

iMerchants Limited

Half Year Report 2003-2004

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

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

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

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

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

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



CHAIRMAN'S STATEMENT

For the first half of the 2003/2004 financial year, through focusing our efforts on cost-cutting and Wealth Management product development, the Group was able to reduce its net loss to HK\$7,094,000 from HK\$22,571,000 for the corresponding period in 2002.

In the past six months, iMerchants continued to see significant demand for wealth management products and we have been actively investing in the enhancing and expanding of our WealthSuite™ product offerings through our wholly-owned subsidiary, Asia Financial Network Limited. WealthSuite™ is a comprehensive and integrated software solution designed to serve the requirements of financial institutions in their provision of wealth management service.

In addition to banks, iMerchants has also begun marketing efforts that target the insurance industry's needs for wealth management solutions. The Group has recently announced the commencement of deployment of our WealthSuite™ Mutual Funds solution for a major insurance group in Asia. Deployment of the software is expected to complete before the end of the calendar year.


iMerchants continues to hold a 40% equity interest in the banking consortium, Net Alliance Company Limited (“**Net Alliance**”), which provides its member banks with cost-effective and bank-branded online banking operations through its secure multi-bank online banking platform. In the future, iMerchants is planning to leverage its extended experience in the operation of shared system platforms and expand its bureau service offerings to financial institutions in the Greater China area.

There are signs that the market environment is improving and corporate spending of financial institutions on technologies is beginning to pick up. Through the hard work of our management team and staff in the past year in streamlining operations and focusing on product development, we are positive that iMerchants is well positioned to take advantage of the rising market trend.

MANAGEMENT DISCUSSION AND ANALYSIS

Prospects for new business

Although the IT market continues to be difficult, iMerchants remains cautiously optimistic. iMerchants' target market, the financial services sector, continues to be under great pressure and, as a result, clients are still very careful with their technological investments and are placing substantial emphasis on those areas where a return can be most easily realized, such as efficiency improvements and maintenance.



iMerchants continues to invest in enhancing and expanding the WealthSuite™ product offering with a particular focus on the WealthSuite™ Financial Planner product, which is a useful tool to assist bankers, insurers and independent financial advisors in expanding their business and services in the wealth management area. WealthSuite™ is developed and distributed through iMerchants' wholly-owned subsidiary, Asia Financial Network Limited. With a number of strong leads in the sales pipeline, we are optimistic about our sales prospects for the second half of our 2003/2004 fiscal year.


Other than developing wealth management software for financial services institutions, the Group continues to explore and consider a variety of other information technology opportunities, including hardware design and development. However, the management is still undergoing some market researches on the new ideas and no firm investment decision has yet been made at this time.

Financial performance review

iMerchants' financial results for the six months ended 30 September 2003 continue to show the effects of a difficult market as well as the impact of the Group's restructuring and quality improvement initiatives.

Largely due to a decision in late 2002 to shift away from developing customised projects and step into the development of WealthSuite™ standard products, and a longer sales cycle for WealthSuite™, the Group recorded a decrease in turnover to HK\$2,516,000 for the six months ended 30 September 2003 from HK\$4,476,000 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. Therefore, interest in our WealthSuite™ solutions cannot be immediately transformed into revenue streams. The most recent contract for WealthSuite™ was signed in September 2003 with a major insurance group in Asia and as there are some other strong leads in the sales pipeline, we expect some of them will be materialized very soon.

Though the amount of gross profit for the six months ended 30 September 2003 decreased to HK\$458,000 from HK\$611,000 for the same period in the previous year, the gross profit percentage improved slightly to 18% from 14%. One of the reasons for the change is that the Group has a higher proportion of Client Support Services in its revenue for the half year ended 30 September 2003. In Client Support Services, iMerchants provides mainly maintenance services to support the operations of the customized projects which we have developed for the customers, and normally the profit margin on these maintenance works is quite attractive.



The Group generated a net loss of HK\$7,094,000 for the six months ended 30 September 2003, compared to HK\$22,571,000 for the corresponding period in 2002. This reduction in the amount of loss largely results from a management decision in late 2002 to carry out inevitable restructuring exercises for cost reduction and to ensure the best possible fit of the staff's skills with the Group's chosen focus for business in the future.

Commentary on segmental information

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\$6.8 million in Net Alliance, a company which provides online banking service bureau operations to a group of four banks in Hong Kong. iMerchants believes that Net Alliance has been quite successful at implementing new means of delivering IT solutions at a comparatively lower cost to financial institutions in Hong Kong as the cost is shared among the member banks of Net Alliance. The Group expects Net Alliance's revenues and costs to be quite stable during the coming years and it will become a successful service provider.

