

iMerchants Limited

First Quarterly Report 2003-2004

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This report, for which the directors of iMerchants Limited collectively and individually accept responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange for the purpose of giving information with regard to iMerchants Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:– (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.



CHAIRMAN'S STATEMENT

The business climate in Asia remained depressed during the first quarter of the 2003/04 financial year with many companies postponing business activities and investments or rationalising operations. Within this challenging environment, iMerchants has continued to diligently pursue the direction that it had set in the past year. Through focusing its efforts on cost-cutting and Wealth Management product development, the Group was able to reduce its net quarterly loss to HK\$3,977,000 from HK\$10,420,000 for the corresponding period in 2002.

Business Direction

Wealth Management

iMerchants continues to invest in enhancing and expanding the WealthSuite™ product offering with a particular focus on the WealthSuite™ Financial Planner product, a product for which we have seen significant demand. WealthSuite™ is developed and distributed through iMerchants' wholly owned subsidiary Asia Financial Network Limited. WealthSuite™ is a comprehensive and integrated software solution designed to serve the wealth management service provision requirements of organizations such as banks, insurers and independent financial advisors.

Client Support Services

iMerchants' Client Support Services provides maintenance and selected IT operations services for our financial services clients directly and through Net Alliance, the local banking consortium in which iMerchants holds a 40% interest. Net Alliance provides its member banks with cost effective bank branded online banking operations through its secure multi-bank online banking platform.

FINANCIAL REVIEW

iMerchants' financial results for the past quarter continue to show the effects of the difficult business climate and the extended sales cycle that accompany the Group's wealth management solution business.

For the first quarter of the 2003/04 financial year, the Group's turnover decreased slightly to HK\$1,212,000 from HK\$1,566,000 for the corresponding period in 2002. Improvement in the gross profit margin resulted in gross profit being increased to HK\$211,000 from a gross loss of HK\$141,000 for the same period in the previous year. At the same time, cost control measures enabled the Group to reduce its administrative expenses to HK\$6,236,000 for the quarter from HK\$12,331,000 for the corresponding period in 2002. Overall, the Group's net loss for the first quarter of the 2003/04 financial year decreased to HK\$3,977,000 from HK\$10,420,000 for the corresponding period in 2002.

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 expected and iMerchants is well-equipped to ride the inevitably challenging development stage of this new business area. The Group continues to be in a strong financial position, with current assets plus investments in marketable securities and time deposits totalling approximately HK\$217,000,000 (30 June 2002: HK\$240,000,000) and no bank borrowings as at 30 June 2003. The Group also enjoys a healthy sales pipeline and continues to generate considerable interest in its product offerings. Despite the challenges, I remain positive about iMerchants' future.

In closing, I would like to thank the management team and staff for their continuing commitment and diligence as we build this business together.

RESULTS

The board of Directors (the "Board") of the Company presents the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the three months ended 30 June 2003, together with the comparative unaudited figures for the corresponding period in 2002 as follows:

		Three months ended	
		30 June	
		2003	2002
	<i>Notes</i>	HK\$'000	<i>HK\$'000</i>
Turnover	2	1,212	1,566
Cost of sales and direct costs		(1,001)	(1,707)
Gross profit (loss)		211	(141)
Other operating income		2,048	2,052
Administrative expenses		(6,236)	(12,331)
Loss from operations	3	(3,977)	(10,420)
Taxation	4	–	–
Loss for the period attributable to shareholders		<u>(3,977)</u>	<u>(10,420)</u>
Loss per share – basic and diluted	5	<u>(0.342)cent</u>	<u>(0.897)cent</u>

Notes:

1. Basis of preparation of the financial statements

The financial statements have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong.

2. Turnover

Turnover represents revenue generated from contracts for consultancy and software development, including the sale of the related equipment and the amounts received and receivable for other related services rendered, and sales of goods by the Group to customers during the period.

3. Loss from operations

Loss from operations has been arrived at after charging (crediting):

	Three months ended	
	30 June	
	2003	2002
	HK\$'000	HK\$'000
Cost of inventories sold	–	115
Depreciation and amortization	842	1,386
Bank interest income	(691)	(1,246)
Interest income from debt securities (net of amortization of premium of HK\$137,000 (2002: HK\$167,000))	<u>(1,337)</u>	<u>(639)</u>

4. Taxation

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group incurred tax losses for both periods. No provision for taxation in other jurisdictions was made as the Group's subsidiaries operated outside Hong Kong had no assessable profits.

5. Loss per share

The calculation of the basic and diluted loss per share for the three months ended 30 June 2003 is based on the loss of the Group of approximately HK\$3,977,000 (2002: HK\$10,420,000) and on the weighted average number of ordinary shares of 1,161,382,000 (2002: 1,161,382,000).

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 periods.

6. Interim dividend

The Directors do not recommend the payment of an interim dividend for the three months ended 30 June 2003 (2002: Nil).

