



iMerchants Limited
Annual Report 2003-2004

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

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

Credit Suisse

Standard Bank Asia Limited

Chairman's Statement

Dear Shareholders:

FINANCIAL HIGHLIGHTS

iMerchants Limited presents its financial results for the year ended 31 March 2004. During that year, the Group:

- earned total revenues of approximately HK\$4,592,000;
- reported an audited consolidated loss for the year of approximately HK\$9,927,000. This compares to the consolidated loss of approximately HK\$36,490,000 in the previous year.

The Group continues to be in a healthy financial position and ended the year with current assets plus investments in marketable securities and time deposits at a comfortable level of over HK\$215 million without any bank borrowings.

BUSINESS REVIEW

In the financial year ended 31 March 2004, the Group's business has focused on the development of wealth management technology products and the provision of related services.

For the financial year, the Group's audited consolidated gross profit increased to approximately HK\$1,645,000 from approximately HK\$1,050,000 in the previous financial year. The gross profit margin improved significantly to approximately 36% from approximately 13%. Due to successful cost control measures, the administrative expenses dropped by approximately 41% to approximately HK\$26,622,000 for this financial year from HK\$45,011,000 for the previous financial year. However, as significant effort has been spent on the development of technology products to be introduced to the market, the Group's audited consolidated turnover decreased to approximately HK\$4,592,000.

BUSINESS OUTLOOK

In the coming year, the Group will continue to enhance our product development capabilities focusing on building top-class domain knowledge. The Group aims to provide value to our wealth management customers not just in information technology services but also active assistance in business process building and execution.

The Group continues to hold a 40% interest in Net Alliance Company Limited ("Net Alliance"), a company that provides online banking service bureau operations to multiple banks in Hong Kong. The Group expects Net Alliance's revenues and costs to remain stable during the coming years.

Chairman's Statement

Regarding treasury investments, the Group has adopted prudent investment strategies with the assistance of international investment advisors and has recorded a healthy return for our securities investments. The Group continues to be in a strong and healthy financial position, with current assets plus investments and time deposits totaling approximately HK\$215 million without bank borrowings as at 31 March 2004.

The start of the new year marked a positive change in the overall market sentiment and at iMerchants we believe we are well positioned in knowledge, product direction and financial strength to take advantage of the opportunities in 2004 and beyond.

Leroy Kung Lin Yuen

Chairman

Hong Kong, 18 June 2004

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 2004) HK\$ million
For enhancing knowledge creation and management processes and strengthening corporate infrastructure	90	39
For enhancing service offering and expand capacity to deliver	35	40
For geographical expansion in Asia	42	5
For business development and marketing activities	48	22
For acquisition of or investment in ventures	64	24
For general working capital	46	97
	<hr/>	<hr/>
Total	<u>325</u>	<u>227</u>

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

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

Due to the changing 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 the time of listing. 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 risks associated with regional expansion, the Group has focused 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

The Group will continue to sharpen its focus on the development and marketing of wealth management software products and related services. In the midst of growing demand for wealth management technologies from the market, the Group has put together plans to strengthen and extend its product offerings to serve various participants in the wealth management business.

During the second half of the financial year, the Group has successfully expanded its client base in wealth management technology products and related services to areas outside Hong Kong. In the coming years, the Group plans to extend further services to more companies in Mainland China, Macau and Taiwan with wealth management business or intend to start the business.

REVENUE, GROSS PROFIT AND ADMINISTRATIVE EXPENSES

The financial year ended 31 March 2004 has been a period of transition of the Group from customized IT solutions to wealth management solution products. Moreover, the performance of the Group's investments in the second half of the financial year has a significant contribution to the overall results of the Group.

For the financial year ended 31 March 2004, the Group's audited consolidated turnover decreased to approximately HK\$4,592,000 from approximately HK\$8,200,000 in 2002/2003. This is an expected decrease as a result of the Group's decision to shift away from the development of customized projects and hardware reselling which were of low margin. On the other hand, the Group is consolidating its resources to build high quality product solutions in the wealth management arena. Our wealth management technology products are tools helping banks, insurance companies, independent financial advisors, and other finance-related entities by promoting their sales in wealth management and better serve their customers. The management of the Group believes that there is a significant market demand for solutions in wealth management technology in Asia, particularly during times when people are generally more wealthy, are aware of the importance of asset allocation in investments, and are more concerned about the life-time financial planning. Due to the size and nature of the wealth management technology products, our product development team is required to conduct more in-depth research on business requirements and thus the lead time in developing the high quality products is longer. For the same reason, our sales team needs to spend a longer time to secure business orders with prospective clients. Therefore, in the year ended 31 March 2004, the revenue generated from the wealth management technology products was not very significant.

Although the turnover decreased, the Group's audited consolidated gross profit for the financial year ended 31 March 2004 increased to approximately HK\$1,645,000 from approximately

Management Discussion and Analysis

HK\$1,050,000 in the previous financial year. The gross profit margin improved significantly to approximately 36% from approximately 13%. The increase in gross profit margin is partially attributed to increased revenue from the Group's Client Support Services, which consist of mainly after-sales maintenance services provided to support customers' operation of the Group's customized projects, and which usually generate a healthy revenue margin for the Group.

The administrative expenses dropped by approximately 41% to approximately HK\$26,622,000 for this financial year from HK\$45,011,000 for the previous financial year. The main reason for the decrease is that the management has set a lot of cost control measures which have proven to be quite effective. Moreover, as the costs of human resources represent the largest portion amongst the administrative expenses, the management had carefully studied how these resources could be utilized more effectively and efficiently. In late 2002, inevitable restructuring exercises were carried out for cost reduction and to ensure the best possible fit of the staff's skills with the Group's chosen focus for future business. As a result, the Group's administrative expenses dropped significantly during this financial year compared with last year.

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.

INVESTMENTS

The Group has an investment of approximately HK\$4.9 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 implemented 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.

