	Name of scheme	Date of grant	Exercise price HK\$	Outstanding at	Cancelled	Outstanding at
				1st April 2001	during the year	31st March 2002
<i>Director</i>						
Mr. Johnston	Pre-IPO Share Option Plan	15th March 2000	1.48	11,670,000	—	11,670,000
	Share Option Scheme	23rd August 2000	0.53	11,670,000	—	11,670,000
				<u>23,340,000</u>	<u>—</u>	<u>23,340,000</u>
<i>Employees</i>						
	Pre-IPO Share Option Plan	15th March 2000	1.48	29,530,000	(4,200,000)	25,330,000
	Share Option Scheme	23rd August 2000	0.53	34,140,000	(5,510,000)	28,630,000
				<u>63,670,000</u>	<u>(9,710,000)</u>	<u>53,960,000</u>
			<u>87,010,000</u>	<u>(9,710,000)</u>	<u>77,300,000</u>	

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# Directors' Report

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

Other than the share option schemes as described in the section headed "Share Option Schemes" above, 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 received service fee income amounting to approximately HK\$160,000 from iMerchants Group for the provision of management, financial and accountancy services (the "Service Fee Income"). iMerchants Group 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").

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").

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 it 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.

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.

## 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. 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 acted as sponsor to the Company, and received 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, 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 HK"), a wholly-owned subsidiary of iSteelAsia.com Limited ("iSteelAsia") in which Mr. Kung and Ms. Lena Foo ("Ms. Foo"), executive Directors of the Company, are deemed to have interests in iSteelAsia HK through their interests in iSteelAsia in which iMerchants Group holds 14.11% of the issued share capital of iSteelAsia as at 31st March 2002.

Pursuant to the Outsourcing Agreement, the Group would provide certain services (including maintenance and certain specified man-day of enhancement services) to iSteelAsia HK 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\$1,263,000 from iSteelAsia HK.

4. Pursuant to an agreement entered into between the Company and iSteelAsia HK dated 2nd April 2001, the balances derived from the services rendered by the Group to iSteelAsia HK as set out in item 3 above would be settled by monthly instalments. The amount due from iSteelAsia HK, which is unsecured and non-interest bearing, amounted to approximately HK\$2,320,000 as at 31st March 2002. This balance will be settled by 5 monthly instalments in the following year.

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.



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# Directors' Report

## **SPONSOR'S INTERESTS**

At 31st March 2002, 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 entered into a sponsorship agreement with the Company on 30th March 2000 pursuant to which the Sponsor acted as a sponsor to the Company, and received 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 47% of its cost of sales and direct costs for the year. Purchases from the single largest supplier accounted for approximately 15% of its cost of sales and direct costs.

During the year, the five largest customers of the Group accounted for approximately 60% of the turnover of the Group and the largest customer accounted for approximately 17% of the total turnover. Tiger Moth Services Limited ("Tiger Moth"), one of the five largest customers, accounted for approximately 6% of the Group's turnover for the year. As at 31st March 2002, iMerchants Group (a substantial shareholder of the Company, in which Mr. Kung and Ms. Foo, executive Directors of the Company, have 76% and 24% attributable interests, respectively) is deemed to have interest in Tiger Moth as it is a jointly controlled entity of the Group. Mr. Kung and Ms. Foo are deemed to have interest in Tiger Moth through their interests in iMerchants Group. This transaction was 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 issued share capital of the Company) had an interest in any of the five largest customers and the five largest suppliers of the Group.

# Directors' Report

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

During the year, the Company repurchased certain of its own shares of HK\$0.1 each through the Stock Exchange as follows:

Month of repurchase	Number of ordinary shares of HK\$0.1 each	Price per share		Aggregate consideration paid HK\$
		Highest HK\$	Lowest HK\$	
April 2001	1,284,000	0.200	0.200	257,000
August 2001	400,000	0.215	0.219	86,000
September 2001	1,626,000	0.180	0.200	310,000
November 2001	784,000	0.180	0.180	141,000
	<u>4,094,000</u>			<u>794,000</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, at no time during the year was the Company or 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 four 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 arising during the course of the audit for the year ended 31st March 2002; and
4. participated in the re-appointment and assessment of the performance of the external auditors.

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# Directors' Report

## **CORPORATE GOVERNANCE**

The Company has complied throughout the year ended 31st March 2002 with Rules 5.28 to 5.39 of the GEM Listing Rules.

## **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, 24th June 2002

## 德勤 • 關黃陳方會計師行

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

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 36 to 70 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 2002 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.

## Consolidated Income Statement

For the year ended 31st March 2002

	NOTES	2002 HK\$'000	2001 HK\$'000
Turnover	4	20,866	41,960
Cost of sales and direct costs		<u>(19,769)</u>	<u>(24,494)</u>
Gross profit		1,097	17,466
Other revenue		9,640	19,935
Administrative expenses		(48,388)	(39,277)
Impairment losses		<u>(40,115)</u>	<u>—</u>
Loss from operations	6	(77,766)	(1,876)
Interest on bank overdraft		(9)	(2)
Share of results of associates		(1,924)	(5,655)
Share of result of a jointly controlled entity		<u>—</u>	<u>(2)</u>
Loss before taxation		(79,699)	(7,535)
Taxation credit (charge)	8	<u>27</u>	<u>(437)</u>
Loss for the year		<u><u>(79,672)</u></u>	<u><u>(7,972)</u></u>
Loss per share	9		
— Basic		<u>HK6.85 cents</u>	<u>HK0.68 cents</u>

