

iMerchants Limited

Annual Report 2002-2003

*i*Merchants

www.imerchants.com

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

EXECUTIVE DIRECTORS

Mr. Leroy Kung Lin Yuen (*Chairman*)

Ms. Lena Foo

Mr. Edward Un Ding Bong

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

Ms. Lena Foo

QUALIFIED ACCOUNTANT

Mr. Clement Leung Yuen Wing

AHKSA, FCCA

AUDIT COMMITTEE

Dr. Alice Piera Lam Lee Kiu Yue

Mr. Alex Ko Po Ming

Mr. Ronny Chow Fan Chim

AUTHORISED REPRESENTATIVES

Mr. Leroy Kung Lin Yuen

Ms. Lena Foo

REGISTERED OFFICE

26th Floor, Great Eagle Centre

23 Harbour Road

Wanchai

Hong Kong

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

26th Floor, Great Eagle Centre

23 Harbour Road

Wanchai

Hong Kong

WEB-SITE ADDRESS

www.imerchants.com

LEGAL ADVISERS

Deacons

Vincent TK Cheung, Yap & Co.

AUDITORS

Deloitte Touche Tohmatsu

Certified Public Accountants

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Tengis Limited

Ground Floor

Bank of East Asia Harbour View Centre

56 Gloucester Road

Wanchai

Hong Kong

PRINCIPAL BANKERS

The Bank of East Asia, Limited

Chekiang First Bank Limited

Citibank N.A.

Citigroup Global Markets Asia Limited

Standard Bank Asia Limited

Chairman's Statement



Dear Shareholders:

The 2002/2003 financial year marks the beginning of a new era for iMerchants. During this year the Group has refined its strategic direction and made significant progress in its re-positioning and evolution to a Group based on high-margin product and service delivery.

FINANCIAL HIGHLIGHTS

Turnover was HK\$8,200,000, an expected decrease from HK\$20,866,000 in the previous year, resulting from the Group's shift away from low margin business areas and reduction in low margin hardware sales. The Group achieved a minor change in gross profit to HK\$1,050,000 from last year's HK\$1,097,000, reflecting a 8% increase in gross profit margin to 13% from 5%.

Administrative expenses decreased to HK\$45,011,000 from HK\$48,388,000 in the previous year as the Group absorbed the necessary costs associated with its mid-year restructuring efforts.

When the fourth quarter of the 2002/2003 financial year and the previous quarter are compared, administrative expenses decreased by 47% to HK\$6,199,000 from HK\$11,609,000. The Group generated a loss of HK\$36,490,000 this year, down from HK\$79,672,000 in the previous year.

The Group continues to be in a strong financial position with current assets plus investments in marketable securities and time deposits totalling approximately HK\$220 million (31 March 2002: HK\$249 million) and no bank borrowings as at 31 March 2003.

BUSINESS REVIEW

This past year, in view of shifting market conditions, iMerchants undertook an intense business assessment and strategic review following which it restructured and re-aligned its operations to create a more tightly focused business with improved profit potential.

The Group shifted away from those business lines that showed the least profit potential. This action produced cost savings and enabled the Group to re-direct and focus its resources on those areas with the greatest potential, namely Wealth Management and Client Support Services, and to build a solid base for future growth.

Chairman's Statement



In addition, the Group re-defined its target market, narrowing the scope to include only the Financial Services Industry, thereby enabling better use of industry expertise and more targeted marketing and sales activities.

During the past year, iMerchants initiated a major push into the wealth management solutions market. Following the first quarter launch of the Group's wealth management suite, iMerchants invested heavily in enhancing and integrating iMerchants' Mutual Fund System into the product suite and in further expanding the product suite to produce a more complete service offering. iMerchants has taken a 'best of breed' approach for the suite, selecting to build it both organically and through integrating with specialised products from other leading solution vendors and service providers. iMerchants has and continues to make substantial investment in research, development and quality assurance aiming to produce the best product ever for our clients.

In the third quarter of the financial year, iMerchants transferred its wealth management operations to its wholly-owned subsidiary, Asia Financial Network Limited ("AFN"), re-positioned AFN as the Group's wealth management arm, and re-branded the product suite as WealthSuite™. With the change, iMerchants can build an entity that focuses 100% on developing, delivering and enhancing its wealth management product suite. iMerchants now provides its wealth management solutions to the market exclusively through AFN and, we believe that by doing so, we are able to provide an even higher degree of service and quality to our clients. The Group's first major 'WealthSuite™' contract was announced in February 2003 and is now close to production launch.

The Group's Client Support Services business line came about as the Group re-aligned its Professional Services operations in the third quarter of this past year to address increasingly competitive market conditions. This line provides strategic clients with maintenance services and selected IT operations and provides the Group a foundation from which to explore related business opportunities.

Operationally, the Group launched a continuous improvement initiative building on its ISO 9001:2000 certification and invested in several new internal systems to enable more efficient and effective planning and operations.

Chairman's Statement



BUSINESS OUTLOOK

Today, iMerchants is a much stronger Company than it was a year ago.

The Group has made significant progress in refining and enhancing its product and service offering and in improving the efficiency and quality of its operations resulting in a strong foundation for the Group's future growth. Building on this foundation, the Group enters the coming financial year with a full calendar of sales and marketing activities, an expanded sales team and a number of pending sales and marketing alliances to drive revenue generation activities, particularly for its wealth management division.

iMerchants has come a long way since its founding in 1996 and I would like to thank the management team and staff for their commitment and hard work throughout this challenging year of transition.

Leroy Kung Lin Yuen

Chairman

Hong Kong, 20 June 2003

Use of Proceeds

The net proceeds raised from the public listing on 31 March 2000 were approximately HK\$325 million. These proceeds were applied to achieve the business objectives as set out in the prospectus dated 27 March 2000 (“Prospectus”) and detailed below:

	As stated in the Prospectus (from 1 April 2000 to 31 March 2002) <i>HK\$ million</i>	Actual (from 1 April 2000 to 31 March 2003) <i>HK\$ million</i>
For enhancing knowledge creation and management processes and strengthening corporate infrastructure	90	33
For enhancing service offering and expand capacity to deliver	35	40
For geographical expansion in Asia	42	4
For business development and marketing activities	48	22
For acquisition of or investment in ventures	64	24
For general working capital	46	79
Total	<u>325</u>	<u>202</u>

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

There has been no change in business nature since the time that the Group’s Prospectus was prepared.

Due to the continuing difficult economic situation in Hong Kong and a very competitive market, the IT industry has developed and transformed into something quite different from the Group’s forecast and the expected market situation at that time. In response, the Group has taken a more conservative tact in rolling out its business objectives than originally planned as it was considered to be in the best interest of the Group and its shareholders.

Due to the greatly slowed regional IT market, the Group has limited its geographical expansion to date to mainland China (“PRC”). Correspondingly, corporate infrastructure requirements as well as expenditure for business development and marketing have been limited to that required to support operations in the Hong Kong and PRC markets. The Group has, to date, also used less than originally planned for investment in or acquisition of ventures due to the Group’s tight criteria for investment and the changed market environment.

Management Discussion and Analysis

PROSPECTS FOR NEW BUSINESS

iMerchants' Client Support Services is expected to continue to provide the Group with steady income from its fee-based services over the coming years.

Regarding wealth management, the solutions market in Greater China is still relatively immature providing opportunity for new entrants, such as iMerchants, that offer a quality product that supports local requirements. The nature and size of a wealth management solution investment for financial institutions is such that a sales cycle of 6 months or more is fairly common. It follows therefore that interest in WealthSuite™ solutions cannot be immediately transformed into revenue streams. This is not a cause for concern for us as the Group is well equipped to ride the inevitably challenging development stage of this new business line. To date, we already have several sizable deals under final negotiations and have received very positive feedback from a number of additional prospective clients.

For the coming year, the Group will also extend its sales and marketing reach to Taiwan following encouraging response to its initial investigations.

We are confident that with the Group's new structure and focus, it is now in a much better position to succeed. Above all, the Group continues to focus on bottom-line financial results through both revenue generation and cost management.