During the year under review, the management of the Group has continued to take a prudence approach towards generating income from its surplus funds by either placing deposits in interest-bearing bank accounts, investing directly in highly-rated bonds and blue-chip or large-cap equity stocks, or investing indirectly through experienced fund managers with proven track records. As at 31 March 2004, the Group had approximately HK\$131 million (31 March 2003: approximately HK\$128 million) worth of investments in marketable securities. The income from investments and interest for the year ended 31 March 2004 was approximately HK\$14,825,000 compared to approximately HK\$7,418,000 for the previous financial year. The management will continue its conservative approach and intends to hold the investments in bonds on a long-term basis. In general, the investment strategy will be reviewed frequently to take appropriate actions whenever necessary in response to changes in market situation.

Management Discussion and Analysis

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 2004. The Group continued to be in a healthy financial situation with current assets plus investments in marketable securities and time deposits totalling approximately HK\$215 million (31 March 2003: approximately HK\$220 million) and no bank borrowings as at 31 March 2004. As 38% of this total consists of bank balances, deposits and cash, and investments account for a further 61% 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.

The Group currently does not have any plan to acquire or take any equity stakes in companies to expand the Group. The primary capital expenditures are expected to be investments in the computer hardware and software required for performing its solution development activities and for replacing those old models. These capital expenditures and the ongoing operating expenses will be financed from the Group's existing financial resources. The Directors do not foresee the need for any material financing activities in order to execute the Group's plans in this area. The Group did not undertake any material acquisitions and disposals of subsidiaries and affiliated companies in the course of the year ended 31 March 2004.

For trade receivables, as the Group's customers are predominantly banks or divisions of large multinational companies, the management believes the risk of default payment by the customers is very low. Nonetheless, the recovery of receivable from each individual customer is monitored frequently, with late payments being promptly pursued by the Group's Accounting Department and the engagement managers.

At 31 March 2004, approximately 19% of the Group's cash and bank balances and marketable investments were denominated in Hong Kong dollars, approximately 75% in US dollars, approximately 5% in Australian 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 31 March 2004 was 0% (31 March 2003: 0%), as calculated by taking the ratio of the Group's total interest-bearing borrowings and divided by its shareholders' funds. The Group has no borrowings and no contingent liabilities as at 31 March 2004 (31 March 2003: Nil). In order to secure a banking facility granted to one of the Group's subsidiaries, a bank deposit amounting to approximately HK\$505,000 was pledged to a bank as at 31 March 2004 (31 March 2003: approximately HK\$500,000). Other than this pledged bank deposit, the Group had no charges on its assets as at 31 March 2004.

Management Discussion and Analysis

EMPLOYEES

As at 31 March 2004, the Group employed 36 staff (31 March 2003: 42). In concert with the Group's business assessment and realignment 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 stabilized during the financial year ended 31 March 2004.

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 individual employee's performance during the year. For the year ended 31 March 2004, the Group's total remuneration expenses, including contributions to the Mandatory Provident Fund, were approximately HK\$17.5 million (2003: approximately HK\$34.3 million). A portion of these expenses was charged to direct costs of sales of software solutions, some paid for compensation and severance for loss of office of some staff whose skills do not fit the Group's requirements, and the balance was recorded in administrative expenses. The total was approximately 49% lower than that of last financial year, mainly due to the decrease in headcounts over the period.

The Group has introduced share option schemes to recognize the contributions of its employees to the development of the Group. As at 31 March 2004, a total of 28,330,000 share options remained outstanding (31 March 2003: 37,590,000). None had been exercised during this 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 37, 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. 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 39, 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 19 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 PCCW 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 and Vice President of Information Technology: Mr. Un, aged 38, is responsible for leading the Group's IT product development delivery and for guiding the Group's technology strategy and research and development initiatives. 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 U.S.A. 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 an 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.

Directors and Senior Management Profile

Independent non-executive Directors

Alice Piera Lam Lee Kiu Yue — Dr. Lam, aged 64, 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 21 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 PCCW 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 of the Company on 6 March 2000.

Alex Ko Po Ming — Mr. Ko, aged 45, is the Chairman and Chief Executive Officer of Goldbond Capital Holdings Limited and an Executive Director of Goldbond Group Holdings Limited, a company listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). He was formerly the Chairman of BNP Paribas Peregrine Capital Limited. Mr. Ko graduated from the Chinese University of Hong Kong in 1982 with a Bachelor's degree in Business Administration. Mr. Ko has over 21 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. Mr. Ko is also an independent non-executive Director of Tianjin Capital Environmental Protection Company Limited and Golden Eagle Asset Management Company Limited respectively. Mr. Ko was appointed as an independent non-executive Director of the Company on 31 January 2000.

Ronny Chow Fan Chim — Mr. Chow, aged 35, 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 of the Company on 15 March 2000.

Senior Management

Ken Mak Ka Yan — Director of Sales, Greater China: Mr. Mak, aged 36, is responsible for developing the Group's regional sales strategy and leading the sales activities of the Group. Starting his career in 1992, Ken has over eleven years of professional experience in sales and consultancy in the area of investment and banking technology. He spent most of his career in marketing and consulting on complex software solutions for financial institutions across the region covering the Mainland China, Taiwan, the Philippines, Korea, Singapore, Malaysia and Hong Kong. Ken has a very strong international exposure. The companies he had previously served include DST International and Thomson Financial. During his tenure at Thomson Financial, he was awarded the Thomson Investment Software Sales Awards for three

Directors and Senior Management Profile

years in a row. Prior to joining the Group in early 2003, he was intensively involved in the development, design and promotion of high-end wealth management software solutions in both Hong Kong and Singapore. Mr. Mak holds a Bachelor of Social Science degree majoring in Economics from the University of Hong Kong.

Esther Tang Pik Yuk — Deputy Vice President, Information Technology: Ms. Tang, aged 42, 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”). 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.

Clement Leung Yuen Wing — Financial Controller and Company Secretary: Mr. Leung, aged 36, 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 2004.

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 2004 are set out in notes 13 and 14 to the financial statements respectively.

RESULTS

The results of the Group for the year ended 31 March 2004 are set out in the consolidated income statement on page 23 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 12 to the financial statements.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 20 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 consolidated statement of changes in equity and note 21 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 57 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

Independent non-executive Directors:

Dr. Alice Piera Lam Lee Kiu Yue

Mr. Alex Ko Po Ming

Mr. Ronny Chow Fan Chim

In accordance with Article 120 of the Company's Articles of Association, Ms. Lena Foo and Dr. Alice Piera Lam Lee Kiu Yue retire as Directors and, being eligible, offer themselves for re-election.