# Consolidated Balance Sheet

At 31st March 2002

	NOTES	2002 HK\$'000	2001 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Platform development costs	10	—	6,069
Property, plant and equipment	11	8,512	12,523
Interests in associates	13	9,309	8,170
Interest in a jointly controlled entity	14	—	4,316
Investments in securities	15	53,403	3,602
Accounts receivable — due after one year	16	—	1,820
Long-term bank deposits		23,400	—
		<u>94,624</u>	<u>36,500</u>
<b>CURRENT ASSETS</b>			
Inventories	17	1,024	—
Amounts due from customers for contract work	18	892	12
Trade and other receivables	19	8,319	10,926
Investments in securities	15	1,497	—
Amount due from immediate holding company	20	—	195
Amount due from an associate		24	4,200
Accounts receivable — due within one year	16	2,320	4,936
Short-term bank deposits		142,463	253,531
Bank balances and cash		15,958	33,913
		<u>172,497</u>	<u>307,713</u>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	21	2,673	3,760
Tax liabilities		—	436
		<u>2,673</u>	<u>4,196</u>
<b>NET CURRENT ASSETS</b>			
		<u>169,824</u>	<u>303,517</u>
		<u>264,448</u>	<u>340,017</u>
<b>CAPITAL AND RESERVES</b>			
Share capital	22	116,139	116,548
Reserves	23	148,309	223,469
		<u>264,448</u>	<u>340,017</u>

The financial statements on pages 36 to 70 were approved and authorised for issue by the Board of Directors on 24th June 2002 and are signed on its behalf by:

**Leroy Kung Lin Yuen**  
DIRECTOR

**Lena Foo**  
DIRECTOR

# Balance Sheet

At 31st March 2002

	NOTES	2002 HK\$'000	2001 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Interests in subsidiaries	12	246,926	313,079
Interests in associates	13	10,800	15,205
Long-term bank deposits		7,800	—
		<u>265,526</u>	<u>328,284</u>
<b>CURRENT ASSETS</b>			
Other receivables		142	469
Short-term bank deposits		6,630	25,000
Bank balances		3,688	2,989
		<u>10,460</u>	<u>28,458</u>
<b>CURRENT LIABILITIES</b>			
Other payables		66	145
Amounts due to subsidiaries		11,134	3,845
		<u>11,200</u>	<u>3,990</u>
<b>NET CURRENT (LIABILITIES) ASSETS</b>			
		<u>(740)</u>	<u>24,468</u>
		<u>264,786</u>	<u>352,752</u>
<b>CAPITAL AND RESERVES</b>			
Share capital	22	116,139	116,548
Reserves	23	148,647	236,204
		<u>264,786</u>	<u>352,752</u>

**Leroy Kung Lin Yuen**  
DIRECTOR

**Lena Foo**  
DIRECTOR

## Consolidated Statement of Recognised Gains and Losses

*For the year ended 31st March 2002*

	<b>2002</b>	<b>2001</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss for the year and total recognised losses	<u>(79,672)</u>	<u>(7,972)</u>
Negative goodwill arising on acquisition of a subsidiary	—	1,884
Goodwill arising on acquisition of an associate	<u>—</u>	<u>(4,900)</u>
	<u>—</u>	<u>(3,016)</u>
	<u><u>(79,672)</u></u>	<u><u>(10,988)</u></u>



# Consolidated Cash Flow Statement

For the year ended 31st March 2002

	NOTES	2002 HK\$'000	2001 HK\$'000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	24	(51,085)	(16,536)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		11,625	15,331
Interest paid		(9)	(2)
NET CASH INFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		11,616	15,329
TAXATION			
Overseas tax paid		(409)	—
Hong Kong Profits Tax paid		—	(1)
CASH OUTFLOW FROM TAXATION		(409)	(1)
INVESTING ACTIVITIES			
Decrease (increase) in bank deposits with more than three months' maturity		131,600	(155,000)
Decrease (increase) in accounts receivable		4,436	(6,756)
Loan repayment from (advanced to) a jointly controlled entity		624	(6,100)
Proceeds from disposal of property, plant and equipment		27	—
Investments in securities		(54,908)	(3,602)
Expenditure on platform development		(9,592)	(4,888)
Loan advanced to an associate		(3,323)	(4,000)
Purchase of property, plant and equipment		(2,212)	(8,636)
Investments in associates		—	(16,480)
Investment in a jointly controlled entity		—	(1)
NET CASH INFLOW (OUTFLOW) FROM INVESTING ACTIVITIES		66,652	(205,463)
NET CASH INFLOW (OUTFLOW) BEFORE FINANCING		26,774	(206,671)
FINANCING	26		
Repurchase of own shares		(797)	—
Additional expenses incurred in connection with the issue of shares		—	(1,497)
CASH OUTFLOW FROM FINANCING		(797)	(1,497)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		25,977	(208,168)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		132,444	340,612
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	27	158,421	132,444

# Notes to the Financial Statements

*For the year ended 31st March 2002*

## **1. GENERAL**

The Company is a 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. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE**

In the current year, the Group has adopted for the first time a number of new and revised Statements of Standard Accounting Practice (“SSAPs”) issued by the Hong Kong Society of Accountants. Adoption of these new and revised SSAPs has led to a number of changes in the Group’s accounting policies. The revised accounting policies are set out in note 3. These revised accounting policies have not affected the amounts reported for the current or prior years. However, these new and revised SSAPs have introduced additional and revised disclosure requirements which have been adopted in these financial statements. Comparative disclosures for the prior year have been restated in order to achieve a consistent presentation.

## **3. 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.

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# Notes to the Financial Statements

*For the year ended 31st March 2002*

## **3. SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

### **Goodwill**

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition.