REVENUE, GROSS PROFIT AND ADMINISTRATIVE EXPENSES

The financial results for the 2002/2003 financial year reflect the restructuring and subsequent investment activities that have been key to building the Group's current strong operational structure.

iMerchants realised a turnover of HK\$8,200,000 for the 2002/2003 financial year. This is a significant and expected decrease from the previous year's turnover of HK\$20,866,000 resulting from the Group's shift away from low margin business areas and reduction in low margin hardware sales. As a result of focusing in those areas with the greatest profit potential, the Group was able to maintain gross profit to HK\$1,050,000 from last year's HK\$1,097,000, reflecting a 8% increase in gross profit margin to 13% from 5%.

Administrative expenses, which included the necessary costs associated with restructuring absorbed by the Group in the second and third quarters of this financial year, decreased to HK\$45,011,000 (2002: HK\$48,388,000). When the fourth quarter and the previous quarter are compared, administrative expenses decreased by about HK\$6,199,000 or 47%. The Group generated a loss of HK\$36,490,000 this year, down from HK\$79,672,000 the previous year.

Management Discussion and Analysis

COMMENTARY ON SEGMENTAL INFORMATION

Although the revenue from sales of goods exceeded 10% of the Group's turnover, the Directors do not consider sales of goods to be a separate reportable business segment as this area of the Group's business is not currently expected to be of continuing significance to the Group.

The Group principally engages in the provision of information technology services and operates in Hong Kong. Accordingly, no analysis by business and geographical segments is presented in the financial statements.

INVESTMENTS

The Group has an investment of approximately HK\$6.7 million in Net Alliance Company Limited ("Net Alliance"), a company that provides online banking service bureau operations to a group of four banks in Hong Kong. Net Alliance has built its success by implementing a new means of delivering IT solutions to financial institutions, that, through cost sharing, results in a comparatively low cost to the individual institution. The Group expects Net Alliance's revenues and costs to remain quite stable during the coming years.

The Group recorded a gain on disposal of an associate, namely, iShopAero Pte Limited ("iShopAero") amounting to approximately HK\$212,000. This happened as iShopAero's majority shareholder offered to buy out the 35.3% equity stake of iShopAero held by the Company. Based on the fact that iShopAero incurred significant losses in the previous years, the Group had already made full provision in respect of its investment in iShopAero during the previous financial year. Therefore, the whole amount of the sale proceed is recorded as a gain on disposal of the investment.

As at 31 March 2003, the Group had approximately HK\$128 million (31 March 2002: approximately HK\$55 million) worth of investments in marketable securities, which are all investment-grade fixed income investments with high ratings. The management intends to hold these investments on a long-term basis up to their respective maturity dates.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

There has been no change in the capital structure of the Group during the financial year ended 31 March 2003. The Group continued to be in a healthy financial situation with current assets plus investments in marketable securities and time deposits totalling approximately HK\$220 million (31 March 2002: approximately HK\$249 million) and no bank borrowings as at 31 March 2003. As 39% of this total consists of bank balances, deposits and cash, and investments in marketable securities account for a further 58% of the total, the Group considers its financial resources to be highly liquid. The Group aims to minimize its financing costs by managing the maturity of its financial investments and deposits so as to provide sufficient funds to cover ongoing expenditures.

Management Discussion and Analysis

The Group continues to explore the possibility of acquiring or taking equity stakes in companies whose activities have synergy with those of the Group. However, the Group does not currently have any target company. The Group expects its primary capital expenditures to be investments in the computer hardware and software required to perform its solution development activities and to provide services to its clients. These capital expenditures and ongoing operating expenses will be financed by the Group's existing financial resources, and the Directors do not foresee the need for any material financial activities in order to execute the Group's plans. The Group did not undertake any material acquisitions and disposals of subsidiaries and affiliated companies in the course of the year ended 31 March 2003.

In respect of trade receivables, as the Group's clients are predominantly listed companies, banks or divisions of large multinational companies, the management believes the risk of default payment by the clients is very low. Nonetheless, the level of trade receivables from each client is monitored on a monthly basis, with late payments being promptly pursued by the Group's Accounting Department.

As at 31 March 2003, approximately 11% of the Group's cash and bank balances and marketable investments were denominated in Hong Kong dollars, approximately 88% in US dollars and a nominal amount is held in Renminbi. Given the liquid nature of these marketable investments, the currency peg between Hong Kong dollars and US dollars, and the fact that the major operating currency of the Group is Hong Kong dollars, the Group does not hedge its exchange rate exposures.

The Group's gearing ratio as at 31 March 2003 was 0% (31 March 2002: 0%), as calculated by taking the ratio of the Group's total interest-bearing borrowings, divided by its shareholders' funds. The Group had no borrowings and no contingent liabilities as at 31 March 2003 (31 March 2002: Nil). In order to secure a banking facility granted to one of the Group's subsidiaries, a bank deposit amounting to HK\$500,000 was pledged to a bank as at 31 March 2003 (31 March 2002: Nil). Other than this pledged bank deposit, the Group had no charges on its assets as at 31 March 2003.

EMPLOYEES

As at 31 March 2003, the Group employed 42 staff (31 March 2002: 87). In concert with the Group's business assessment and re-alignment of operations, iMerchants reviewed its complement of staff to ensure the best possible fit with the Group's chosen focus for business in the future. As a result, the year ended with a reduced headcount of 42 people with express plans for recruitment to build our strength in selected areas.

Management Discussion and Analysis



Remuneration for the Group's employees is typically reviewed once a year, or as the management deems appropriate. Changes in remuneration are based on a range of factors including the Group's business performance, the competitiveness of remuneration with the external market, and an individual employee's performance during the year. For the year ended 31 March 2003, the Group's total remuneration expenses, including contributions to the Mandatory Provident Fund, were approximately HK\$34.3 million (2002: approximately HK\$29.7 million). A portion of these expenses was charged to direct costs of solution development, some paid for compensation and severance as a result of the restructuring exercise and the balance was recorded as administrative expenses. The total was approximately 15% more than the corresponding period last year, mainly due to the substantial compensation and severance payment of approximately HK\$4.5 million in relation to the restructuring exercise.

The Group has introduced share option schemes to recognize the contributions its employees make to the development of the Group. As at 31 March 2003, a total of 37,590,000 share options remained outstanding (31 March 2002: 77,300,000). None had been exercised during the financial year. The schemes have been or will be amended from time to time to reflect changes in market conditions and the GEM Listing Rules.

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 36, is responsible for setting the strategic direction of the Group and spearheading the solutions which the Group provides. He started his career as a software developer with Fujitsu America Limited 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., and 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, Business Development: Ms. Foo, aged 38, 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 18 years of business experience encompassing systems design and development, strategic planning, operations design and management and project management. Prior to co-founding iMerchants, Ms. Foo worked with Hongkong Telecom's IMS division (now part of PacificCentury CyberWorks Limited), DHL Worldwide Express and IBM. Ms. Foo holds a Bachelor's degree in Science in Management Information Systems from Carnegie-Mellon University in the U.S.A.

Edward Un Ding Bong — Director, Chief Technology Officer, Vice President of Information Technology and General Manager of wholly-owned subsidiary Asia Financial Network Limited: Mr. Un, aged 37, is responsible for leading the Group's IT product development delivery, for guiding the Group's technology strategy and research and development initiatives and for leading the Group's wholly-owned subsidiary Asia Financial Network Limited ("AFN"). Prior to joining the Group in February 2000, Mr. Un was co-founder and Vice President of Advanced Technologies of Just in Time Solutions (now Avolent, Inc.), a leading Electronic Bill Presentment and Payment solution provider in the United States. At Just in Time Solutions, Mr. Un was responsible for developing new products such as the company's bill publishing software and an on-line bill consolidator service for Intuit's Quicken. While based in the U.S.A., Mr. Un was a member of the original technical committee of the OFX (Open Financial Exchange) Consortium and a member of the Board of Directors of the IFX (Interactive Financial Exchange) Forum, Inc. Earlier experience includes senior technical positions at Sun Microsystems and Ensemble Information Systems. Mr. Un holds a MBA from U.C. Berkeley's Haas School of Business and a Bachelor of Science degree in Electrical Engineering and a Master of Science degree in Electrical and Computer Engineering from Carnegie Mellon University in the U.S.A. He was appointed as an Executive Director on 25 June 2002.