Mr. Leroy Kung Lin Yuen 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.

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 AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

At 31 March 2004, the interests and short positions of the Directors 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 required 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 5.46 of the Rules Governing the Listing of Securities on The Growth Enterprise Market ("GEM") of the Stock Exchange (the "GEM Listing Rules") were as follows:

Long positions in ordinary shares of HK\$0.1 each of the Company

Name of director	Number of issued ordinary shares held			Total	Percentage of issued share capital of the Company
	Beneficial owner	Held by trust	Held by controlled corporation		
Mr Leroy Kung Lin Yuen ("Mr Kung")	-	-	750,967,000 <i>(Note i)</i>	750,967,000	64.66%

Note:

- (i) The registered shareholder of 750,967,000 shares is iMerchants Group Limited ("iMerchants Group"). iMerchants Group is wholly-owned by Asian Gold Associates Limited ("Asian Gold"), 76% of its issued share capital is owned by Galaface Limited ("Galaface"). Mr Kung is deemed to have interests in the 750,967,000 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.

Directors' Report

Long positions in underlying shares – share options granted by the Company

Name of director	Capacity	Date of grant	Exercise price	Exercisable period	Number of share options held at
					1 April 2003 and 31 March 2004
Mr Edward Un	Beneficial owner	23 August 2000	HK\$0.53	In various stages from 1 April 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 <i>(Note ii)</i>

Notes:

- (i) 2,000,000 share options were granted on 23 August 2000 under the share option scheme which was approved by the written resolution of the shareholders of the Company on 15 March 2000 ("2000 Share Option Scheme"). Share options granted under the 2000 Share Option Scheme may be exercised in accordance with the terms of the scheme as to:
- one quarter of the share options would be exercisable from 1 April 2001 ("First Exercise Date");
 - an additional one eighth of the share options would be exercisable after the expiry of each successive six-month period from the First Exercise Date; and
 - the balance of the share 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 share option scheme which was approved by the shareholders of the Company in the special general meeting on 2 August 2002 ("2002 Share Option Scheme"). Share options granted under the 2002 Share Option Scheme may be exercisable in accordance with the terms of the scheme as to:
- Share options to subscribe for 4,000,000 shares of the Company will be exercisable from 1 September 2003 to 28 August 2012; and
 - The balance of 4,000,000 share options is exercisable from 1 September 2004 to 28 August 2012.

Directors' Report

Long positions in debentures

No long positions of directors 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 5.46 of the GEM Listing Rules.

Short positions in ordinary shares of HK\$0.1 each of the Company

No short positions of directors 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 5.46 of the GEM Listing Rules.

Short positions in underlying shares

No short positions of directors 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 5.46 of the GEM Listing Rules.

Short positions in debentures

No short positions of directors 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 5.46 of the GEM Listing Rules.

Save as disclosed above, at 31 March 2004, none of the directors had any interests 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 5.46 of the GEM Listing Rules.

Directors' Report

INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

At 31 March 2004, the following persons (other than the interests disclosed above in respect of certain Directors 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 ordinary shares of HK\$0.1 each of the Company

Name	Capacity	Number of ordinary shares	Percentage of issued share capital of the Company
Reuters Greenhouse Fund LP (Note i)	Beneficial owner	58,125,000	5.00%
Reuters Group PLC (Note i)	Interest of a controlled corporation	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, at 31 March 2004, the directors were not aware of any other person who had an interest or a 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' Report

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 22 to the financial statements.

No share options had been granted during the year and thus the valuation of share options as set out in Rule 23.08 of the GEM Listing Rules is not applicable to the Company for this financial year.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the share option schemes as described in the section headed "Share Option Schemes" above and note 22 to the financial statements, at no time during the year was the Company, 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.

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 GEM Listing Rules) had an interest in a business that competed with the Group or might compete with the business of the Group.

Directors' Report

MAJOR CUSTOMERS AND SUPPLIERS

The five largest suppliers of the Group in aggregate accounted for less than 10% of its cost of sales and direct costs for the year.

During the year, the five largest customers of the Group accounted for approximately 73% of the turnover of the Group and the largest customer accounted for approximately 31% of the total turnover.

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.

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 2004; 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 2004 with Rules 5.34 to 5.45 of the GEM Listing Rules.

Directors' Report

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

DONATIONS

During the year, the Group made charitable and other donations amounting to HK\$135,000.

RETIREMENT BENEFITS SCHEMES

Details of the Group's retirement benefits schemes are set out in note 24 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, 18 June 2004

Auditors' Report



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 23 to 56 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 financial statements and to report our opinion solely to you, as a body, in accordance with section 141 of the Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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.

Auditors' Report

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 2004 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

Hong Kong

18 June 2004

Consolidated Income Statement

For the year ended 31 March 2004

	NOTES	2004 HK\$'000	2003 HK\$'000
Turnover	5	4,592	8,200
Cost of sales and direct costs		<u>(2,947)</u>	<u>(7,150)</u>
Gross profit		1,645	1,050
Other operating income	7	15,050	7,630
Administrative expenses		(26,622)	(45,011)
Impairment losses		<u>-</u>	<u>(157)</u>
Loss before taxation	8	(9,927)	(36,488)
Taxation	10	<u>-</u>	<u>(2)</u>
Loss for the year		<u>(9,927)</u>	<u>(36,490)</u>
Loss per share	11		
– Basic and diluted		<u>HK0.85 cent</u>	<u>HK3.14 cents</u>

Consolidated Balance Sheet

At 31 March 2004

	NOTES	2004 HK\$'000	2003 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	1,141	3,425
Interests in associates	14	4,890	6,660
Investments in securities	15	50,438	122,516
Long-term bank deposits		7,800	33,540
		<u>64,269</u>	<u>166,141</u>
CURRENT ASSETS			
Inventories	16	-	121
Amounts due from customers for contract work	17	33	135
Trade and other receivables	18	2,744	3,984
Investments in securities	15	80,728	5,581
Amount due from an associate		303	340
Short-term bank deposits		15,790	44,669
Pledged bank deposit	19	505	500
Bank balances and cash		56,959	8,480
		<u>157,062</u>	<u>63,810</u>
CURRENT LIABILITIES			
Amounts due to customers for contract work	17	141	415
Other payables		1,423	1,578
Equity securities sold, not yet purchased		278	-
		<u>1,842</u>	<u>1,993</u>
NET CURRENT ASSETS		<u>155,220</u>	<u>61,817</u>
		<u>219,489</u>	<u>227,958</u>
CAPITAL AND RESERVES			
Share capital	20	116,139	116,139
Reserves		103,350	111,819
		<u>219,489</u>	<u>227,958</u>