Goodwill arising on acquisitions on or after 1st April 2001 is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of an associate or a jointly controlled entity is included within the carrying amount of the associate or jointly controlled entity. Goodwill arising on the acquisition of subsidiaries is presented as a separate intangible asset.

Goodwill arising on acquisitions prior to 1st April 2001 continues to be held in reserves, and will be charged to the income statement at the time of disposal of the relevant subsidiary, associate or jointly controlled entity, or at such time as the goodwill is determined to be impaired.

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

### **Negative goodwill**

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition over the cost of acquisition.

Negative goodwill arising on acquisitions on or after 1st April 2001 is presented as deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

Negative goodwill arising on acquisitions prior to 1st April 2001 continues to be held in reserves and will be credited to income at the time of disposal of the relevant subsidiary, associate or jointly controlled entity.

To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight-line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised in income statement immediately.

Negative goodwill arising on the acquisition of an associate or a jointly controlled entity is deducted from the carrying value of that associate or jointly controlled entity. Negative goodwill arising on the acquisition of subsidiaries is presented as a deduction from intangible assets.

# Notes to the Financial Statements

*For the year ended 31st March 2002*

## **3. SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

### **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.

Sales of goods are recognised when goods are delivered and title has passed.

Interest income 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.

### **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 arise 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.

### **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.

# Notes to the Financial Statements

For the year ended 31st March 2002

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation and accumulated impairment losses, if any.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method, at the following rates:

Leasehold improvements	Over the term of the lease
Furniture, fixtures and office equipment	20% per annum
Computer equipment	30% per annum

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.

### Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

### Investments in associates

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, less any identified impairment loss.

The results of associates are accounted for by the Company on the basis of dividends received and receivable during the year. In the Company's balance sheet, investments in associates are stated at cost, as reduced by any identified impairment loss.

### Investments in jointly controlled entities

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 Group's interests in jointly controlled entities are included in the consolidated balance sheet at the Group's share of the net assets of the jointly controlled entities less any identified impairment loss. The Group's share of the post-acquisition results of its jointly controlled entities is included in the consolidated income statement.

# Notes to the Financial Statements

*For the year ended 31st March 2002*

## **3. SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

### **Investments in securities**

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

At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

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 that is other than temporary.

### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first in, first out method.

### **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.

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# Notes to the Financial Statements

*For the year ended 31st March 2002*

## **3. SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

### **Impairment**

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that these assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the impairment loss is treated as a revaluation decrease under that SSAP.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the reversal of the impairment loss is treated as a revaluation increase under that SSAP.

### **Foreign currencies**

Transactions in currencies other than Hong Kong dollar are translated at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in such 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 financial statements of subsidiaries which are denominated in currencies other than Hong Kong dollar 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. All exchange differences arising on consolidation are dealt with in reserves.

# Notes to the Financial Statements

*For the year ended 31st March 2002*

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Operating leases

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

### Retirement benefits scheme

The retirement benefit costs charged in the income statement represent the contributions payable in respect of the current year to the Group's Mandatory Provident Fund Scheme.

## 4. TURNOVER

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Revenue from contracts for consultancy and software development	19,563	41,960
Sales of goods	1,303	—
	<u>20,866</u>	<u>41,960</u>

## 5. SEGMENT INFORMATION

### Business segments

The Group's turnover and results are substantially derived from provision of internet consulting and related services. Accordingly, no analysis by business segment is presented.



# Notes to the Financial Statements

For the year ended 31st March 2002

## 5. SEGMENT INFORMATION (continued)

### Geographical segments

The following table provides an analysis of the Group's sales by the geographical area in which the Group's companies are operated:

	Hong Kong		Republic of Singapore		Other		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	20,856	31,790	10	10,170	—	—	20,866	41,960
Cost of sales and direct costs	(19,649)	(17,659)	(120)	(6,835)	—	—	(19,769)	(24,494)
Depreciation and amortisation	(8,119)	(4,140)	—	—	—	—	(8,119)	(4,140)
Administrative expenses	(39,904)	(33,793)	(52)	(1,344)	(313)	—	(40,269)	(35,137)
Impairment losses	(35,215)	—	(4,900)	—	—	—	(40,115)	—
Segment results	(82,031)	(23,802)	(5,062)	1,991	(313)	—	(87,406)	(21,811)
Other revenue	9,634	19,935	6	—	—	—	9,640	19,935
Interest on bank overdraft	(9)	(2)	—	—	—	—	(9)	(2)
Share of results of associates	—	—	(1,924)	(5,655)	—	—	(1,924)	(5,655)
Share of result of a jointly controlled entity	—	(2)	—	—	—	—	—	(2)
Loss before taxation	(72,406)	(3,871)	(6,980)	(3,664)	(313)	—	(79,699)	(7,535)
Taxation credit (charge)	—	—	27	(437)	—	—	27	(437)
Loss for the year	<u>(72,406)</u>	<u>(3,871)</u>	<u>(6,953)</u>	<u>(4,101)</u>	<u>(313)</u>	<u>—</u>	<u>(79,672)</u>	<u>(7,972)</u>

# Notes to the Financial Statements

For the year ended 31st March 2002

## 5. SEGMENT INFORMATION (continued)

### Geographical segments (continued)

The following is an analysis of the carrying amount of segment assets, additions to property, plant and equipment, intangible assets and the carrying amount of segment liabilities analysed by reference to the geographical area in which the Group's companies are operated:

	Hong Kong		Republic of Singapore		Other		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	<u>21,091</u>	<u>40,668</u>	<u>41</u>	<u>9</u>	<u>372</u>	<u>—</u>	21,504	40,677
Unallocated assets							<u>245,617</u>	<u>303,536</u>
Consolidated total assets							<u>267,121</u>	<u>344,213</u>
Segment liabilities	<u>2,610</u>	<u>3,733</u>	<u>48</u>	<u>27</u>	<u>15</u>	<u>—</u>	2,673	3,760
Unallocated liabilities							<u>—</u>	<u>436</u>
Consolidated total liabilities							<u>2,673</u>	<u>4,196</u>
Additions of property, plant and equipment	<u>2,212</u>	<u>10,321</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>2,212</u>	<u>10,321</u>
Additions of platform development costs	<u>9,592</u>	<u>6,206</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>9,592</u>	<u>6,206</u>

# Notes to the Financial Statements

For the year ended 31st March 2002

## 6. LOSS FROM OPERATIONS

	2002 HK\$'000	2001 HK\$'000
Loss from operations has been arrived at after charging (crediting):		
Allowance for loan to a jointly controlled entity	5,476	—
Allowance for loan to an associate	523	—
Amortisation of platform development costs (included in administrative expenses)	1,988	137
Auditors' remuneration	453	450
Depreciation	6,131	4,808
Less: Amount capitalised to platform development costs	—	(805)
	6,131	4,003
Impairment loss recognised in respect of platform development costs	13,673	—
Impairment loss recognised in respect of investment in securities	3,602	—
Impairment loss recognised in respect of goodwill arising on acquisition of an associate (Note 23)	4,900	—
Impairment loss recognised in respect of prepayment for an advertising contract (Note)	17,940	—
	40,115	—
Loss on disposal of property, plant and equipment	65	—
Operating lease charges in respect of rented premises	2,662	2,918
Operating lease charges in respect of software licensing	170	—
Staff costs including Directors' emoluments		
Salaries and allowances	28,662	36,515
Contributions to retirement benefits scheme	1,067	395
	29,729	36,910
Bank interest income	(7,612)	(18,265)
Interest income from debt securities (net of amortisation of premium and discount on acquisition of approximately HK\$8,000 (2001: Nil))	(1,297)	—
Net property rental income under operating leases after outgoings of approximately HK\$264,000 (2001: HK\$698,000)	(292)	(386)

Note: The amount represents the impairment loss recognised in respect of a prepayment of an advertising contract for the access to a marketing and promotion media for a term of 2 years commencing January 2002. This contract was entered into in January 2000 and the amount was paid during the year in accordance with the terms of the contract. The amount was fully impaired in the current year as in the opinion of the Directors, the access to the marketing and promotion media is not expected to generate significant future economic benefits to the Group.

# Notes to the Financial Statements

For the year ended 31st March 2002

## 7. 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*

	2002 HK\$'000	2001 HK\$'000
Independent non-executive Directors		
Fees	—	—
Executive Directors		
Fees	—	—
Salaries and allowances	2,122	2,108
Retirement benefits scheme contributions	24	8
	<u>2,146</u>	<u>2,116</u>
	<u>2,146</u>	<u>2,116</u>

The emoluments of the Directors were within the following bands:

	Number of Directors	
	2002	2001
HK\$1,000,000 or below	4	4
HK\$1,000,001 to HK\$1,500,000	2	2
	<u>6</u>	<u>6</u>

For the year ended 31st March 2002, there were three Directors who received emoluments of HK\$1, approximately HK\$1,038,000 and approximately HK\$1,108,000 respectively. The other Directors did not receive any emoluments.

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.

# Notes to the Financial Statements

For the year ended 31st March 2002

## 7. DIRECTORS' EMOLUMENTS AND EMPLOYEES' EMOLUMENTS (continued)

### (b) Employees' emoluments

During the year, the five highest paid individuals included two Directors (2001: two) of the Company, details of whose emoluments are set out above. The emoluments of the remaining three individuals (2001: three) were as follows:

	2002 HK\$'000	2001 HK\$'000
Salaries and allowances	3,690	3,021
Retirement benefits scheme contributions	36	12
	<u>3,726</u>	<u>3,033</u>

The emoluments were within the following bands:

	Number of employees	
	2002	2001
HK\$1,000,000 or below	—	1
HK\$1,000,001 to HK\$1,500,000	2	2
HK\$1,500,001 to HK\$2,000,000	1	—
	<u>3</u>	<u>3</u>

During the year, no emoluments were paid by the Group to the five highest paid individuals (including Directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the Directors has waived any emoluments.

## 8. TAXATION CREDIT (CHARGE)

	2002 HK\$'000	2001 HK\$'000
Hong Kong Profits Tax	—	(1)
Other jurisdictions	27	(436)
	<u>27</u>	<u>(437)</u>

# Notes to the Financial Statements

For the year ended 31st March 2002

## 8. TAXATION CREDIT (CHARGE) (continued)

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group incurred tax losses in Hong Kong for both years. For the year ended 31st March 2001, the taxation charge represented an underprovision for Hong Kong Profits Tax in previous years.

Taxation in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions. The taxation credit in the current year represents an overprovision for taxation in previous years.

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

## 9. LOSS PER SHARE

The calculation of the basic loss per share for the year is based on the following data:

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
Loss for the year	<u>(79,672)</u>	<u>(7,972)</u>
Weighted average number of ordinary shares for the purpose of basic loss per share	<u>1,162,800,345</u>	<u>1,165,476,000</u>

No diluted loss per share has been presented because the exercise price of the Company's outstanding share options were higher than the average market price of the Company's shares for both years.