Directors and Senior Management Profile

Independent non-executive Directors

Alice Plera Lam Lee Kiu Yue — Dr. Lam, aged 63, 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 and in 1993, was awarded an honorary Doctor of Laws degree by the Chinese University of Hong Kong. Dr. Lam has over 20 years of experience in banking and finance and has held the following posts: Managing Director and Deputy Chief Executive of Hang Seng Bank Limited; Director of Cable and Wireless HKT Limited (now 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 6 March 2000.

Alex Ko Po Ming — Mr. Ko, aged 44, is the Chairman of Armstrong Capital Limited and the former 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 20 years experience in banking and corporate finance. At present, he is a member of both Listing Committees of the Main Board and GEM Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). He is also an independent non-executive director of Goldbond Group Holdings Limited, a company listed on the Main Board of the Stock Exchange. Mr. Ko was appointed as an independent non-executive Director on 31 January 2000.

Ronny Chow Fan Chim — Mr. Chow, aged 34, is a practicing solicitor in Hong Kong and a partner of Deacons. Mr. Chow graduated from The University of Hong Kong with 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 15 March 2000.

Senior Management

Esther Tang Pik Yuk — **Deputy Vice President, Information Technology:** Ms. Tang, aged 41, is responsible for system implementation support for 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 Hong Kong Polytechnic University and a Master of Science degree in Engineering Management from the University of Technology, Sydney, Australia.

Directors and Senior Management Profile

Horace Ma Chi Shing — Senior Human Resources Manager: Mr. Ma, aged 34, is responsible for defining and implementing the Group’s human resources policies and procedures, for advising senior management on strategic and tactical human resources issues and for managing the Group’s recruiting activities. Prior to joining the Group in January 2000, Mr. Ma was the Human Resource Manager for Deloitte Consulting’s Greater China Practice. Previous experience includes roles as Recruiting Manager responsible for Greater China recruitment for McKinsey & Company, and Consultant with Hewitt Associates. Mr. Ma holds a Bachelor of Arts degree from the Chinese University of Hong Kong and a Post-Graduate Diploma in Applied Linguistics from Australian National University.

Clement Leung Yuen Wing — Financial Controller and Company Secretary: Mr. Leung, aged 35, 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 with PriceWaterhouseCoopers. Other previous experience includes a managerial position in the Greater China corporate finance division at Peregrine Capital Limited and seven years with KPMG’s audit division. Mr. Leung holds a Bachelor of Business Administration degree from the Chinese University of Hong Kong.

Directors' Report



The Directors present their annual report and the audited financial statements for the year ended 31 March 2003.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its subsidiaries and an associate are the provision of information technology services.

SUBSIDIARIES AND ASSOCIATE

Details of the Company's subsidiaries and an associate as at 31 March 2003 are set out in notes 11 and 12 to the financial statements respectively.

RESULTS

The results of the Group for the year ended 31 March 2003 are set out in the consolidated income statement on page 20 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 10 to the financial statements.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 19 to the financial statements. There was no movement in the Company's share capital during the year.

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

RESERVES

Details of movements in the reserves of the Group and of the Company during the year are set out in the statement of changes in equity and note 20 to the financial statements respectively.

FINANCIAL SUMMARY

A summary of the results of the Group for the past five financial years is set out on page 53 of the annual report.

Directors' 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. Edward Un Ding Bong (appointed on 25 June 2002)

Mr. Matthew P. Johnston (resigned on 20 July 2002)

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, Mr. Edward Un Ding Bong and Mr. Ronny Chow Fan Chim retire as Directors and, being eligible, offer themselves for re-election.

Mr. Leroy Kung Lin Yuen and Ms. Lena Foo have entered into service contracts with the Company on 15 March 2000 and Mr. Edward Un Ding Bong has entered into a service contract with the Company on 24 June 2002. All such service contracts are for a term of two years and 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 31 March 2003, 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 (“SDI Ordinance”) were as follows:

Name of Director	Number of ordinary shares in the Company held as		Number of shares entitled under the share option scheme held as personal interests
	personal interests	corporate interests	
Mr. Leroy Kung Lin Yuen (“Mr. Kung”)	—	747,523,000 <i>(Note i)</i>	—
Mr. Edward Un Ding Bong (“Mr. Un”)	—	—	10,000,000 <i>(Note ii)</i>

Notes:

- (i) The registered shareholder of 747,523,000 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 747,523,000 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, 2,000,000 share options were granted on 23 August 2000 under a share option scheme which was approved by a written resolution of the shareholders of the Company dated 15 March 2000 (the “2000 Share Option Scheme”). These share options entitle Mr. Un to subscribe for 2,000,000 shares of HK\$0.10 each in the Company at HK\$0.53 each in various stages from 31 March 2001 to 23 August 2010.

The remaining 8,000,000 share options were granted on 27 September 2002 under a share option scheme which was approved by the shareholders of the Company in a special general meeting dated 2 August 2002 (the “2002 Share Option Scheme”). These share options entitle Mr. Un to subscribe for 8,000,000 shares of HK\$0.10 each in the Company at HK\$0.172 each in various stages from 1 September 2003 to 28 August 2012.

Save as disclosed above, at 31 March 2003, none of the Directors or any of their associates had any interests in any securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

Directors' Report

SUBSTANTIAL SHAREHOLDERS

At 31 March 2003, 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 31 March 2003 representing 10% or more of the issued share capital of the Company.

SHARE OPTION SCHEMES

Particulars of the Company's share option schemes and details of movements in the share options to subscribe for shares of HK\$0.1 each in the Company granted under the Company's share option schemes during the year are set out in note 21 to the financial statements.

As disclosed in note 21 to the financial statements, the Company granted a total number of 8,000,000 options under the 2002 Share Option Scheme during the financial year ended 31 March 2003. The fair value of the said options totalled approximately HK\$280,800.

In assessing the value of the share options granted during the year, the Black-Scholes Model has been used. The Black-Scholes Model is one of the most generally accepted methodologies to calculate the value of options and is one of the recommended options pricing models as set out in Rule 23.08 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("GEM Listing Rules"). The variables of the Black-Scholes Model, include, risk-free interest rate, expected life of the options, expected volatility and expected dividend of the shares of the Company, if applicable.

The interest rate applied in the Black-Scholes Model is 4.222%, representing the 10-year yield of the Hong Kong Exchange Fund Notes as at the date of grant of the share options (the "Measurement Date"). The volatility ratio of 24.86%, representing the standard deviation of the daily closing share prices of the Company for the last twelve months from the Measurement Date, is used in the Black-Scholes Model. It is assumed that, based on historical pattern, no dividend will be paid out during the vesting period.

The variables used in the Black-Scholes Model for the valuation of 8,000,000 share options granted under the 2002 Share Option Scheme during the year are as follows:

Exercise price	HK\$0.172
Time to expiry	10 years
Date of grant	27 September 2002
Stock price as at the Measurement Date	HK\$0.114
Interest rate as at the Measurement Date	4.222%
Volatility as at the Measurement Date	24.86%

For the purpose of the calculation of fair value, no adjustment was made in respect of options expected to be forfeited due to lack of historical data.

Directors' Report

It should be noted that the value of options calculated using the Black-Scholes Model is only an estimate of the value of share options granted during the year. Amongst other variables, it uses the time to expiry to determine a value based on the past performance of the share price as measured by the volatility factor. If, however, the Company's future financial and/or operating performance fluctuates, it is likely that the share price will be affected. In such case, the financial benefit accruing to the grantee of an option will be considerably different from the value determined under the Black-Scholes Model.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Other than the share option schemes as described in the section headed "Share Option Schemes" above and note 21 to the financial statements, at no time during the year was the Company, any of its holding companies, fellow subsidiaries or subsidiaries a party to any arrangement to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate and none of the Directors, their spouses or children under the age of 18 had any right to subscribe for the securities of the Company, or had exercised any such rights during the year.

CONNECTED TRANSACTIONS

During the year, there were no transactions which need to be disclosed as connected transactions in accordance with the requirements of the GEM Listing Rules.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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.