The financial statements on pages 23 to 56 were approved and authorised for issue by the Board of Directors on 18 June 2004 and are signed on its behalf by:

Leroy Kung Lin Yuen
DIRECTOR

Lena Foo
DIRECTOR

Balance Sheet

At 31 March 2004

	NOTES	2004 HK\$'000	2003 HK\$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	13	204,829	194,867
Interests in associates	14	5,680	7,800
Investments in securities	15	2,000	2,000
Long-term bank deposits		7,800	33,540
		220,309	238,207
CURRENT ASSETS			
Other receivables		216	494
Short-term bank deposits		7,986	–
Bank balances		2,040	1,689
		10,242	2,183
CURRENT LIABILITIES			
Other payables		20	–
Amounts due to subsidiaries		11,137	11,137
		11,157	11,137
NET CURRENT LIABILITIES			
		(915)	(8,954)
		219,394	229,253
CAPITAL AND RESERVES			
Share capital	20	116,139	116,139
Reserves	21	103,255	113,114
		219,394	229,253

Leroy Kung Lin Yuen
DIRECTOR

Lena Foo
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 March 2004

	Share capital	Share premium	Negative goodwill	Capitals redemption reserve	Merger reserve	Investment revaluation reserve	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (note 21)	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 year	-	-	-	-	-	-	(36,490)	(36,490)
At 31 March 2003 and 1 April 2003	116,139	207,130	1,884	409	45,918	-	(143,522)	227,958
Surplus on revaluation of other securities and net gains not recognised in the income statement	-	-	-	-	-	1,458	-	1,458
Loss for the year	-	-	-	-	-	-	(9,927)	(9,927)
At 31 March 2004	<u>116,139</u>	<u>207,130</u>	<u>1,884</u>	<u>409</u>	<u>45,918</u>	<u>1,458</u>	<u>(153,449)</u>	<u>219,489</u>

Consolidated Cash Flow Statement

For the year ended 31 March 2004

	2004	2003
	HK\$'000	HK\$'000
Operating activities		
Loss before taxation	(9,927)	(36,488)
Adjustments for:		
Amortisation of premium and discount on acquisition of debt securities	542	1,085
Depreciation	2,447	5,601
Impairment loss recognised in respect of property, plant and equipment	-	157
Loss on disposal of property, plant and equipment	71	85
Gain on disposal of an associate	-	(212)
Gain on disposal of debt securities	(608)	(3)
Interest income from debt securities	(5,362)	(5,057)
Interest income from bank deposits	(1,878)	(3,443)
Unrealised gain on listed trading securities	(2,588)	-
Recognition of unrealised gain eliminated on consolidation in prior years for consultancy and software development services rendered to an associate	(350)	(351)
Operating cash flows before movements in working capital	(17,653)	(38,626)
Decrease in inventories	121	903
Decrease in amounts due from customers for contract work	102	757
(Increase) decrease in trade and other receivables	(99)	5,954
Increase in trading securities	(55,535)	-
Decrease (increase) in amount due from an associate	37	(316)
(Decrease) increase in amounts due to customers for contract work	(274)	415
Decrease in other payables	(155)	(1,095)
Increase in equity securities sold, not yet purchased	278	-
Cash used in operation	(73,178)	(32,008)
Interest received from bank deposits	3,217	1,824
Overseas tax paid	-	(2)
Net cash used in operating activities	(69,961)	(30,186)

Consolidated Cash Flow Statement

For the year ended 31 March 2004

	2004	2003
	HK\$'000	HK\$'000
Investing activities		
Decrease (increase) in bank deposits with original maturity more than three months	41,154	(33,540)
Interest income from debt securities	5,362	5,057
Loan repaid from an associate	2,120	3,000
Proceeds from disposal of property, plant and equipment	76	6
Proceeds from redemption of debt securities	5,507	16,497
Proceeds from disposal of debt securities	77,092	15,603
Proceeds from disposal of an associate	-	212
Repayment of accounts receivable	-	2,320
Increase in pledged bank deposit	(5)	(500)
Purchases of debt securities	(26,021)	(106,379)
Purchases of property, plant and equipment	(310)	(762)
	<hr/>	<hr/>
Net cash from (used in) investing activities	104,975	(98,486)
	<hr/>	<hr/>
Net increase (decrease) in cash and cash equivalents	35,014	(128,672)
Cash and cash equivalents at beginning of the year	29,749	158,421
	<hr/>	<hr/>
Cash and cash equivalents at end of the year	64,763	29,749
	<hr/> <hr/>	<hr/> <hr/>
Being:		
Short-term bank deposits	15,790	44,669
Less: Short-term bank deposits with original maturity more than three months	(7,986)	(23,400)
	<hr/>	<hr/>
	7,804	21,269
Bank balances and cash	56,959	8,480
	<hr/>	<hr/>
	64,763	29,749
	<hr/> <hr/>	<hr/> <hr/>

Notes to the Financial Statements

For the year ended 31 March 2004

1. GENERAL

The Company is a public limited company incorporated in Hong Kong with its shares being 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 HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted, for the first time, the following Hong Kong Financial Reporting Standard ("HKFRS") issued by the Hong Kong Society of Accountants ("HKSA"). The term HKFRS is inclusive of Statements of Standard Accounting Practice ("SSAP(s)") and Interpretations approved by the HKSA.

SSAP 12 (Revised) Income Taxes

The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. The adoption of SSAP 12 (Revised) has had no material effect on the results for the current or prior accounting years. Accordingly, no prior year adjustment has been required.