# Notes to the Financial Statements

For the year ended 31st March 2002

## 10. PLATFORM DEVELOPMENT COSTS

	<b>THE GROUP</b> <i>HK\$'000</i>
COST	
At 1st April 2001	6,206
Additions	9,592
	<hr/>
At 31st March 2002	15,798
	<hr/>
AMORTISATION AND IMPAIRMENT	
At 1st April 2001	137
Provided for the year	1,988
Impairment loss recognised	13,673
	<hr/>
At 31st March 2002	15,798
	<hr/>
NET BOOK VALUES	
At 31st March 2002	—
	<hr/> <hr/>
At 31st March 2001	6,069
	<hr/> <hr/>

Due to the weak market sentiment, the future prospect of the platforms developed by the Group is not clear. Thus the Directors, having taken into account the market demands and the changes in the business environment in the information technology industry, are not confident in earning a financial return from these platforms and have recognised an impairment loss of approximately HK\$13,673,000.

# Notes to the Financial Statements

For the year ended 31st March 2002

## 11. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK\$'000	Furniture, fixtures and office equipment HK\$'000	Computer equipment HK\$'000	Total HK\$'000
<b>THE GROUP</b>				
<b>COST</b>				
At 1st April 2001	4,214	3,195	12,980	20,389
Additions	841	129	1,242	2,212
Disposals	—	(9)	(175)	(184)
At 31st March 2002	<u>5,055</u>	<u>3,315</u>	<u>14,047</u>	<u>22,417</u>
<b>DEPRECIATION</b>				
At 1st April 2001	1,547	659	5,660	7,866
Provided for the year	1,947	672	3,512	6,131
Eliminated on disposals	—	(2)	(90)	(92)
At 31st March 2002	<u>3,494</u>	<u>1,329</u>	<u>9,082</u>	<u>13,905</u>
<b>NET BOOK VALUES</b>				
At 31st March 2002	<u>1,561</u>	<u>1,986</u>	<u>4,965</u>	<u>8,512</u>
At 31st March 2001	<u>2,667</u>	<u>2,536</u>	<u>7,320</u>	<u>12,523</u>

## 12. INTERESTS IN SUBSIDIARIES

	<b>THE COMPANY</b>	
	<b>2002</b>	<b>2001</b>
	HK\$'000	HK\$'000
Unlisted shares, at cost	<u>31,994</u>	<u>31,994</u>
Loans to subsidiaries	293,932	281,085
Allowance for loan to a subsidiary	<u>(79,000)</u>	<u>—</u>
	<u>214,932</u>	<u>281,085</u>
	<u>246,926</u>	<u>313,079</u>



# Notes to the Financial Statements

For the year ended 31st March 2002

## 12. INTERESTS IN SUBSIDIARIES (continued)

The loans to subsidiaries are unsecured, non-interest bearing and have no fixed repayment terms. In the opinion of the Directors, repayment of such loans will not be demanded in the coming financial year and, therefore, they are classified as non-current.

Details of the Company's subsidiaries at 31st March 2002 are as follows:

Name of subsidiary	Place/ country 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.

# Notes to the Financial Statements

For the year ended 31st March 2002

## 13. INTERESTS IN ASSOCIATES

	THE GROUP		THE COMPANY	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Unlisted shares, at cost	—	—	16,480	16,480
Share of net assets	2,509	4,170	—	—
Impairment loss recognised	—	—	(12,480)	(5,275)
	<u>2,509</u>	<u>4,170</u>	<u>4,000</u>	<u>11,205</u>
Loans to associates	7,323	4,000	7,323	4,000
Allowance for loan to an associate	(523)	—	(523)	—
	<u>6,800</u>	<u>4,000</u>	<u>6,800</u>	<u>4,000</u>
	<u><u>9,309</u></u>	<u><u>8,170</u></u>	<u><u>10,800</u></u>	<u><u>15,205</u></u>

Details of the Group's associates at 31st March 2002 are as follows:

Name of associate	Form of business structure	Country/ 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 both iShopAero and Net Alliance are 31st December and are not co-terminus with that of the Group.

The loans to associates are unsecured, non-interest bearing, and have no fixed repayment terms. In the opinion of the Directors, repayment of such loans will not be demanded in the coming financial year and, therefore, they are classified as non-current.

# Notes to the Financial Statements

For the year ended 31st March 2002

## 13. INTERESTS IN ASSOCIATES (continued)

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\$7,277,000 (2001: HK\$7,800,000).

## 14. INTEREST IN A JOINTLY CONTROLLED ENTITY

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
Share of net liability	—	(1,784)
Loan to a jointly controlled entity	5,476	6,100
Allowance for loan to a jointly controlled entity	(5,476)	—
	—	6,100
	—	4,316

Details of the Group's jointly controlled entity at 31st March 2002 are as follows:

Name of entity	Form of business structure	Country/ 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 a jointly controlled entity was unsecured, non-interest bearing and has no fixed repayment terms. In the opinion of the Directors, repayment of such loan will not be demanded in the coming financial year and, therefore, it is classified as non-current.

# Notes to the Financial Statements

For the year ended 31st March 2002

## 15. INVESTMENTS IN SECURITIES

	Held-to-maturity securities		Investment securities		Total	
	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Equity securities:						
Unlisted, at cost	—	—	3,602	3,602	3,602	3,602
Impairment loss recognised (Note)	—	—	(3,602)	—	(3,602)	—
	<u>—</u>	<u>—</u>	<u>—</u>	<u>3,602</u>	<u>—</u>	<u>3,602</u>
Debt securities:						
Listed overseas, at cost	<u>54,900</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>54,900</u>	<u>—</u>
Market value of debt securities	<u>54,609</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>54,609</u>	<u>—</u>
Carrying amount analysed for reporting purposes as:						
Current	1,497	—	—	—	1,497	—
Non-current	<u>53,403</u>	<u>—</u>	<u>—</u>	<u>3,602</u>	<u>53,403</u>	<u>3,602</u>
	<u>54,900</u>	<u>—</u>	<u>—</u>	<u>3,602</u>	<u>54,900</u>	<u>3,602</u>

Note: Due to continuous losses incurred by the investee company, the Directors assessed the recoverable amount of the Group's investment securities. An impairment loss of approximately HK\$3,602,000 was recognised. In the opinion of the Directors, the carrying value of the Group's investment securities as at 31st March 2002 represented the net selling price of these investment securities which was determined by reference to the outcome of the recent transactions in the same industry.