At 30 September 2003, the Group has approximately HK\$133 million (31 March 2003: approximately HK\$128 million) worth of investments in marketable securities which are all investment-grade fixed income investments with high ratings. The management currently has the intention 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 reporting period. The Group continues to be in a healthy financial position with current assets plus investments in marketable securities and time deposits totalling approximately HK\$213 million (31 March 2003: HK\$220 million) and without bank borrowings as at 30 September 2003. As 36% of this total consists of bank balances, time deposits and cash held in-hand, and investments in marketable securities account for a further 63% 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 the financial investments in order to provide sufficient funds to cover ongoing expenditures.

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 for it to perform its solution development activities and to provide services to its customers. These capital expenditures and the ongoing operating expenses will be financed from the Group's existing financial resources and the Directors do not currently foresee the need for any material financing 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 six months ended 30 September 2003.

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

At 30 September 2003, approximately 8% of the Group's cash and bank balances and marketable investments were denominated in Hong Kong dollars, approximately 92% in US dollars and a nominal amount is held in Renminbi. Given the liquid nature of these marketable investments and the currency peg between the Hong Kong dollar and the US dollar, the Group does not hedge its exchange rate exposures.

The Group's gearing ratio at 30 September 2003 was 0% (31 March 2003: 0%), as calculated by taking the ratio of the Group's total interest-bearing borrowings, divided by its shareholders' funds. The Group has no borrowings and no contingent liabilities as at 30 September 2003 (31 March 2003: 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 30 September 2003 (31 March 2003: HK\$500,000). Other than this pledged bank deposit, the Group had no charges on its assets as at 30 September 2003.

Employees

As at 30 September 2003, the Group employed 38 staff (31 March 2003: 42). In concert with the Group's business assessment and re-alignment of operations in late 2002, iMerchants reviewed the skills and competency of each staff to ensure the best possible fit with the Group's chosen focus for business in the future. As a result, headcounts were reduced gradually since October 2002 and the number is stabilised for the six months ended 30 September 2003.

Remuneration for the Group's employees is typically reviewed once per year, or as the management deems appropriate. Changes in remuneration are based on a


range of factors including the Group's performance, the competitiveness of remuneration with the external market, and individual employees' performance during the year. For the six months ended 30 September 2003, the Group's total remuneration expenses, including contributions to the Mandatory Provident Fund were HK\$8.5 million (six months ended 30 September 2002: HK\$20.5 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 58% lower than the corresponding period last year, mainly due to the decrease in headcounts over the period.

The Group has introduced share option schemes to recognise the contributions of the employees to the development of the Group. As at 30 September 2003, a total of 36,410,000 share options remained outstanding (31 March 2003: 37,590,000). None had been exercised during the reporting period. The schemes have been or will be amended from time to time to reflect changes in market conditions and the GEM Listing Rules.

USE OF PROCEEDS

The net proceeds raised from the public listing on 31 March 2000 were approximately HK\$325 million. The 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 30 September 2003) <i>HK\$ million</i>
For enhancing knowledge creation and management processes and strengthening corporate infrastructure	90	35
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	82
	<hr/>	<hr/>
Total	<u>325</u>	<u>207</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 the Group's 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 Directors had previously forecasted and the expected market situation at the time of preparing for the public listing. In response, the Group has taken a more conservative tactic in rolling out its business objectives than originally planned as it was considered to be in the best interests 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 the PRC markets. The Group has, to date, also used less funds than originally planned for investment in, or acquisition of, ventures due to the Group's tight criteria for investment and the changed market environment.

RESULTS

The board of Directors (the “Board”) of the Company presents the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the three months and six months ended 30 September 2003 together with the comparative unaudited figures for the corresponding periods in 2002 as follows:

Unaudited Consolidated Income Statement

For the three months and six months ended 30 September 2003

	Notes	Three months ended 30 September		Six months ended 30 September	
		2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Turnover	2	1,304	2,910	2,516	4,476
Cost of sales and direct costs		(1,057)	(2,158)	(2,058)	(3,865)
Gross profit		247	752	458	611
Other operating income		1,909	1,719	3,957	4,021
Administrative expenses		(5,273)	(14,622)	(11,509)	(27,203)
Loss from operations	4	(3,117)	(12,151)	(7,094)	(22,571)
Taxation	5	-	-	-	-
Loss for the period attributable to shareholders		<u>(3,117)</u>	<u>(12,151)</u>	<u>(7,094)</u>	<u>(22,571)</u>
Loss per share – basic and diluted	6	<u>(0.269)cent</u>	<u>(1.046)cent</u>	<u>(0.611)cent</u>	<u>(1.943)cent</u>