3. CHANGES IN ACCOUNTING POLICIES

During the year, the Group has changed its accounting treatment on investments in securities from the benchmark method to the alternative method as set out in SSAP 24 "Accounting for Investments in Securities" issued by the HKSA. Consequently, all other investments that were previously stated at cost less impairment loss are stated at their fair values at the balance sheet date. The Directors consider the alternative method better presents the financial position of the Group at the balance sheet date. This change in accounting policy has had no material effect on the results for prior accounting years. Accordingly, no prior year adjustment has been required.

Notes to the Financial Statements

For the year ended 31 March 2004

4. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of investments in securities 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.

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.

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.

Notes to the Financial Statements

For the year ended 31 March 2004

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition *(continued)*

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

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes items of income or expense that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Notes to the Financial Statements

For the year ended 31 March 2004

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation *(continued)*

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it related to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

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.

Notes to the Financial Statements

For the year ended 31 March 2004

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

All securities other than held-to-maturity debts securities are measured at subsequent reporting dates at fair value.

Where securities are held for trading purpose, unrealised gains and losses are included in net profit and loss for the year. For other securities, unrealised gains and losses are dealt with in equity, until the security is disposed of or is determined to be impaired at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for the year.

Equity securities sold, not yet purchased, which are for trading purpose, are stated at market value with unrealised gains and losses included in net profit and loss for the year.

Notes to the Financial Statements

For the year ended 31 March 2004

4. 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 an income immediately.

Notes to the Financial Statements

For the year ended 31 March 2004

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Profits and losses arising on translation are dealt with in the income statement.

On consolidation, the 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.

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.

5. TURNOVER

	2004	2003
	HK\$'000	HK\$'000
Revenue from contracts for consultancy and software development	4,592	7,193
Sales of goods	-	1,007
	4,592	8,200

Notes to the Financial Statements

For the year ended 31 March 2004

6. 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.

7. OTHER OPERATING INCOME

	2004 HK\$'000	2003 HK\$'000
Interest income from bank deposits	1,878	3,443
Interest income from debt securities, net of amortisation of premium and discount on acquisition of HK\$542,000 (2003: HK\$1,085,000)	4,820	3,972
Total interest income	6,698	7,415
Dividends from listed securities	266	–
Net realised gain on disposal of debt securities	608	3
Net realised and unrealised gain on listed trading securities	7,253	–
Gain on disposal of an associate	–	212
Rental income	80	–
Sundries	145	–
	15,050	7,630

Notes to the Financial Statements

For the year ended 31 March 2004

8. LOSS BEFORE TAXATION

	2004	2003
	HK\$'000	HK\$'000
Loss before taxation has been arrived at after charging:		
Auditors' remuneration	360	371
Cost of inventories recognised as an expense (included in cost of sales and direct costs)	-	903
Depreciation	2,447	5,601
Impairment loss recognised in respect of property, plant and equipment	-	157
Loss on disposal of property, plant and equipment	71	85
Operating lease charges in respect of rented premises	1,972	2,458
Staff costs including Directors' emoluments		
Salaries and allowances	16,420	29,441
Redundancy payments	630	4,502
Contributions to retirement benefits schemes	402	361
	17,452	34,304

Notes to the Financial Statements

For the year ended 31 March 2004

9. 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

	2004 HK\$'000	2003 HK\$'000
Independent non-executive Directors:		
Fees	—	—
Executive Directors:		
Fees	—	—
Salaries and allowances	2,393	2,215
Retirement benefits scheme contributions	27	25
	2,420	2,240
	2,420	2,240

The emoluments paid to the Directors during the year were as follows:

	2004 HK\$'000	2003 HK\$'000
Mr. Leroy Kung Lin Yuen	303	—
Ms. Lena Foo	961	961
Mr. Edward Un Ding Bong ("Mr. Un") (appointed on 25 June 2002)	1,156	885
Mr. Matthew P. Johnston ("Mr. Johnston") (resigned on 20 July 2002)	—	394
Dr. Alice Piera Lam Lee Kiu Yue	—	—
Mr. Alex Ko Po Ming	—	—
Mr. Ronny Chow Fan Chim	—	—
	2,420	2,240

Notes to the Financial Statements

For the year ended 31 March 2004

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

(b) Employees' emoluments

During the year, the five highest paid individuals included two Directors (2003: two) of the Company, details of their emoluments are set out above. The emoluments of the remaining three (2003: three) individuals were as follows:

	2004	2003
	HK\$'000	HK\$'000
Salaries and allowances	2,232	2,107
Compensation for loss of office	-	555
Retirement benefits scheme contributions	35	26
	<u>2,267</u>	<u>2,688</u>

The emoluments were within the following bands:

	Number of employees	
	2004	2003
HK\$1,000,000 or below	3	2
HK\$1,000,001 to HK\$1,500,000	-	1
	<u>3</u>	<u>3</u>

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

Notes to the Financial Statements

For the year ended 31 March 2004

10. TAXATION

	2004	2003
	HK\$'000	HK\$'000
Other jurisdictions	<u>-</u>	<u>(2)</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.

No provision for taxation in other jurisdictions was made as the Group's subsidiaries operated outside Hong Kong had no assessable profits.

The taxation charge for the year ended 31 March 2003 represented an underprovision of taxation in other jurisdictions in previous years.

The taxation for the year can be reconciled to the loss before taxation per the consolidated income statement as follows:

	2004	2003
	HK\$'000	HK\$'000
Loss before taxation	<u>(9,927)</u>	<u>(36,488)</u>
Taxation at income tax rate of 17.5% (2002: 16%)	(1,737)	(5,838)
Tax effect of estimated tax losses not recognised	1,744	5,298
Tax effect of expenses not deductible for tax purpose	388	437
Tax effect of income not taxable for tax purpose	(400)	(250)
Utilisation of estimated tax losses previously not recognised	(247)	-
Underprovision in previous years	-	(2)
Others	<u>252</u>	<u>353</u>
Taxation charge for the year	<u>-</u>	<u>(2)</u>

At 31 March 2004, the Group has unused estimated tax losses of approximately HK\$142,605,000 (2003: HK\$134,051,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

Notes to the Financial Statements

For the year ended 31 March 2004

11. LOSS PER SHARE

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

	2004 HK\$'000	2003 HK\$'000
Loss for the year	<u>(9,927)</u>	<u>(36,490)</u>
	Number	Number
Number of ordinary shares for the purpose of basic and diluted loss per share	<u>1,161,382,000</u>	<u>1,161,382,000</u>

The calculation of the diluted loss per share did not assume 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.