Other than as disclosed above, 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.

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 less than 30% of its cost of sales and direct costs for the year.

During the year, the five largest customers of the Group accounted for approximately 86% of the turnover of the Group and the largest customer accounted for approximately 47% of the total turnover.

Directors' Report

Save as disclosed above, at no time during the year did 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) have an interest in any of the five largest customers and the five largest suppliers of the Group.

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

At no time during the year did the Company or its subsidiaries purchase, sell or redeem 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 31 March 2003; and
4. participated in the re-appointment and assessment of the performance of the external auditors.

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31 March 2003 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 26 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, 20 June 2003

Auditors' Report

德勤 • 關黃陳方會計師行

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

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 20 to 52 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 31 March 2003 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

20 June 2003

Consolidated Income Statement

For the year ended 31 March 2003

	NOTES	2003 HK\$'000	2002 HK\$'000
Turnover	4	8,200	20,866
Cost of sales and direct costs		<u>(7,150)</u>	<u>(19,769)</u>
Gross profit		1,050	1,097
Other operating income		7,630	9,640
Administrative expenses		(45,011)	(48,388)
Impairment losses		<u>(157)</u>	<u>(40,115)</u>
Loss from operations	6	(36,488)	(77,766)
Interest on bank overdraft		—	(9)
Share of results of associates		<u>—</u>	<u>(1,924)</u>
Loss before taxation		(36,488)	(79,699)
Taxation (charge) credit	8	<u>(2)</u>	<u>27</u>
Loss for the year		<u>(36,490)</u>	<u>(79,672)</u>
Loss per share	9		
— Basic and diluted		<u>HK3.14 cents</u>	<u>HK6.85 cents</u>

Consolidated Balance Sheet

		<i>At 31 March 2003</i>	
	<i>NOTES</i>	2003	2002
		<i>HK\$'000</i>	<i>HK\$'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment	<i>10</i>	3,425	8,512
Interests in associates	<i>12</i>	6,660	9,309
Investments in securities	<i>13</i>	122,516	53,403
Long-term bank deposits		33,540	23,400
		166,141	94,624
CURRENT ASSETS			
Inventories	<i>14</i>	121	1,024
Amounts due from customers for contract work	<i>15</i>	135	892
Trade and other receivables	<i>16</i>	3,984	8,319
Investments in securities	<i>13</i>	5,581	1,497
Amount due from an associate		340	24
Accounts receivable	<i>17</i>	—	2,320
Short-term bank deposits		44,669	142,463
Pledged bank deposit	<i>18</i>	500	—
Bank balances and cash		8,480	15,958
		63,810	172,497
CURRENT LIABILITIES			
Amounts due to customers for contract work	<i>15</i>	415	—
Other payables		1,578	2,673
		1,993	2,673
NET CURRENT ASSETS			
		61,817	169,824
		227,958	264,448
CAPITAL AND RESERVES			
Share capital	<i>19</i>	116,139	116,139
Reserves		111,819	148,309
		227,958	264,448

The financial statements on pages 20 to 52 were approved and authorised for issue by the Board of Directors on 20 June 2003 and are signed on its behalf by:

Leroy Kung Lin Yuen
DIRECTOR

Lena Foo
DIRECTOR

Balance Sheet

At 31 March 2003

	NOTES	2003 HK\$'000	2002 HK\$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	11	194,867	246,926
Interests in associates	12	7,800	10,800
Investments in securities	13	2,000	—
Long-term bank deposits		33,540	7,800
		<u>238,207</u>	<u>265,526</u>
CURRENT ASSETS			
Other receivables		494	142
Short-term bank deposits		—	6,630
Bank balances		1,689	3,688
		<u>2,183</u>	<u>10,460</u>
CURRENT LIABILITIES			
Other payables		—	66
Amounts due to subsidiaries		11,137	11,134
		<u>11,137</u>	<u>11,200</u>
NET CURRENT LIABILITIES			
		<u>(8,954)</u>	<u>(740)</u>
		<u>229,253</u>	<u>264,786</u>
CAPITAL AND RESERVES			
Share capital	19	116,139	116,139
Reserves	20	113,114	148,647
		<u>229,253</u>	<u>264,786</u>

Leroy Kung Lin Yuen
DIRECTOR

Lena Foo
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 March 2003

	Share capital	Share premium	Goodwill	Negative goodwill	Capital redemption reserve	Merger reserve	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2001	116,548	207,130	(4,900)	1,884	—	46,715	(27,360)	340,017
Shares repurchased and cancelled	(409)	—	—	—	—	—	—	(409)
Premium arising on share repurchase	—	—	—	—	—	(388)	—	(388)
Impairment loss recognised in respect of goodwill	—	—	4,900	—	—	—	—	4,900
Transfer	—	—	—	—	409	(409)	—	—
Loss for the year	—	—	—	—	—	—	(79,672)	(79,672)
At 31 March 2002 and 1 April 2002	116,139	207,130	—	1,884	409	45,918	(107,032)	264,448
Loss for the year	—	—	—	—	—	—	(36,490)	(36,490)
At 31 March 2003	<u>116,139</u>	<u>207,130</u>	<u>—</u>	<u>1,884</u>	<u>409</u>	<u>45,918</u>	<u>(143,522)</u>	<u>227,958</u>

Consolidated Cash Flow Statement

For the year ended 31 March 2003

	2003 HK\$'000	2002 HK\$'000
Operating activities		
Loss before taxation	(36,488)	(79,699)
Adjustments for:		
Amortisation of premium and discount on acquisition of debt securities	1,085	8
Depreciation	5,601	6,131
Impairment loss recognised in respect of property, plant and equipment	157	—
Loss on disposal of property, plant and equipment	85	65
Gain on disposal of an associate	(212)	—
Gain on disposal of debt securities	(3)	—
Interest income from debt securities	(5,057)	(1,305)
Interest income from bank deposits	(3,443)	(7,612)
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	(351)	(2,047)
Share of results of associates	—	1,924
Allowance for loan to an associate	—	523
Allowance for loan to a jointly controlled entity	—	5,476
Amortisation of platform development costs	—	1,988
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
Interest expense	—	9
	<hr/>	<hr/>
Operating cash flows before movements in working capital	(38,626)	(52,364)
Decrease (increase) in inventories	903	(1,024)
Decrease (increase) in amounts due from customers for contract work	757	(880)
Decrease (increase) in trade and other receivables	5,954	(101)
Decrease in amount due from immediate holding company	—	195
(Increase) decrease in amount due from an associate	(316)	4,176
Increase in amounts due to customers for contract work	415	—
Decrease in other payables	(1,095)	(1,087)
	<hr/>	<hr/>
Cash used in operation	(32,008)	(51,085)
Interest received from bank deposits	1,824	10,320
Interest paid	—	(9)
Overseas tax paid	(2)	(409)
	<hr/>	<hr/>
Net cash used in operating activities	(30,186)	(41,183)

Consolidated Cash Flow Statement

For the year ended 31 March 2003

	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Investing activities		
Interest income from debt securities	5,057	1,305
Loan repaid from (advanced to) an associate	3,000	(3,323)
Proceeds from disposal of property, plant and equipment	6	27
Proceeds from redemption of debt securities	16,497	—
Proceeds from disposal of debt securities	15,603	—
Proceeds from disposal of an associate	212	—
Repayment of accounts receivable	2,320	4,436
Increase in pledged bank deposit	(500)	—
(Increase) decrease in bank deposits with original maturity more than three months	(33,540)	131,600
Purchases of debt securities	(106,379)	(54,908)
Purchases of property, plant and equipment	(762)	(2,212)
Expenditure on platform development	—	(9,592)
Loan repayment from a jointly controlled entity	—	624
Net cash (used in) from investing activities	<u>(98,486)</u>	<u>67,957</u>
Cash used in financing activity		
Repurchase of own shares	—	(797)
Net (decrease) increase in cash and cash equivalents	<u>(128,672)</u>	<u>25,977</u>
Cash and cash equivalents at beginning of the year	<u>158,421</u>	<u>132,444</u>
Cash and cash equivalents at end of the year	<u><u>29,749</u></u>	<u><u>158,421</u></u>
Being:		
Short-term bank deposits	44,669	142,463
Less: Short-term bank deposits with original maturity more than three months	<u>(23,400)</u>	<u>—</u>
	21,269	142,463
Bank balances and cash	<u>8,480</u>	<u>15,958</u>
	<u><u>29,749</u></u>	<u><u>158,421</u></u>

Notes to the Financial Statements

For the year ended 31 March 2003

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 (“BVI”).