Consolidated Balance Sheet

As at 30 September 2003

		30 September 2003 (Unaudited) <i>Notes</i> <i>HK\$'000</i>	31 March 2003 (Audited) <i>HK\$'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		1,977	3,425
Interests in associates		6,835	6,660
Investments in securities		116,865	122,516
Long-term bank deposits		33,540	33,540
		<u>159,217</u>	<u>166,141</u>
CURRENT ASSETS			
Inventories		–	121
Amount due from customers for contract work		1,340	135
Trade and other receivables	8	2,412	3,984
Investments in securities		16,424	5,581
Amount due from an associate		–	340
Short-term bank deposits		23,419	44,669
Pledged bank deposit		500	500
Bank balances and cash		19,796	8,480
		<u>63,891</u>	<u>63,810</u>
CURRENT LIABILITIES			
Amounts due to customers for contract work		1,066	415
Trade and other payables	9	1,178	1,578
		<u>2,244</u>	<u>1,993</u>
NET CURRENT ASSETS		<u>61,647</u>	<u>61,817</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>220,864</u>	<u>227,958</u>
CAPITAL AND RESERVES			
Share capital	10	116,139	116,139
Reserves	11	104,725	111,819
		<u>220,864</u>	<u>227,958</u>

Unaudited Condensed Consolidated Cash Flow Statement

For the six months ended 30 September 2003

	Six months ended	
	30 September	
	2003	2002
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Net cash used in operating activities	(8,928)	(18,071)
Net cash from (used in) investing activities	6,096	(60,197)
Net cash from financing activities	4,598	2,547
	<hr/>	<hr/>
Net increase (decrease) in cash and cash equivalents	1,766	(75,721)
Cash and cash equivalents at beginning of period	29,749	158,421
	<hr/>	<hr/>
Cash and cash equivalents at end of period	<u>31,515</u>	<u>82,700</u>
	<hr/>	<hr/>
Analysis of balances of cash and cash equivalents		
Short-term bank deposits	23,419	92,369
Bank balances and cash	19,796	13,731
Less: Short-term bank deposits with more than three months' maturity	(11,700)	(23,400)
	<hr/>	<hr/>
	<u>31,515</u>	<u>82,700</u>
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Unaudited Consolidated Statement of Changes in Equity

For the six months ended 30 September 2003

	Share capital	Share premium	Negative goodwill	Capital redemption reserve	Merger reserve	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2002	116,139	207,130	1,884	409	45,918	(107,032)	264,448
Loss for the period	-	-	-	-	-	(22,571)	(22,571)
At 30 September 2002	<u>116,139</u>	<u>207,130</u>	<u>1,884</u>	<u>409</u>	<u>45,918</u>	<u>(129,603)</u>	<u>241,877</u>

	Share capital	Share premium	Negative goodwill	Capital redemption reserve	Merger reserve	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2003	116,139	207,130	1,884	409	45,918	(143,522)	227,958
Loss for the period	-	-	-	-	-	(7,094)	(7,094)
At 30 September 2003	<u>116,139</u>	<u>207,130</u>	<u>1,884</u>	<u>409</u>	<u>45,918</u>	<u>(150,616)</u>	<u>220,864</u>

Notes to the condensed interim financial statements

1. Basis of preparation and accounting policies

The unaudited condensed interim financial statements have been prepared under the historical cost convention and in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) 2.125 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants and the disclosure requirements set out in Chapter 18 of the GEM Listing Rules. The unaudited condensed interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 March 2003.

The accounting policies and methods of computation used in the preparation of the unaudited condensed interim financial statements are consistent with those used in the annual financial statements for the year ended 31 March 2003.

2. Turnover and other revenue

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.

An analysis of turnover is as follows:

	Six months ended	
	30 September	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue from contracts for consultancy, software development and related hardware	2,516	4,080
Sales of goods	—	396
	<u>2,516</u>	<u>4,476</u>

3. Segment information

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.

4. Loss from operations

Loss from operations is arrived at after charging (crediting):

	Six months ended	
	30 September	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost of inventories sold	—	903
Depreciation and amortisation	1,586	3,145
Bank interest income	(1,251)	(2,036)
Interest income from debt securities (net of amortization of premium of HK\$274,000 (2002: HK\$434,000))	(2,554)	(1,551)
	<u>(2,554)</u>	<u>(1,551)</u>

5. 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.