12. 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 2003	5,326	3,504	14,002	22,832
Additions	35	14	261	310
Disposals	-	(138)	(325)	(463)
	<u>5,361</u>	<u>3,380</u>	<u>13,938</u>	<u>22,679</u>
At 31 March 2004	5,361	3,380	13,938	22,679
DEPRECIATION AND IMPAIRMENT				
At 1 April 2003	5,321	2,012	12,074	19,407
Provided for the year	6	693	1,748	2,447
Eliminated on disposals	-	(45)	(271)	(316)
	<u>5,327</u>	<u>2,660</u>	<u>13,551</u>	<u>21,538</u>
At 31 March 2004	5,327	2,660	13,551	21,538
NET BOOK VALUES				
At 31 March 2004	<u>34</u>	<u>720</u>	<u>387</u>	<u>1,141</u>
At 31 March 2003	<u>5</u>	<u>1,492</u>	<u>1,928</u>	<u>3,425</u>

Notes to the Financial Statements

For the year ended 31 March 2004

13. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	<u>33,164</u>	<u>33,164</u>
Loans to subsidiaries	297,445	276,703
Allowance for loan to a subsidiary	<u>(125,780)</u>	<u>(115,000)</u>
	171,665	161,703
	<u>204,829</u>	<u>194,867</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 2004

13. INTERESTS IN SUBSIDIARIES (continued)

Details of the Company's subsidiaries at 31 March 2004 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	
Beanstalk Limited (formerly known as 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%	-	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 Electronics Limited	Incorporated	Hong Kong	Ordinary shares HK\$100	100%	-	Inactive
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%	-	Inactive
iMerchants Technologies (Beijing) Company Limited	Wholly-owned Foreign Enterprise	People's Republic of China	Paid-up capital US\$150,000	100%	-	Provision of information technology services

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 2004

14. INTERESTS IN ASSOCIATES

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	–	–	4,000	4,000
Share of net assets	3,210	2,860	–	–
	3,210	2,860	4,000	4,000
Loans to associates	1,680	3,800	1,680	3,800
	4,890	6,660	5,680	7,800

Details of the Group's associate at 31 March 2004 are as follows:

Name of associate	Form of business structure	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 Company Limited	Incorporated	Hong Kong	Ordinary	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.

Pursuant to the shareholders' agreement of Net Alliance Company Limited, the other shareholders of Net Alliance Company Limited have agreed to reimburse all the expenses net of any income to the associate. Thus, the Group did not share any results of the associate.

Notes to the Financial Statements

For the year ended 31 March 2004

15. INVESTMENTS IN SECURITIES

	THE GROUP							
	Held-to-		Other securities		Trading securities		Total	
	maturity securities							
	2004	2003	2004	2003	2004	2003	2004	2003
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Equity securities:								
Listed	-	-	-	-	58,123	-	58,123	-
Debt securities:								
Listed	-	5,537	1,596	-	-	-	1,596	5,537
Unlisted	-	122,560	71,447	-	-	-	71,447	122,560
	-	128,097	73,043	-	-	-	73,043	128,097
Total:								
Listed								
Hong Kong	-	-	-	-	28,464	-	28,464	-
Overseas	-	5,537	1,596	-	29,659	-	31,255	5,537
Unlisted	-	122,560	71,447	-	-	-	71,447	122,560
	-	128,097	73,043	-	58,123	-	131,166	128,097
Market value of listed securities	-	5,669	1,596	-	58,123	-	59,719	5,669
Carrying amount analysed for reporting purposes as:								
Current	-	5,581	22,605	-	58,123	-	80,728	5,581
Non-current	-	122,516	50,438	-	-	-	50,438	122,516
	-	128,097	73,043	-	58,123	-	131,166	128,097

Notes to the Financial Statements

For the year ended 31 March 2004

15. INVESTMENTS IN SECURITIES (continued)

	THE COMPANY					
	Held-to-maturity securities		Other securities		Total	
	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Non-current unlisted debt securities	-	2,000	2,000	-	2,000	2,000

16. INVENTORIES

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Finished goods, at cost	-	121

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

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Costs incurred	33	545
Less: Progress billings	(141)	(825)
	<u>(108)</u>	<u>(280)</u>
Analysed for reporting purposes as:		
Amounts due from customers for contract work	33	135
Amounts due to customers for contract work		
– advances received	(141)	(415)
	<u>(108)</u>	<u>(280)</u>

Notes to the Financial Statements

For the year ended 31 March 2004

18. TRADE AND OTHER RECEIVABLES

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

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

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
0 – 60 days	328	434
61 – 90 days	-	629
Over 90 days	161	-
	<hr/>	<hr/>
Trade receivables	489	1,063
Other receivables	2,255	2,921
	<hr/>	<hr/>
	2,744	3,984
	<hr/> <hr/>	<hr/> <hr/>

19. PLEDGED BANK DEPOSIT

The Group

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

20. SHARE CAPITAL

	Number of ordinary shares	Amount HK\$'000
Ordinary shares of HK\$0.1 each		
Authorised:		
At 31 March 2003 and 31 March 2004	8,000,000,000	800,000
	<hr/> <hr/>	<hr/> <hr/>
Issued and fully paid:		
At 31 March 2003 and 31 March 2004	1,161,382,000	116,139
	<hr/> <hr/>	<hr/> <hr/>

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

Notes to the Financial Statements

For the year ended 31 March 2004

21. RESERVES

	Share premium HK\$'000	Capital redemption reserve HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
THE COMPANY					
At 1 April 2002	207,130	409	31,104	(89,996)	148,647
Loss for the year	-	-	-	(35,533)	(35,533)
At 31 March 2003 and 1 April 2003	207,130	409	31,104	(125,529)	113,114
Loss for the year	-	-	-	(9,859)	(9,859)
At 31 March 2004	<u>207,130</u>	<u>409</u>	<u>31,104</u>	<u>(135,388)</u>	<u>103,255</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 GROUP

The merger reserve of the Group represents the difference between the nominal amount of the share capital of the subsidiaries at the date on which they were acquired by the Group and the nominal amount of the Company's shares issued as consideration for the acquisition in March 2000 less the premium arising on repurchase of shares and the amount transferred to the capital redemption reserve.