The Company is an investment holding company. The principal activities of its subsidiaries are the provision of information technology 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. The adoption of these new and revised SSAPs has resulted in a change in the format of presentations of the cash flow statement and the inclusion of a statement of changes in equity, but has had no material effect on the results for the current or prior accounting years. Accordingly, no prior year adjustment has been required.

Cash flow statements

In the current year, the Company has adopted SSAP 15 (Revised) “Cash Flow Statements”. Under SSAP 15 (Revised), cash flows are classified under three headings – operating, investing and financing, rather than the previous five headings. Interest paid and received, which were previously presented under a separate heading, are classified as operating or investing cash flows. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities.

Employee benefits

In the current year, the Group has adopted SSAP 34 “Employee Benefits”, which introduces measurement rules for employee benefits, including retirement benefits plans. Because the Group participates only in defined contribution retirement benefits schemes, the adoption of SSAP 34 has not had any material impact on the financial statements.

Notes to the Financial Statements

For the year ended 31 March 2003

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 31 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.

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, an associate or a jointly controlled entity at the date of acquisition.

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

Goodwill arising on acquisitions on or after 1 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 separately in the balance sheet.

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 at the date of acquisition over the cost of acquisition.

Negative goodwill arising on acquisitions prior to 1 April 2001 continues to be held in reserves and will be credited to income at the time of disposal of the relevant subsidiary.

Negative goodwill arising on acquisitions on or after 1 April 2001 is presented as deduction from assets. To the extent that such 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 immediately.

Notes to the Financial Statements

For the year ended 31 March 2003

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.

Maintenance service income is recognised when services are rendered.

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.

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.

Taxation

The charge for taxation is based on the results for the year after adjusting for items which are non-assessable or disallowed. Timing differences arises from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of the resulting timing differences, computed under the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

Notes to the Financial Statements

For the year ended 31 March 2003

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.

Interests 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.

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, interests in associates are stated at cost, as reduced by any identified impairment loss.

Investments in securities

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

At subsequent reporting date, 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.

Notes to the Financial Statements

For the year ended 31 March 2003

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 loss is recognised as an expense immediately.

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.

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 currencies other than Hong Kong dollar are re-translated at the rates ruling on the balance sheet date. Profits and losses arising on translation are dealt with in the income statement.

On consolidation, the assets and liabilities of the Group's operations outside Hong Kong are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's reserves. Such translation differences are recognised as an income or as an expense in the period in which the operation is disposed of.

Notes to the Financial Statements

For the year ended 31 March 2003

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 costs

Payments to the Mandatory Provident Fund Scheme are charged as an expense as they fall due.

4. TURNOVER

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Revenue from contracts for consultancy and software development	7,193	19,563
Sales of goods	1,007	1,303
	<u>8,200</u>	<u>20,866</u>

5. SEGMENT INFORMATION

Although the revenue from sales of goods exceeded 10% of the Group's turnover, the Directors do not consider sales of goods to be a separate reportable business segment as this area of the Group's business is not currently expected to be of continuing significance to the Group.

The Group principally engages in the provision of information technology services and operates in Hong Kong. Accordingly, no analysis by business and geographical segments is presented.

Notes to the Financial Statements

For the year ended 31 March 2003

6. LOSS FROM OPERATIONS

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Loss from operations has been arrived at after charging (crediting):		
Allowance for loan to a jointly controlled entity (included in administrative expenses)	—	5,476
Allowance for loan to an associate (included in administrative expenses)	—	523
Amortisation of platform development costs (included in administrative expenses)	—	1,988
Auditors' remuneration	371	453
Cost of inventories recognised as an expense (included in cost of sales and direct costs)	903	1,044
Depreciation	5,601	6,131
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
Impairment loss recognised in respect of prepayment for an advertising contract	—	17,940
Impairment loss recognised in respect of property, plant and equipment (<i>Note 10</i>)	157	—
	157	40,115
Loss on disposal of property, plant and equipment	85	65
Operating lease charges in respect of rented premises	2,458	2,662
Operating lease charges in respect of software licensing	—	170
Staff costs including directors' emoluments		
Salaries and allowances	29,441	27,844
Redundancy payments	4,502	818
Contributions to retirement benefits scheme	361	1,067
	34,304	29,729
Bank interest income	(3,443)	(7,612)
Gain on disposal of an associate	(212)	—
Gain on disposal of debt securities	(3)	—
Interest income from debt securities (net of amortisation of premium and discount on acquisition of approximately HK\$1,085,000 (2002: HK\$8,000))	(3,972)	(1,297)
Net property rental income under operating leases after outgoings (2002: HK\$264,000)	—	(292)
	<u> </u>	<u> </u>

Notes to the Financial Statements

For the year ended 31 March 2003

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*

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Independent non-executive Directors		
Fees	—	—
Executive Directors		
Fees	—	—
Salaries and allowances	2,215	2,122
Retirement benefits scheme contributions	25	24
	<u>2,240</u>	<u>2,146</u>
	<u>2,240</u>	<u>2,146</u>

For the year ended 31 March 2003, there were four Directors who received emoluments of HK\$1, approximately HK\$394,000, approximately HK\$885,000 and approximately HK\$961,000, respectively. The other Directors did not receive any emoluments.

For the year ended 31 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.

(b) *Employees' emoluments*

During the year, the five highest paid individuals included two Directors (2002: two) of the Company, details of their emoluments are set out above. The emoluments of the remaining three individuals (2002: three) were as follows:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Salaries and allowances	2,107	3,690
Compensation for loss of office	555	—
Retirement benefits scheme contributions	26	36
	<u>2,688</u>	<u>3,726</u>

Notes to the Financial Statements

For the year ended 31 March 2003

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

(b) *Employees' emoluments (continued)*

The emoluments were within the following bands:

	Number of employees	
	2003	2002
HK\$1,000,000 or below	2	—
HK\$1,000,001 to HK\$1,500,000	1	2
HK\$1,500,001 to HK\$2,000,000	—	1
	<u>3</u>	<u>3</u>

Save as disclosed above, 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 have waived any emoluments.

8. TAXATION (CHARGE) CREDIT

	2003	2002
	HK\$'000	HK\$'000
Other jurisdictions	<u>(2)</u>	<u>27</u>

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group incurred tax losses in Hong Kong for both years.

The taxation charge for the year ended 31 March 2003 represents an underprovision of taxation in other jurisdictions in previous years. No provision for taxation in other jurisdictions was made as the Group's subsidiaries operated outside Hong Kong had no assessable profits.

The taxation credit for the year ended 31 March 2002 represented an overprovision for taxation in the previous years.

Details of the unprovided deferred taxation are set out in note 22.

Notes to the Financial Statements

For the year ended 31 March 2003

9. LOSS PER SHARE

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

	2003 HK\$'000	2002 HK\$'000
Loss for the year	<u>(36,490)</u>	<u>(79,672)</u>
	Number	Number
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	<u>1,161,382,000</u>	<u>1,162,800,345</u>

The computation of diluted loss per share has not assumed the exercise of the Company's outstanding share options as their exercise prices were higher than the average market price of the Company's shares for both years.

10. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK\$'000	Furniture, fixtures and office equipment HK\$'000	Computer equipment HK\$'000	Total HK\$'000
THE GROUP				
COST				
At 1 April 2002	5,055	3,315	14,047	22,417
Additions	271	200	291	762
Disposals	—	(11)	(336)	(347)
At 31 March 2003	<u>5,326</u>	<u>3,504</u>	<u>14,002</u>	<u>22,832</u>
DEPRECIATION AND IMPAIRMENT				
At 1 April 2002	3,494	1,329	9,082	13,905
Provided for the year	1,670	687	3,244	5,601
Eliminated on disposals	—	(4)	(252)	(256)
Impairment loss recognised	157	—	—	157
At 31 March 2003	<u>5,321</u>	<u>2,012</u>	<u>12,074</u>	<u>19,407</u>
NET BOOK VALUES				
At 31 March 2003	<u>5</u>	<u>1,492</u>	<u>1,928</u>	<u>3,425</u>
At 31 March 2002	<u>1,561</u>	<u>1,986</u>	<u>4,965</u>	<u>8,512</u>

Notes to the Financial Statements

For the year ended 31 March 2003

10. PROPERTY, PLANT AND EQUIPMENT (continued)

The Group's operation in the People's Republic of China ("PRC") was suspended during the year. The Directors have reassessed the recoverable amount of the assets of approximately HK\$157,000 in the PRC office and recognised an impairment loss of approximately HK\$157,000.

11. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2003	2002
	HK\$'000	HK\$'000
Unlisted shares, at cost	<u>33,164</u>	<u>31,994</u>
Loans to subsidiaries	276,703	293,932
Allowance for loan to a subsidiary	<u>(115,000)</u>	<u>(79,000)</u>
	<u>161,703</u>	<u>214,932</u>
	<u>194,867</u>	<u>246,926</u>

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.

Notes to the Financial Statements

For the year ended 31 March 2003

11. INTERESTS IN SUBSIDIARIES (continued)

Details of the Company's subsidiaries at 31 March 2003 are as follows:

Name of subsidiary	Form of business structure	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	Incorporated	Hong Kong	Ordinary shares HK\$2,624,253	100%	—	Provision of information technology services
Claryfield Company Limited	Incorporated	BVI/ Hong Kong	Ordinary shares US\$100	—	100%	Inactive
Extremes Enterprises Limited	Incorporated	BVI/ Hong Kong	Ordinary shares US\$100	100%	—	Investment holdings
Fullion Management Limited	Incorporated	BVI/ Hong Kong	Ordinary shares US\$100	—	100%	Inactive
iMerchants Asia Limited	Incorporated	BVI/ Hong Kong	Ordinary shares US\$6,001,000	100%	—	Investment holdings and management services
iMerchants Consulting Limited	Incorporated	Hong Kong	Ordinary shares HK\$100	—	100%	Provision of information technology services
iMerchants Services Limited	Incorporated	BVI/ Hong Kong	Ordinary shares US\$1,000	—	100%	Provision of information technology services
iMerchants Technology Pte Limited	Incorporated	Republic of Singapore	Ordinary shares SG\$2	100%	—	Provision of information technology services
iMerchants Technologies (Beijing) Company Limited	Wholly-owned foreign enterprise	PRC	Paid-up capital US\$150,000	100%	—	Inactive
The Interactive Merchants Limited	Incorporated	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 31 March 2003

12. INTERESTS IN ASSOCIATES

	THE GROUP		THE COMPANY	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Unlisted shares, at cost	—	—	4,000	16,480
Share of net assets	2,860	2,509	—	—
Impairment loss recognised	—	—	—	(12,480)
	<u>2,860</u>	<u>2,509</u>	<u>4,000</u>	<u>4,000</u>
Loans to associates	3,800	7,323	3,800	7,323
Allowance for loan to an associate	—	(523)	—	(523)
	<u>3,800</u>	<u>6,800</u>	<u>3,800</u>	<u>6,800</u>
	<u>6,660</u>	<u>9,309</u>	<u>7,800</u>	<u>10,800</u>

Details of the Group's associate at 31 March 2003 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
Net Alliance Co. Limited	Incorporated	Hong Kong	Ordinary shares	40%	Provision of internet, banking and financial services

The financial year end date of the associate is 31 December and is not co-terminus with that of the Group.

The loan to the associate is 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 31 March 2003

13. INVESTMENTS IN SECURITIES

	THE GROUP					
	Held-to-		Investment		Total	
	maturity securities		securities			
	2003	2002	2003	2002	2003	2002
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	—	—	(3,602)	(3,602)	(3,602)	(3,602)
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Debt securities:						
Unlisted, at cost	122,560	49,274	—	—	122,560	49,274
Listed overseas, at cost	5,537	5,626	—	—	5,537	5,626
	<u>128,097</u>	<u>54,900</u>	<u>—</u>	<u>—</u>	<u>128,097</u>	<u>54,900</u>
Market value of						
listed securities	<u>5,669</u>	<u>5,560</u>	<u>—</u>	<u>—</u>	<u>5,669</u>	<u>5,560</u>
Carrying amount analysed for reporting purposes as:						
Current	5,581	1,497	—	—	5,581	1,497
Non-current	122,516	53,403	—	—	122,516	53,403
	<u>128,097</u>	<u>54,900</u>	<u>—</u>	<u>—</u>	<u>128,097</u>	<u>54,900</u>

	THE COMPANY	
	Held-to-	
	maturity securities	
	2003	2002
	HK\$'000	HK\$'000
Debt securities – non-current:		
Unlisted, at cost	<u>2,000</u>	<u>—</u>

Notes to the Financial Statements

For the year ended 31 March 2003

14. INVENTORIES

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Finished goods, at cost	<u>121</u>	<u>1,024</u>

15. AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONTRACT WORK

	THE GROUP	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Costs incurred plus recognised profits less recognised losses	545	1,450
Less: Progress billings	<u>(825)</u>	<u>(558)</u>
	<u>(280)</u>	<u>892</u>
Analysed for reporting purposes as:		
Amounts due from customers for contract work	135	892
Amounts due to customers for contract work — advances received	<u>(415)</u>	<u>—</u>
	<u>(280)</u>	<u>892</u>

16. 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:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
0 — 60 days	434	4,019
61 — 90 days	629	204
Over 90 days	<u>—</u>	<u>1,281</u>
Trade receivables	1,063	5,504
Other receivables	<u>2,921</u>	<u>2,815</u>
	<u>3,984</u>	<u>8,319</u>

Notes to the Financial Statements

For the year ended 31 March 2003

17. ACCOUNTS RECEIVABLE

	THE GROUP	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Accounts receivable	<u>—</u>	<u>2,320</u>
Maximum amount outstanding during the year	<u>2,320</u>	<u>6,756</u>

The amount was derived from the services rendered by the Group to iSteelAsia (Hong Kong) Limited, a wholly-owned subsidiary of iSteelAsia.com Limited in which Mr. Leroy Kung Lin Yuen and Ms. Lena Foo, both executive directors of the Company, were deemed to have beneficial interests. Pursuant to the repayment agreement, the amount was unsecured, non-interest bearing and repayable by monthly instalments. The outstanding balance as at 31 March 2002 was fully repaid during the year.

18. PLEDGED BANK DEPOSIT

The amount represents a deposit pledged to a bank to secure a banking facility granted to a subsidiary.

19. SHARE CAPITAL

	Number of ordinary shares	Amount <i>HK\$'000</i>
Ordinary shares of HK\$0.10 each		
Authorised:		
At 31 March 2002 and at 31 March 2003	<u>8,000,000,000</u>	<u>800,000</u>
Issued and fully paid:		
At 1 April 2001	1,165,476,000	116,548
Share repurchased and cancelled	<u>(4,094,000)</u>	<u>(409)</u>
At 31 March 2002 and at 31 March 2003	<u>1,161,382,000</u>	<u>116,139</u>

During the year ended 31 March 2002, 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 cancelled.

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

There was no movement in the Company's authorised share capital for both years and no movement in the Company's issued and fully paid share capital during the current year.

Notes to the Financial Statements

For the year ended 31 March 2003

20. RESERVES

	Share premium <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE COMPANY					
At 1 April 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 31 March 2002					
and 1 April 2002	207,130	409	31,104	(89,996)	148,647
Loss for the year	—	—	—	(35,533)	(35,533)
At 31 March 2003	<u>207,130</u>	<u>409</u>	<u>31,104</u>	<u>(125,529)</u>	<u>113,114</u>

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.

The Company had no reserves available for distribution to shareholders in both years.

The accumulated losses of approximately HK\$143,522,000 of the Group as at 31 March 2003 did not include any losses attributable to the Group's associates and joint controlled entity. The accumulated losses of approximately HK\$107,032,000 of the Group as at 31 March 2002 included losses of approximately HK\$7,579,000 attributable to the Group's associates and a loss of approximately HK\$2,000 attributable to the Group's jointly controlled entity.