6. Loss per share

The calculation of the basic and diluted loss per share for the three months and the six months ended 30 September 2003 is based on the loss of the Group of approximately HK\$3,117,000 (2002: loss of approximately HK\$12,151,000) and approximately HK\$7,094,000 (2002: loss of approximately HK\$22,571,000), respectively, 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.

7. Interim dividend

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

8. 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 receivables at the period end date:

	30 September 2003 HK\$'000	31 March 2003 HK\$'000
0-60 days	292	434
61-90 days	-	629
Over 90 days	-	-
	<hr/>	<hr/>
Trade receivables	292	1,063
Other receivables	2,120	2,921
	<hr/>	<hr/>
	2,412	3,984

9. Trade and other payables

	30 September 2003 HK\$'000	31 March 2003 HK\$'000
Trade payables	-	-
Other payables	1,178	1,578
	<hr/>	<hr/>
	1,178	1,578

There were no trade payables as at 30 September 2003 and so no ageing analysis is presented.

10. Share capital

	Number of ordinary shares	Amount HK\$'000
Ordinary shares of HK\$0.10 each		
Authorised:		
At 31 March and 30 September 2003	<u>8,000,000,000</u>	<u>800,000</u>
Issued and fully paid:		
At 31 March and 30 September 2003	<u>1,161,382,000</u>	<u>116,139</u>

None of the Company or its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 September 2003.

There was no movement in the Company's authorised share capital and no movement in the Company's issued and fully paid share capital for the year ended 31 March 2003 and for the six months ended 30 September 2003.

11. Operating lease commitments

As lessee

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

	30 September 2003 HK\$'000	31 March 2003 HK\$'000
Within one year	<u>2,398</u>	1,931
In the second to fifth year inclusive	<u>582</u>	<u>1,202</u>
	<u>2,980</u>	<u>3,133</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.

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:

	30 September	31 March
	2003	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	80	80
In the second to fifth year inclusive	20	57
	100	137

12. Capital commitments

At 30 September 2003 and at 31 March 2003, the Group had no capital commitment.

13. Related party disclosures

During the period, the Group had the following transactions with related parties:

	Six months ended	
	30 September	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue generated from contracts for consultancy and software development performed for associates	910	1,018
Maintenance service income from an associate	413	756

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

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

At no time during the six months ended 30 September 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 September 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	749,949,000	64.57%
			(Note i)		

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	Options in the Company			Number of options at 1 April 2003
	Date of grant	Exercise price	Exercisable period	and outstanding at 30 September 2003
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 <i>(note i)</i>
	27 September 2002	HK\$0.172	In various stages from 1 September 2003 to 28 August 2012	8,000,000 8,000,000 <i>(note ii)</i>

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.

Short positions in debentures

No short 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.

Save as disclosed above, as at 30 September 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 required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.40 of the GEM Listing Rules.

INTEREST DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

At 30 September 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 September 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.

OUTSTANDING SHARE OPTIONS

Pursuant to the Pre-IPO Share Option Plan, 2000 Share Option Scheme and 2002 Share Option Scheme, there were 13,050,000, 15,360,000 and 8,000,000 share options, respectively, granted to and held by the grantees (which include the options granted to a director of the Company, as disclosed above) as at 30 September 2003. Details of which are as follows:

(a) **Pre-IPO Share Option Plan**

As at 30 September 2003, options comprising an aggregate of 13,050,000 underlying shares to subscribe for shares in the Company at an exercise price of HK\$1.48 per share (granted on 15 March 2000) were outstanding. No options have been granted during the six months ended 30 September 2003 under the Pre-IPO Share Option Plan as the right to do so was terminated upon the listing of the Company on the GEM.

Details of the outstanding Pre-IPO share options during the six months ended 30 September 2003 are set out below:

Type of grantees	As at 1 April 2003	Lapsed during the six months	As at 30 September 2003
Employees	<u>13,640,000</u>	<u>(590,000)</u>	<u>13,050,000</u>

(Note 1)

Notes:

- 1 These options granted to two employees were lapsed when they ceased to be employed by the Company.
- 2 The exercise period of the Pre-IPO options is from 31 March 2001 to 14 March 2010.
- 3 Options pursuant to the Pre-IPO Share Option Plan may be exercised in accordance with the terms of the scheme as to:
 - a. one quarter of the options (rounded down to the nearest board lot) will be exercisable from 1 April 2001 ("First Exercise Date");
 - b. an additional one eighth of the options (rounded down to the nearest board lot) will be exercisable after the expiry of each successive six-month period from the First Exercise Date; and
 - c. the balance of the options exercisable after the expiry of a period of 48 months from 1 April 2001.
- 4 As of 30 September 2003, no options under the Pre-IPO Share Option Plan have been exercised or cancelled.