# Notes to the Financial Statements

For the year ended 31st March 2002

## 16. ACCOUNTS RECEIVABLE

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Accounts receivable	2,320	6,756
Less: Amount due within one year and shown under current assets	<u>(2,320)</u>	<u>(4,936)</u>
Amount due after one year	<u>—</u>	<u>1,820</u>
Maximum amount outstanding during the year	<u>6,756</u>	<u>6,756</u>

The amount was derived from the services rendered by the Group to iSteelAsia HK, a wholly-owned subsidiary of iSteelAsia Limited in which Mr. Leroy Kung Lin Yuen and Ms. Lena Foo, both 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 monthly instalments. The outstanding balance as at 31st March 2002 amounted to approximately HK\$2,320,000 will be settled by 5 monthly instalments in the following year.

## 17. INVENTORIES

	2002	2001
	HK\$'000	HK\$'000
Finished goods, at cost	<u>1,024</u>	<u>—</u>

During the year, the inventories recognised as an expense amounted to approximately HK\$1,044,000 (2001: nil), which are included in the cost of sales and direct costs.

## 18. AMOUNTS DUE FROM CUSTOMERS FOR CONTRACT WORK

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Costs incurred	1,450	12
Less: Progress billings	<u>(558)</u>	<u>—</u>
	<u>892</u>	<u>12</u>

# Notes to the Financial Statements

For the year ended 31st March 2002

## 19. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of 30–45 days to its trade customers.

The following is an aged analysis of trade receivable at the reporting date:

	<b>2002</b>	<b>2001</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 60 days	4,019	5,261
61 – 90 days	204	234
Over 90 days	1,281	4,044
	<hr/>	<hr/>
Trade receivables	5,504	9,539
Other receivables	2,815	1,387
	<hr/>	<hr/>
	<u>8,319</u>	<u>10,926</u>

## 20. AMOUNT DUE FROM IMMEDIATE HOLDING COMPANY

The amount was unsecured, non-interest bearing and was repaid during the year.

## 21. TRADE AND OTHER PAYABLES

	<b>2002</b>	<b>2001</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables	—	750
Other payables	2,673	3,010
	<hr/>	<hr/>
	<u>2,673</u>	<u>3,760</u>

The age of trade payables at 31st March 2001 was within 60 days.

# Notes to the Financial Statements

For the year ended 31st March 2002

## 22. SHARE CAPITAL

	Number of ordinary shares	Amount HK\$'000
Ordinary shares of HK\$0.10 each		
Authorised:		
At 31st March 2001 and at 31st March 2002	<u>8,000,000,000</u>	<u>800,000</u>
Issued and fully paid:		
At 31st March 2000 and at 31st March 2001	1,165,476,000	116,548
Share repurchased and cancelled	<u>(4,094,000)</u>	<u>(409)</u>
At 31st March 2002	<u>1,161,382,000</u>	<u>116,139</u>

The Company repurchased 4,094,000 of its own shares for a total consideration (before expenses) of approximately HK\$794,000. All the shares repurchased were subsequently cancelled.

None of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

There was no movement in the Company's authorised share capital for both years.

### Options

At 31st March 2002, the following options to subscribe for shares were outstanding under the Company's share option schemes:

Name of scheme	Number of options	Exercise period	Exercise price
Pre-IPO Share Option Plan	37,000,000	In various stages from 31st March 2001 to 14th March 2010	HK\$1.48
Share Option Scheme	40,300,000	In various stages from 31st March 2001 to 23rd August 2010	HK\$0.53

The exercise in full of the outstanding 77,300,000 share options as at 31st March 2002 would, under the present capital structure of the Company, result in the issue of 77,300,000 additional shares for a total cash consideration, before expenses, of approximately HK\$76,119,000.

# Notes to the Financial Statements

For the year ended 31st March 2002

## 23. RESERVES

	Share premium HK\$'000	Goodwill HK\$'000	Negative goodwill HK\$'000	Capital redemption reserve HK\$'000	Contributed surplus HK\$'000	Merger reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
<b>THE GROUP</b>								
At 1st April 2000	208,627	-	-	-	-	46,715	(19,388)	235,954
Negative goodwill arising on acquisition of a subsidiary	-	-	1,884	-	-	-	-	1,884
Goodwill arising on acquisition of an associate	-	(4,900)	-	-	-	-	-	(4,900)
Additional expenses incurred in connection with the issue of shares (Note 1)	(1,497)	-	-	-	-	-	-	(1,497)
Loss for the year	-	-	-	-	-	-	(7,972)	(7,972)
At 31st March 2001	207,130	(4,900)	1,884	-	-	46,715	(27,360)	223,469
Premium arising on share repurchase	-	-	-	-	-	(388)	-	(388)
Impairment loss recognised in respect of goodwill (Note 2)	-	4,900	-	-	-	-	-	4,900
Transfer	-	-	-	409	-	(409)	-	-
Loss for the year	-	-	-	-	-	-	(79,672)	(79,672)
At 31st March 2002	<u>207,130</u>	<u>-</u>	<u>1,884</u>	<u>409</u>	<u>-</u>	<u>45,918</u>	<u>(107,032)</u>	<u>148,309</u>
<b>THE COMPANY</b>								
At 1st April 2000	208,627	-	-	-	31,901	-	(380)	240,148
Additional expenses incurred in connection with the issue of shares (Note 1)	(1,497)	-	-	-	-	-	-	(1,497)
Loss for the year	-	-	-	-	-	-	(2,447)	(2,447)
At 31st March 2001	207,130	-	-	-	31,901	-	(2,827)	236,204
Transfer	-	-	-	409	(409)	-	-	-
Premium arising on share repurchase	-	-	-	-	(388)	-	-	(388)
Loss for the year	-	-	-	-	-	-	(87,169)	(87,169)
At 31st March 2002	<u>207,130</u>	<u>-</u>	<u>-</u>	<u>409</u>	<u>31,104</u>	<u>-</u>	<u>(89,996)</u>	<u>148,647</u>