Notes to the Financial Statements

For the year ended 31 March 2003

20. RESERVES (continued)

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.

21. SHARE OPTION SCHEMES

- (i) Share option scheme adopted on 15 March 2000 ("2000 Share Option Scheme")

Pursuant to the 2000 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 2000 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 2000 Share Option Scheme and the option plan adopted pursuant to a written resolution of the shareholders of the Company dated 15 March 2000 ("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 31 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:

- (a) shares to be issued pursuant to the 2000 Share Option Scheme and any other share option schemes; and
- (b) any pro rata entitlements to subscribe for further shares pursuant to the issue of shares mentioned in (a) above.

Notes to the Financial Statements

For the year ended 31 March 2003

21. SHARE OPTION SCHEMES (continued)

- (i) Share option scheme adopted on 15 March 2000 (“2000 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 2000 Share Option Scheme, must not exceed 25% of the maximum shares issuable under the 2000 Share Option Scheme from time to time.

The duration of the 2000 Share Option Scheme was originally effective for 10 years until 14 March 2010. On 2 August 2002, the shareholders of the Company had resolved to have the 2000 Share Option Scheme terminated thereon. However, the options which have been granted under the 2000 Share Option Scheme shall continue to be exercisable in accordance with their respective terms of issue and in all other respects the provisions of the 2000 Share Option Scheme shall remain in full force and effect.

Options granted under 2000 Share Option Scheme are exercisable in various stages during the exercisable period from 31 March 2001 to 23 August 2010 and in accordance with the terms as to:

- (a) one quarter of the options will be exercisable from 1 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 1 April 2001.

Notes to the Financial Statements

For the year ended 31 March 2003

21. SHARE OPTION SCHEMES *(continued)*

(ii) Pre-IPO Share Option Plan

The Pre-IPO Share Option Plan has terms same as those under the 2000 Share Option Scheme except that:

- (a) the subscription price is set at HK\$1.48;
- (b) 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;
- (c) 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 27 March 2000; and
- (d) options granted are exercisable in various stages during the exercisable period from 31 March 2001 to 14 March 2010.

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

(iii) Share option scheme adopted in a special general meeting of the Company dated 2 August 2002 (“2002 Share Option Scheme”)

Under the 2002 Share Option Scheme, the Board of Directors of the Company may grant options at a consideration of HK\$1 for each lot of share option granted to:

- (a) any directors, employee, consultant, professional, customer, supplier, agent, partner or adviser of or contractor to the Group or a company in which the Group holds an interest (all of which to be referred as “Participants”); or
- (b) the trustee of any trust the beneficiary of which or any discretionary trust the discretionary objects of which include any Participants; or
- (c) a company beneficially owned by any Participants.

Notes to the Financial Statements

For the year ended 31 March 2003

21. SHARE OPTION SCHEMES (*continued*)

- (iii) Share option scheme adopted in a special general meeting of the Company dated 2 August 2002 (“2002 Share Option Scheme”) (*continued*)

The purpose of the 2002 Share Option Scheme is to recognise and acknowledge the contributions that participants had made or may make to the Group. Options granted are exercisable at any time during a period to be determined by the Board of Directors and such period must not be more than 10 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 2002 Share Option Scheme and any other option schemes (excluding those options that have already been granted by the Company prior to the date of approval of this Scheme) shall not, in aggregate, exceed 10% of the Company’s shares in issue as at the date of approval of the 2002 Share Option Scheme 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). The maximum number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the 2002 Share Option Scheme and any other option schemes must not, in aggregate, exceed 30% of the Company’s shares in issue from time to time.

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 those participants specified by the Company before such approval is sought.

The maximum number of shares in respect of which options might be granted to a grantee, when aggregated with shares issued and issuable under any option granted to the same grantee under the 2002 Share Option Scheme in the 12-month period up to and including the date of such new grant must not exceed 1% of the Company’s shares in issue as at the date of such new grant. The Company may seek approval of the shareholders of the Company at general meeting with such grantee and its associates abstaining from voting for granting further option above this limit. The number and terms of the options to be granted to such grantee shall be fixed before the shareholders’ approval and the exercise price for the shares in respect of the further options proposed to be so granted, the date of board meeting for proposing such grant of further options shall be taken as the date of offer of the options.

Notes to the Financial Statements

For the year ended 31 March 2003

21. SHARE OPTION SCHEMES *(continued)*

- (iii) Share option scheme adopted in a special general meeting of the Company dated 2 August 2002 (“2002 Share Option Scheme”) *(continued)*

The 2002 Share Option Scheme will expire on 1 August 2012.

At 31 March 2003, the total number of shares available for issue under the Company’s share option schemes was 108,138,200 (2002: 22,807,600), representing 9.31% (2002: 1.96%) of the shares of the Company in issue at that date.

Notes to the Financial Statements

For the year ended 31 March 2003

21. SHARE OPTION SCHEMES (continued)

The following table discloses movements in the number of the Company's share options granted under the Company's share option schemes:

	Name of scheme	Date of grant	Exercise price HK\$	Exercisable period	Outstanding at 1 April 2001	Cancelled during the year	Outstanding at 31 March 2002 and 1 April 2002	Granted during the year (Note)	Lapsed during the year	Reclassified during the year	Outstanding at 31 March 2003
Director											
Mr. Johnston	Pre-IPO Share Option Plan	15 March 2000	1.48	In various stages from 31 March 2001 to 14 March 2010	11,670,000	—	11,670,000	—	(11,670,000)	—	—
	2000 Share Option Scheme	23 August 2000	0.53	In various stages from 31 March 2001 to 23 August 2010	11,670,000	—	11,670,000	—	(11,670,000)	—	—
Director											
Mr. Un	2000 Share Option Scheme	23 August 2000	0.53	In various stages from 31 March 2001 to 23 August 2010	—	—	—	—	—	2,000,000	2,000,000
	2002 Share Option Scheme	27 September 2002	0.172	In various stages from 1 September 2003 to 28 August 2012	—	—	—	8,000,000	—	—	8,000,000
Employees											
	Pre-IPO Share Option Plan	15 March 2000	1.48	In various stages from 31 March 2001 to 14 March 2010	23,340,000	—	23,340,000	8,000,000	(23,340,000)	2,000,000	10,000,000
	2000 Share Option Scheme	23 August 2000	0.53	In various stages from 31 March 2001 to 23 August 2010	29,550,000	(4,200,000)	25,350,000	—	(11,690,000)	—	13,640,000
					34,140,000	(5,510,000)	28,630,000	—	(12,680,000)	(2,000,000)	13,950,000
					63,670,000	(9,710,000)	53,960,000	—	(24,370,000)	(2,000,000)	27,590,000
					87,010,000	(9,710,000)	77,300,000	8,000,000	(47,710,000)	—	37,590,000

Note: The closing price of the share immediately before the date of grant was HK\$0.115.

Notes to the Financial Statements

For the year ended 31 March 2003

21. SHARE OPTION SCHEMES (continued)

The exercise in full of the outstanding 37,590,000 share options at 31 March 2003 would, under the present capital structure of the Company, result in the issue of 37,590,000 additional shares for a total cash consideration, before expenses, of approximately HK\$30,017,000.

Total consideration received by the Company during the year from an employee for taking up the options granted was HK\$1 (2002: nil).

No charge is recognised in the consolidated income statement in respect of the value of options granted in the year (2002: nil).

22. DEFERRED TAXATION

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

	THE GROUP	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Tax effect of timing differences attributable to:		
Estimated tax losses	23,459	15,856
Shortfall (excess) of tax allowances over accounting depreciation	293	(663)
	<u>23,752</u>	<u>15,193</u>

A deferred taxation asset has not been recognised in the financial statements as it is not certain that the estimated tax losses will be realised in the foreseeable future.