(b) **2000 Share Option Scheme**

As at 30 September 2003, options comprising an aggregate of 15,360,000 underlying shares to subscribe for shares in the Company at an exercise price of HK\$0.53 per share (granted on 23 August 2000) were outstanding. No options have been granted during the six months ended 30 September 2003 under the 2000 Share Option Scheme. Details of the grant of share options under the 2000 Share Option Scheme to the Directors are set out in the previous section headed “DIRECTORS’ AND CHIEF EXECUTIVES’ INTEREST AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES” in this report.

Details of the outstanding options under the 2000 Share Option Scheme during the six months ended 30 September 2003 are set out below:

Type of grantees	As at 1 April 2003	Lapsed during the six months	As at 30 September 2003
Director	2,000,000	–	2,000,000
Employees	13,950,000	(590,000)	13,360,000
	<u>15,950,000</u>	<u>(590,000)</u>	<u>15,360,000</u>

(Note 1)

Notes:

1. These options granted to two employees were lapsed when they ceased to be employed by the Company.
2. On 23 August 2000, 2,000,000 share options were granted to Mr Un when he was a full-time employee of the Company. Mr Un was appointed as an executive director of the Company with effect from 25 June 2002 and so the options are reclassified.
3. The exercise period of the share options under the 2000 Share Option Scheme is from 31 March 2001 to 23 August 2010.
4. Options pursuant to the 2000 Share Option Scheme may be exercised in accordance with the terms of the relevant scheme which are the same as those of the Pre-IPO Share Option Plan set out in Note 3 of the subsection headed “Pre-IPO Share Option Plan” above.
5. As of 30 September 2003, no options under the 2000 Share Option Scheme have been exercised or cancelled.


(c) **2002 Share Option Scheme**

On 2 August 2002, the Company adopted the 2002 Share Option Scheme under which the board of directors of the Company may at its discretion offer to any Eligible Person (as defined in the circular of the Company dated 11 July 2002) options to subscribe for shares in the Company in accordance with the terms of the 2002 Share Option Scheme and Chapter 23 of the GEM Listing Rules. The principal purposes of the 2002 Share Option Scheme are to recognise the significant contributions of the Eligible Persons to the growth of the Group. The Pre-IPO Share Option Plan and the 2000 Share Option Scheme approved on 15 March 2000 were simultaneously terminated but the options which have been granted during the life of the said option schemes shall continue to be exercisable in accordance with their respective terms of issue and in all other respects the provisions of the said option schemes shall remain in full force and effect.

Type of grantees	As at 1 April 2003	Granted during the six months	As at 30 September 2003
Director	<u>8,000,000</u>	<u>–</u>	<u>8,000,000</u>

Notes:

1. 8,000,000 share options were granted to Mr Un on 27 September 2002 under the 2002 Share Option Scheme at an exercise price of HK\$0.172 per share.
2. The exercise period of the share options under the 2002 Share Option Scheme is from 1 September 2003 to 28 August 2012.
3. 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 (rounded down to the nearest board lot) will be exercisable from 1 September 2003 to 28 August 2012; and

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- b. The balance of 4,000,000 options is exercisable from 1 September 2004 to 28 August 2012.
 4. As of 30 September 2003, no options under the 2002 Share Option Scheme have been exercised or cancelled.

Save as disclosed above, during the six months ended 30 September 2003, none of the directors and employees of the Company or its subsidiaries was granted options to subscribe for shares in the Company.

Valuation of share options

No share option had been granted during the six months ended 30 September 2003 and thus the valuation of share options as set out in Rule 23.08 is not applicable to the Company for the period.

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.

SUBSTANTIAL SHAREHOLDERS

At 30 September 2003, other than the interests disclosed in the section headed "DIRECTORS' AND CHIEF EXECUTIVES' INTEREST AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES" above, the Company has not been notified of any other interests at 30 September 2003 representing 10% or more of the issued share capital of the Company.

OTHER DIRECTOR'S 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 report 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 six months ended 30 September 2003.

By order of the Board
Leroy Kung Lin Yuen
Chairman

Hong Kong, 7 November 2003