All the reserves of the Group are attributable to the Company and its subsidiaries.

Notes to the Financial Statements

For the year ended 31 March 2004

22. 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 share 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. Share 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 share 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 share 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 share option.

The maximum number of shares in respect of which share options may be granted under the 2000 Share Option Scheme and the share 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 2004

22. 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 share options beyond the 10% limit, provided that the share 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 share options might be granted to a participant, when aggregated with shares issued and issuable under any share 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 share 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.

Share options granted under 2000 Share Option Scheme are exercisable in various stages during the exercisable period from 1 April 2001 to 23 August 2010 and in accordance with the terms as to:

- (a) one quarter of the share 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 share 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 2004

22. 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 share 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) share options granted are exercisable in various stages during the exercisable period from 1 April 2001 to 14 March 2010.

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

Notes to the Financial Statements

For the year ended 31 March 2004

22. 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")

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

- (a) any director, 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.

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. Share 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 share 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 share option.

Notes to the Financial Statements

For the year ended 31 March 2004

22. 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 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 share options that have already been granted by the Company prior to the date of approval of the 2002 Share Option 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 share options granted and yet to be exercised under the 2002 Share Option Scheme and any other share 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 share options beyond the 10% limit, provided that the share 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 share 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 options above this limit. The number and terms of the share 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 share options proposed to be so granted, the date of board meeting for proposing such grant of further share options shall be taken as the date of offer of the share options.

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

At 31 March 2004, the total number of shares available for issue under the Company's share option schemes was 116,138,200 (2003: 108,138,200), representing 10.00% (2003: 9.31%) of the shares of the Company in issue at that date.

Notes to the Financial Statements

For the year ended 31 March 2004

22. 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 2002	Granted during the year (Note)	Lapsed during the year	Reclassified during the year	Outstanding at 31 March 2003 and 1 April 2003	Lapsed during the year	Outstanding at 31 March 2004
Former Director Mr. Johnston	Pre-IPO Share Option Plan	15 March 2000	1.48	In various stages from 1 April 2001 to 14 March 2010	11,670,000	-	(11,670,000)	-	-	-	-
					2000 Share Option Scheme	23 August 2000	0.53	In various stages from 1 April 2001 to 23 August 2010	11,670,000	-	(11,670,000)
Director Mr. Un	2000 Share Option Scheme	23 August 2000	0.53	In various stages from 1 April 2001 to 23 August 2010	-	-	-	2,000,000	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	-
Employees	Pre-IPO Share Option Plan	15 March 2000	1.48	In various stages from 1 April 2001 to 14 March 2010	23,340,000	8,000,000	(23,340,000)	2,000,000	10,000,000	-	10,000,000
					2000 Share Option Scheme	23 August 2000	0.53	In various stages from 1 April 2001 to 23 August 2010	25,330,000	-	(11,690,000)
	2000 Share Option Scheme	23 August 2000	0.53	In various stages from 1 April 2001 to 23 August 2010	28,630,000	-	(12,680,000)	(2,000,000)	13,950,000	(4,630,000)	9,320,000
					53,960,000	-	(24,370,000)	(2,000,000)	27,590,000	(9,260,000)	18,330,000
					<u>77,300,000</u>	<u>8,000,000</u>	<u>(47,710,000)</u>	<u>-</u>	<u>37,590,000</u>	<u>(9,260,000)</u>	<u>28,330,000</u>

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

The exercise in full of the outstanding 28,330,000 share options at 31 March 2004 would, under the present capital structure of the Company, result in the issue of 28,330,000 additional shares for a total cash consideration, before expenses, of approximately HK\$20,710,000.

Notes to the Financial Statements

For the year ended 31 March 2004

23. OPERATING LEASE COMMITMENTS

As lessee

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

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Within one year	1,327	1,931
In the second to fifth year inclusive	-	1,202
	<u>1,327</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:

	2004	2003
	HK\$'000	HK\$'000
Within one year	57	80
In the second to fifth year inclusive	-	57
	<u>57</u>	<u>137</u>

Notes to the Financial Statements

For the year ended 31 March 2004

24. RETIREMENT BENEFITS SCHEMES

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 employees of the Company's subsidiary in the People's Republic of China are members of the pension schemes operated by the government of the People's Republic of China. The Company's subsidiary in the People's Republic of China is required to contribute a certain percentage of the relevant portion of these employees' basic salaries to the pension to fund the benefits. The only obligations of the Company's subsidiary in the People's Republic of China with respect to the pension scheme is the required contributions under the pension scheme.

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

25. RELATED PARTY DISCLOSURES

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

	2004	2003
	HK\$'000	HK\$'000
Revenue generated from contracts for consultancy and software development performed for an associate	580	455
Maintenance service income from an associate	825	1,031
Rental income from an associate	80	-

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

(ii) Details of the balances with the Group's associate are set out in the consolidated balance sheet and in note 14.

Financial Summary

	Year ended 31 March				
	2000 HK\$'000 (Note 1)	2001 HK\$'000	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000
RESULTS					
Turnover	15,169	41,960	20,866	8,200	4,592
Cost of sales and direct costs	(3,790)	(24,494)	(19,769)	(7,150)	(2,947)
Gross profit	11,379	17,466	1,097	1,050	1,645
Other revenue	61	19,935	9,640	7,630	15,050
Administrative expenses	(20,392)	(39,277)	(48,388)	(45,011)	(26,622)
Impairment losses	-	-	(40,115)	(157)	-
Loss from operations	(8,952)	(1,876)	(77,766)	(36,488)	(9,927)
Finance costs	(325)	(2)	(9)	-	-
Share of results of associates	-	(5,655)	(1,924)	-	-
Share of result of a jointly controlled entity	-	(2)	-	-	-
Loss before taxation	(9,277)	(7,535)	(79,699)	(36,488)	(9,927)
Taxation (charge) credit	-	(437)	27	(2)	-
Loss for the year	<u>(9,277)</u>	<u>(7,972)</u>	<u>(79,672)</u>	<u>(36,490)</u>	<u>(9,927)</u>

	As at 31 March				
	2000 HK\$'000	2001 HK\$'000	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000
ASSETS AND LIABILITIES					
Total assets	358,885	344,213	267,121	229,951	221,331
Total liabilities	(6,383)	(4,196)	(2,673)	(1,993)	(1,842)
Shareholders' funds	<u>352,502</u>	<u>340,017</u>	<u>264,448</u>	<u>227,958</u>	<u>219,489</u>

Note:

- (1) The results for the year ended 31 March 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 1999.