The components of the unprovided deferred taxation credit for the year are as follows:

	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Tax effect of timing differences attributable to:		
Estimated tax losses incurred	6,116	10,966
Difference of tax allowances and accounting depreciation	1,018	602
Effect of change in tax rate	1,425	—
	<u>8,559</u>	<u>11,568</u>

Notes to the Financial Statements

For the year ended 31 March 2003

23. OPERATING LEASE COMMITMENTS

As lessee

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

	THE GROUP				THE COMPANY	
	Land and buildings		Software licensing		Land and buildings	
	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	1,931	2,455	—	316	—	302
In the second to fifth year inclusive	1,202	190	—	3,702	—	190
	<u>3,133</u>	<u>2,645</u>	<u>—</u>	<u>4,018</u>	<u>—</u>	<u>492</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 four years and rentals are fixed for an average of two 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. During the year, the software licensing agreement was terminated.

As lessor

At the balance sheet date, the Group had contracted with a tenant for future minimum lease payments for land and buildings of approximately as follows:

	2003	2002
	HK\$'000	HK\$'000
Within one year	80	—
In the second to fifth year inclusive	57	—
	<u>137</u>	<u>—</u>

Notes to the Financial Statements

For the year ended 31 March 2003

24. CAPITAL COMMITMENTS

	THE GROUP	
	2003	2002
	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	—	164

25. OTHER COMMITMENTS

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

	2003	2002
	HK\$'000	HK\$'000
Within one year	—	286
In the second to fifth year inclusive	—	3,332
	—	3,618

During the year, the software maintenance and support services agreement was terminated.

26. 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. At the balance sheet date, no forfeited contribution was 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 31 March 2003

27. RELATED PARTY DISCLOSURES

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

	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue generated from contracts for consultancy and software development performed for		
— associates	455	862
— jointly controlled entity	—	1,784
Maintenance service income from an associate	1,031	—
Rental income from the immediate holding company	—	480
Service fee income from the immediate holding company	—	160
	<u> </u>	<u> </u>

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

- (2) Details of the balances with the Group's associate are set out in the consolidated balance sheet and in note 12.

Financial Summary

	Year ended 31 March				
	1999	2000	2001	2002	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Note 1)</i>	<i>(Note 1)</i>			
RESULTS					
Turnover	4,655	15,169	41,960	20,866	8,200
Cost of sales and direct costs	(1,288)	(3,790)	(24,494)	(19,769)	(7,150)
Gross profit	3,367	11,379	17,466	1,097	1,050
Other revenue	20	61	19,935	9,640	7,630
Administrative expenses	(8,037)	(20,392)	(39,277)	(48,388)	(45,011)
Impairment losses	—	—	—	(40,115)	(157)
Loss from operations	(4,650)	(8,952)	(1,876)	(77,766)	(36,488)
Finance costs	(7)	(325)	(2)	(9)	—
Share of results of associates	—	—	(5,655)	(1,924)	—
Share of result of a jointly controlled entity	—	—	(2)	—	—
Loss before taxation	(4,657)	(9,277)	(7,535)	(79,699)	(36,488)
Taxation (charge) credit	—	—	(437)	27	(2)
Loss for the year	(4,657)	(9,277)	(7,972)	(79,672)	(36,490)
	As at 31 March				
	2000	2001	2002	2003	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	
	<i>(Note 2)</i>	<i>(Note 2)</i>	<i>(Note 2)</i>	<i>(Note 2)</i>	
ASSETS AND LIABILITIES					
Total assets	358,885	344,213	267,121	229,951	
Total liabilities	(6,383)	(4,196)	(2,673)	(1,993)	
Shareholders' funds	352,502	340,017	264,448	227,958	

Notes:

- (1) The results for each of the two years ended 31 March 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 1 April 1998.
- (2) The Company was incorporated in Hong Kong on 25 October 1999 and became the holding company of the Group as a result of the group reorganisation which took place on 10 March 2000. Accordingly, the balance sheets for the Group that have been prepared are those set out above.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of iMerchants Limited will be held at 26th Floor, Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong on 1 August 2003 at 11:00 a.m. to consider and, if thought fit, pass the following resolutions as ordinary resolutions of the Company:

- (1) To receive and consider the audited financial statements together with the reports of the Directors and Auditors for the year ended 31 March 2003;
- (2) To re-elect retiring Directors of the Company and authorize the board of Directors to fix their remuneration;
- (3) To appoint auditors and to authorise the Directors to fix the auditors' remuneration; and
- (4) As special business, to consider and, if thought fit, pass the following resolutions as ordinary resolutions of the Company:

(i) **“THAT**

- (a) the exercise by the Directors during the Relevant Period of all powers of the Company to repurchase shares in the capital of the Company be and is hereby generally and unconditionally approved;
- (b) the respective aggregate amounts of shares which may be purchased on The Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) or any other stock exchange recognised for this purpose by the Securities and Futures Commission of Hong Kong and the Stock Exchange pursuant to paragraph (a) of this Resolution during the Relevant Period shall be no more than 10 per cent. of the aggregate nominal amount of the issued share capital at the date of passing of this Resolution;
- (c) for the purpose of this Resolution:

“Relevant Period” means the period from the passing of this Resolution until whichever is the earlier of:

- (A) the conclusion of the next annual general meeting of the Company;
- (B) the expiration of the period within which the next annual general meeting of the Company is required by law to be held; and
- (C) the revocation or variation of the authority given under this Resolution by ordinary resolution of the shareholders of the Company in general meeting.”

(ii) **“THAT**

- (a) subject to the limitation mentioned in paragraph (c) of this Resolution, the exercise by the Directors during the Relevant Period of all the powers of the Company to

Notice of Annual General Meeting

allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options, which might require the exercise of such powers be and is hereby generally and unconditionally approved;

- (b) the approval in paragraph (a) above shall authorise the Directors 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 an option or otherwise) by the Directors pursuant to the approval in paragraph (a) above, otherwise than pursuant to (A) a Rights Issue, (B) the exercise of options granted under any share option scheme adopted by the Company from time to time and (C) any scrip dividend or similar scheme, shall not exceed the aggregate of (i) 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue at the date of passing this Resolution plus (ii) (if the Directors are so authorised by separate ordinary resolution of the Company) the nominal amount of share capital repurchased by the Company subsequent to the passing of this Resolution (up to a maximum equivalent to 10 per cent. of the aggregate nominal amount of the issued share capital of the Company at the date of passing this Resolution) and the said approval shall be limited accordingly; and
- (d) for the purpose of this Resolution:

“Relevant Period” means the period from the passing of this Resolution until whichever is the earlier of:

- (A) the conclusion of the next annual general meeting of the Company;
- (B) the expiration of the period within which the next annual general meeting of the Company is required by law to be held; and
- (C) the revocation or variation of the authority given by this Resolution by ordinary resolution of the shareholders of the Company in general meeting; and

“Rights Issue” means an offer of shares open for a period fixed by the Company or by the Directors to holders of shares on the register on a fixed record date in proportion to their then holdings of such shares (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory outside Hong Kong).”

Notice of Annual General Meeting

- (iii) “**THAT** the Directors of the Company be and they are hereby authorised to exercise the powers of the Company referred to in paragraph (a) of the Resolution set out as Resolution 4(ii) in the Notice of this Meeting in respect of the share capital of the Company referred to in sub-paragraph (ii) of paragraph (c) of such Resolution.”
- (iv) “**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.”
- (5) As special business, to consider and, if thought fit, pass the following resolution as a special resolution of the Company:

“**THAT** the definition of ‘clearing house’ in Article 2 of the Company be amended as follows:

“clearing house’ shall mean a recognized clearing house within the meaning ascribed to that term in the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong), as amended or supplemented from time to time’.”

By Order of the Board

Leroy Kung Lin Yuen

Chairman and Chief Executive Officer

Hong Kong, 20 June 2003

Registered Office and principal place of business:

26th Floor
Great Eagle Centre
23 Harbour Road
Wanchai
Hong Kong

Notes:

1. A member entitled to attend and vote at the meeting convened by the above notice may appoint one or more proxies to attend the meeting and vote on a poll instead of him. A proxy need not be a member of the Company.
2. To be valid, a form of proxy and the power of authority (if any) under which it is signed or a notarially certified copy of such power of authority must be deposited at the Company’s principal share registrar and transfer office, Tengis Limited, at G/F., BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the meeting or the adjourned meeting.