7. Movements of reserves

	Share premium <i>HK\$'000</i>	Negative goodwill <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Merger reserve <i>HK\$'000</i>	Acc- umulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2002	207,130	1,884	409	45,918	(107,032)	148,309
Loss for the period	—	—	—	—	(10,420)	(10,420)
At 30 June 2002	<u>207,130</u>	<u>1,884</u>	<u>409</u>	<u>45,918</u>	<u>(117,452)</u>	<u>137,889</u>

	Share premium <i>HK\$'000</i>	Negative goodwill <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Merger reserve <i>HK\$'000</i>	Acc- umulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2003	207,130	1,884	409	45,918	(143,522)	111,819
Loss for the period	—	—	—	—	(3,977)	(3,977)
At 30 June 2003	<u>207,130</u>	<u>1,884</u>	<u>409</u>	<u>45,918</u>	<u>(147,499)</u>	<u>107,842</u>

PURCHASE, SALE OR REDEMPTION OF SHARES

At no time during the three months ended 30 June 2003 did the Company or its subsidiaries purchase, sell or redeem any of the Company's listed securities.

COMPETING INTERESTS

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

DIRECTORS' AND CHIEF EXECUTIVES' INTEREST AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

At 30 June 2003, the interests and short positions of the directors and chief executives in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register requires to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Rule 5.40 of the GEM Listing Rules were as follows:

Long positions in shares

Name of director	Number of ordinary shares in the Company held as			Total	Percentage of issued share capital
	personal interests	family interests	corporate interests		
Mr Leroy Kung Lin Yuen ("Mr Kung")	-	-	749,949,000 (Note i)	749,949,000	64.57%

Note:

- (i) The registered shareholder of 749,949,000 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 749,949,000 shares owned by iMerchants Group 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.

Long positions in underlying shares

Name of director	Date of grant	Options in the Company		Number of options and outstanding at 30 June 2003
		Exercise price	Exercisable period	
Mr Edward Un ("Mr Un")	23 August 2000	HK\$0.53	In various stages from 31 March 2001 to 23 August 2010	2,000,000 (Note i)
	27 September 2002	HK\$0.172	In various stages from 1 September 2003 to 28 August 2012	8,000,000 (Note ii)

Notes:

- (i) 2,000,000 share options were granted on 23 August 2000 under the 2000 Share Option Scheme, which was approved by the written resolution of the shareholders of the Company dated 15 March 2000. Options pursuant to the 2000 Share Option Scheme may be exercised in accordance with the terms of the scheme as to:
 - a. one quarter of the options would be exercisable from 1 April 2001 (“First Exercise Date”);
 - b. an additional one eighth of the options would 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.

- (ii) 8,000,000 share options were granted on 27 September 2002 under the 2002 Share Option Scheme, which was approved by the shareholders of the Company in the special general meeting dated 2 August 2002. Options pursuant to the 2002 Share Option Scheme may be exercisable in accordance with the terms of the scheme as to:
 - a. Options to subscribe for 4,000,000 shares of the Company will be exercisable from 1 September 2003 to 28 August 2012; and
 - b. The balance of 4,000,000 options is exercisable from 1 September 2004 to 28 August 2012.

Long positions in debentures

No long positions of directors and chief executives in the debentures of the Company and its associated corporations were recorded in the register or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.40 of the GEM Listing Rules.

Short positions in shares

No short positions of directors and chief executives in the shares of the Company and its associated corporations were recorded in the register or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.40 of the GEM Listing Rules.

Short positions in underlying shares

No short positions of directors and chief executives in the underlying shares of the equity derivatives of the Company and its associated corporations were recorded in the register or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.40 of the GEM Listing Rules.

Save as disclosed above, as at 30 June 2003, none of the directors and chief executives had interest in any shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register requires to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Rule 5.40 of the GEM Listing Rules.

INTEREST DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

At 30 June 2003, the following persons (other than the directors and chief executive of the Company) had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

Long positions in shares

Name	Capacity	Nature of interest	Number of ordinary shares	Percentage of issued share capital
Reuters Greenhouse Fund LP <i>(Note i)</i>	Beneficial owner	Corporate	58,125,000	5.00%
Reuters Group PLC <i>(Note i)</i>	Interest of a controlled corporation	Corporate	58,125,000	5.00%

Note:

- (i) Reuters Greenhouse Fund LP is a wholly owned subsidiary of Reuters Group PLC.

Long positions in underlying shares

No long positions of other persons and substantial shareholders in the underlying shares of equity derivatives of the Company were recorded in the register.



Short positions in shares

No short positions of other persons and substantial shareholders in the shares of the Company were recorded in the register.

Short positions in underlying shares

No short positions of other persons and substantial shareholders in the underlying shares of equity derivatives of the Company were recorded in the register.

Save as disclosed above, as at 30 June 2003, the directors were not aware of any other person who had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Other than the share option schemes as described in the section headed "DIRECTORS' AND CHIEF EXECUTIVES' INTEREST AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES" above, at no time during the period was the Company, any of its holding companies, fellow subsidiaries or subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate and none of the directors, or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such rights.

OTHER DIRECTORS' INTERESTS

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

AUDIT COMMITTEE

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



BOARD PRACTICES AND PROCEDURES

The Company has complied with Board Practices and Procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules during the three months ended 30 June 2003.

By order of the Board

Leroy Kung Lin Yuen

Chairman

Hong Kong, 8 August 2003