### Notes:

- (1) The amounts represent the additional expenses incurred for the listing of the Company's shares on the GEM on 31st March 2000.
- (2) Due to continuous losses incurred by the Group's associate, the Directors assessed the recoverable amount of the associate. An impairment loss of approximately HK\$4,900,000 was recognised. This impairment loss was allocated to reduce the carrying amount of goodwill arising from the acquisition of the associate. In the opinion of the Directors, the carrying value of this associate as at 31st March 2002 represented the net selling price of the associate which was determined by reference to the outcome of the recent transactions in the same industry.



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## Notes to the Financial Statements

*For the year ended 31st March 2002*

### **23. RESERVES** *(continued)*

The accumulated losses of the Group include losses of approximately HK\$7,579,000 (2001: HK\$5,655,000) attributable to associates of the Company and a loss of approximately HK\$2,000 (2001: HK\$2,000) 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 less the premium arising on repurchase of shares and the amount transferred to the capital redemption reserve.

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 less the premium arising on repurchase of shares and amount transferred to the capital redemption reserve.

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.

As at 31st March 2002, the Company had no reserves available for distribution to shareholders.

As at 31st March 2001, the Company's reserves available for distribution to shareholders of approximately HK\$29,074,000 represented the net amounts of the contributed surplus, subject to compliance with the above provisions, and the accumulated losses.

# Notes to the Financial Statements

For the year ended 31st March 2002

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

	2002	2001
	HK\$'000	HK\$'000
Loss before taxation	(79,699)	(7,535)
Share of results of associates	1,924	5,655
Share of result of a jointly controlled entity	—	2
Amortisation of premium and discount on acquisition of debt securities	8	—
Interest expenses	9	2
Interest income from debt securities	(1,305)	—
Bank interest income	(7,612)	(18,265)
Allowance for loan to an associate	523	—
Allowance for loan to a jointly controlled entity	5,476	—
Amortisation of platform development costs	1,988	137
Depreciation	6,131	4,003
Impairment loss recognised in respect of platform development costs	13,673	—
Impairment loss recognised in respect of investments in securities	3,602	—
Impairment loss recognised in respect of goodwill arising on acquisition of an associate	4,900	—
Loss on disposal of property, plant and equipment	65	—
Recognition of unrealised gain eliminated on consolidation in prior year for consultancy and software development services rendered to an associate and a jointly controlled entity	(2,047)	—
Unrealised gain eliminated on consolidation for consultancy and software development services rendered to an associate and a jointly controlled entity	—	3,538
Increase in inventories	(1,024)	—
(Increase) decrease in amounts due from customers for contract work	(880)	736
Increase in trade and other receivables	(101)	(2,408)
Decrease in amount due from immediate holding company	195	713
Decrease (increase) in amount due from an associate	4,176	(4,200)
Decrease in amount due from a related company	—	3,900
Decrease in trade and other payables	(1,087)	(2,814)
Net cash outflow from operating activities	<u>(51,085)</u>	<u>(16,536)</u>

# Notes to the Financial Statements

For the year ended 31st March 2002

## 25. ACQUISITION OF A SUBSIDIARY

	2002 HK\$'000	2001 HK\$'000
Net assets acquired		
Platform development costs	—	513
Property, plant and equipment	—	1,172
Other receivables	—	390
Other payables	—	(191)
	—	1,884
Negative goodwill arising on acquisition	—	(1,884)
	—	—
Satisfied by cash	—	—

The subsidiary acquired during the year ended 31st March 2001 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 HK\$'000
At 1st April 2000	371,890
Additional expenses incurred in connection with the issue of shares	(1,497)
At 31st March 2001	370,393
Share repurchased	(797)
Transfer to capital redemption reserve	(409)
At 31st March 2002	369,187

# Notes to the Financial Statements

For the year ended 31st March 2002

## 27. ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS

	<b>2002</b>	<b>2001</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Short-term bank deposits	142,463	253,531
Bank balances and cash	15,958	33,913
Less: Short-term bank deposits with more than three months' maturity	—	(155,000)
	<u>158,421</u>	<u>132,444</u>

## 28. DEFERRED TAXATION

At the balance sheet date, the components of the unprovided deferred taxation asset (liability) are as follows:

	<b>THE GROUP</b>	
	<b>2002</b>	<b>2001</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Tax effect of timing differences attributable to:		
Estimated tax losses	17,953	6,987
Excess of tax allowances over accounting depreciation	(663)	(1,265)
	<u>17,290</u>	<u>5,722</u>

A 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 components of the unprovided deferred taxation credit (charge) for the year are as follows:

	<b>2002</b>	<b>2001</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Tax effect of timing differences attributable to:		
Estimated tax losses incurred	10,966	3,665
Difference of tax allowances and accounting depreciation	602	(807)
	<u>11,568</u>	<u>2,858</u>

# Notes to the Financial Statements

For the year ended 31st March 2002

## 29. OPERATING LEASE COMMITMENTS

### The Group and the Company as lessee

At the balance sheet date, the Group and the Company had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	THE GROUP				THE COMPANY	
	Land and buildings		Software licensing		Land and buildings	
	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	2,455	2,826	316	170	302	—
In the second to fifth year inclusive	190	2,261	3,702	4,018	190	—
	<u>2,645</u>	<u>5,087</u>	<u>4,018</u>	<u>4,188</u>	<u>492</u>	<u>—</u>

Operating lease payments in respect of land and buildings represent rentals payable by the Group for its office premises. Leases are negotiated for an average term of five years and rentals are fixed for an average of three years.

Operating lease payments in respect of software licensing is negotiated for a term of six years and rentals are fixed for the whole period of the term of the lease.

### The Group as lessor

At the balance sheet date, the Group had contracted with tenants for the future minimum lease payments approximately as follows:

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
Within one year	<u>—</u>	<u>546</u>

## 30. CAPITAL COMMITMENTS

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statements	<u>164</u>	<u>535</u>

# Notes to the Financial Statements

For the year ended 31st March 2002

## 31. OTHER COMMITMENTS

At the balance sheet date, the group had commitments for future minimum payments for software maintenance and support services which fall due as follows:

	<b>2002</b> <i>HK\$'000</i>	<b>2001</b> <i>HK\$'000</i>
Within one year	286	195
In the second to fifth year inclusive	<u>3,332</u>	<u>3,618</u>
	<u><u>3,618</u></u>	<u><u>3,813</u></u>

## 32. RETIREMENT BENEFITS SCHEME

The Group operates a Mandatory Provident Fund Scheme (“MPF Scheme”) for all qualified employees. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of trustees. 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.

The retirement benefits cost charged to income statement represents contributions payable to the scheme by the Group at rates specified in the rules of the scheme.

# Notes to the Financial Statements

For the year ended 31st March 2002

## 33. RELATED PARTY DISCLOSURES

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

	2002 HK\$'000	2001 HK\$'000
Revenue generated from contracts for consultancy and software development performed for		
— associates	862	18,171
— jointly controlled entity	1,784	4,316
Rental income from the immediate holding company	480	480
Service fee income from the immediate holding company	160	442
Service fee income from an associate of the immediate holding company	<u>—</u>	<u>442</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 Group's associates and a jointly controlled entity are set out in the consolidated balance sheet and in notes 13 and 14 respectively.
- (3) Details of the balance with the immediate holding company are set out in the consolidated balance sheet and in note 20.
- (4) During the year ended 31st March 2001, the Company entered into an agreement with its immediate holding company with respect to the termination of the acquisition of shares in iSteelAsia.com Limited.

## Financial Summary

	Year ended 31st March				
	1998	1999	2000	2001	2002
	HK\$'000 (Note 1)	HK\$'000 (Note 1)	HK\$'000 (Note 1)	HK\$'000	HK\$'000
<b>RESULTS</b>					
Turnover	2,799	4,655	15,169	41,960	20,866
Cost of sales and direct costs	<u>(1,678)</u>	<u>(1,288)</u>	<u>(3,790)</u>	<u>(24,494)</u>	<u>(19,769)</u>
Gross profit	1,121	3,367	11,379	17,466	1,097
Other revenue	25	20	61	19,935	9,640
Administrative expenses	(4,715)	(8,037)	(20,392)	(39,277)	(48,388)
Impairment losses	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(40,115)</u>
Loss from operations	(3,569)	(4,650)	(8,952)	(1,876)	(77,766)
Finance costs	—	(7)	(325)	(2)	(9)
Share of results of associates	—	—	—	(5,655)	(1,924)
Share of result of a jointly controlled entity	<u>—</u>	<u>—</u>	<u>—</u>	<u>(2)</u>	<u>—</u>
Loss before taxation	(3,569)	(4,657)	(9,277)	(7,535)	(79,699)
Taxation (charge) credit	<u>—</u>	<u>—</u>	<u>—</u>	<u>(437)</u>	<u>27</u>
Loss for the year	<u><u>(3,569)</u></u>	<u><u>(4,657)</u></u>	<u><u>(9,277)</u></u>	<u><u>(7,972)</u></u>	<u><u>(79,672)</u></u>

### As at 31st March

	2000	2001	2002
	HK\$'000	HK\$'000	HK\$'000
	(Note 2)	(Note 2)	(Note 2)
<b>ASSETS AND LIABILITIES</b>			
Total assets	358,885	344,213	267,121
Total liabilities	<u>(6,383)</u>	<u>(4,196)</u>	<u>(2,673)</u>
Shareholders' funds	<u><u>352,502</u></u>	<u><u>340,017</u></u>	<u><u>264,448</u></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 and became the holding company of the Group as a result of the group reorganisation which took place on 10th March 2000. Accordingly, the balance sheets for the Group that have been prepared are those set out above.



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## 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 2nd August 2002 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 2002.
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 or securities convertible into such shares in the capital of the Company or securities convertible into such shares options, warrants or similar rights to subscribe for any shares or convertible securities 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 of exercise of any option under the Share

## Notice of Annual General Meeting

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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 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 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

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## Notice of Annual General Meeting

- (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. 32) 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

## Notice of Annual General Meeting

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- (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.
- (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, 24th June 2002

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

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## Notice of Annual General Meeting

*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 notarially 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 for appointing 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.