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, Hong Kong on Friday, 23 July 2004, at 11:00 a.m. to consider and, if thought fit, pass the following ordinary and special resolutions of the Company:

AS ORDINARY RESOLUTIONS:

- (1) To receive and consider the audited financial statements together with the reports of the Directors and auditors for the year ended 31 March 2004;
- (2) To re-elect 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 their remuneration;
- (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 purchase 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 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

Notice of Annual General Meeting

(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 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;

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- (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)”

- (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.”

AS SPECIAL RESOLUTION:

- (5) As special business, to consider and, if thought fit, pass the following resolution as a special resolution of the Company:

“THAT the Articles of Association of the Company be amended by:

- (i) amending Article 90 of the Company by adding the following sub-paragraph:
 - ‘(C) Where any member is, under the rules of any stock exchange on which shares of the Company are listed, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted’.

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(ii) deleting Article 108(B) and substituting it with the following:

'(B) Save as otherwise provided by these Articles, a Director shall not vote (nor be counted in the quorum) on any resolution of the Board in respect of any contract or arrangement or proposal in which he or any of his associates is to his knowledge materially interested, and if he shall do so his vote shall not be counted, but this prohibition shall not apply to any of the following matters namely:

- (a) any contract or arrangement for the giving of any security or indemnity to the director and/or any of his associates in respect of money lent or obligations undertaken by him and/or any of his associates for the benefit of the Company;
- (b) any contract or arrangement for the giving of any security to a third party in respect of a debt or obligation of the Company which the director and/or any of his associates has himself guaranteed or secured in whole or in part;
- (c) any contract or arrangement by a director and/or any of his associates to subscribe for shares or debentures or other securities of the Company to be issued pursuant to any offer or invitation to the members or debenture holders or to the public which does not provide the director and/or any of his associates with any privilege not accorded to any other members or debenture holders or to the public;
- (d) any contract or arrangement concerning an offer of the shares or debentures or other securities of or by the Company for subscription or purchase where the director and/or any of his associates is or is to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (e) any contract or arrangement in which the director and/or any of his associates is interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his interest in shares or debentures or other securities of the Company;

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- (f) any contract or arrangement concerning any company in which he and/or any of his associates is interested directly or indirectly whether as an officer or a shareholder other than a company in which the director together with any of his associates owns five (5) per cent. or more of the issued shares or voting rights of any class of shares of the Company;
 - (g) any proposal or arrangement for the benefit of employees of the Company or its subsidiaries including a pension fund or retirement, death or disability benefit scheme which relates both to directors (and/or their respective associates) and employees of the Company or of any of its subsidiaries and does not give the director and/or any of his associates any privilege not accorded to the employees to whom such scheme or fund relates; and
 - (h) any proposal concerning the adoption, modification or operation of any share scheme involving the issue or grant of options over shares or other securities by the Company to, or for the benefit of the employees of the Company or its subsidiaries under which the director and/or any of his associates may benefit.’;
- (iii) deleting Article 108(D) and substituting it with the following:
- ‘(D) A Director who and/or whose associate(s) to his knowledge is/are in any way, directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of such interest at the meeting of the Board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows such interest then exists, or in any other case at the first meeting of the Board after he knows that he and/or any of his associates is or has become so interested. For the purposes of this Article, a general notice to the Board by a Director to the effect that (a) he and/or any of his associates is a member of a specified company or firm and is to be regarded as interested in any contract or arrangement which may after the date of the notice be made with that company or firm or (b) he and/or any of his associates is to be regarded as interested in any contract or arrangement which may after the date of the notice be made with a specified person who is connected with him, shall be deemed to be a sufficient declaration of interest under this Article in relation to any such contract or arrangement; provided that no such notice shall be effective unless either it is given at a meeting of the Board or the Directors takes

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reasonable steps to secure that it is brought up and read at the next Board meeting after it is given.’;

(iv) deleting Article 108(G) and substituting it with the following:

‘(G) If any question shall arise at any meeting of the Board as to the materiality of the interest of a Director or his associates (other than the chairman of the meeting) or as to the entitlement of any Director (other than such chairman) to vote or be counted in the quorum and such question is not resolved by his voluntarily agreeing to abstain from voting or not to be counted in the quorum, such question shall be referred to the chairman of the meeting and his ruling in relation to such other Director shall be final and conclusive except in a case where the nature or extent of the interest of the Director (or his associates) concerned as known to such Director has not been fairly disclosed to the Board. If any question as aforesaid shall arise in respect of the chairman of the meeting, such question shall be decided by a resolution of the Board (for which purpose such chairman shall not be counted in the quorum and shall not vote thereon) and such resolution shall be final and conclusive except in a case where the nature or extent of the interest of such chairman (as his associates) as known to such chairman has not been fairly disclosed to the Board’;

(v) deleting Article 123 and substituting it with the following:

‘123 No person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless a notice signed by a member (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also a notice signed by the person to be proposed of his willingness to be elected shall have been lodged with the Board at the Company’s registered office during the period commencing the day after the dispatch of the notice of the meeting appointed for such election (inclusive of such day) and ending seven (7) days prior to the date of such general meeting (inclusive of such day).’”

By Order of the Board
Leroy Kung Lin Yuen
Chairman and Chief Executive Officer

Hong Kong, 18 June 2004

Notice of Annual General Meeting

Registered Office and Principal Place of Business:

26th Floor
Great Eagle Centre
23 Harbour Road
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, as soon as possible and in any event not less than 48 hours before the time appointed for holding the meeting or the adjourned meeting.