



***i*Merchants Limited**

*Annual Report 2004-2005*

***i*Merchants**  
[www.imerchants.com](http://www.imerchants.com)



## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (THE "GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")**

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

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

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

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

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## Corporate Information

### EXECUTIVE DIRECTORS

Mr. Leroy Kung Lin Yuen (*Chairman*)

Ms. Lena Foo

Mr. Edward Un Ding Bong

### INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Alice Piera Lam Lee Kiu Yue

Mr. Kenneth Tseung Yuk Hei

Mr. Matthew P. Johnston

### NON-EXECUTIVE DIRECTOR

Mr. Ronny Chow Fan Chim

### COMPANY SECRETARY

Mr. Clement Leung Yuen Wing

*CPA, FCCA*

### COMPLIANCE OFFICER

Ms. Lena Foo

### QUALIFIED ACCOUNTANT

Mr. Clement Leung Yuen Wing

*CPA, FCCA*

### AUDIT COMMITTEE

Dr. Alice Piera Lam Lee Kiu Yue

Mr. Kenneth Tseung Yuk Hei

Mr. Matthew P. Johnston

### AUTHORISED REPRESENTATIVES

Mr. Leroy Kung Lin Yuen

Ms. Lena Foo

### REGISTERED OFFICE, HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Units 6803-05

68th Floor

The Center

99 Queen's Road Central

Hong Kong

### WEB-SITE ADDRESS

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

### 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

Citibank N.A.

Citigroup Global Markets Asia Limited

HSBC Private Bank (Swisse) S.A.

Standard Bank Asia Limited

Wing Hang Bank, Limited

# Chairman's Statement

## FINANCIAL HIGHLIGHTS

iMerchants Limited presents its financial results for the year ended 31 March 2005. During that year, the Group:

- earned total revenues of approximately HK\$2,695,000;
- reported an audited consolidated loss for the year of approximately HK\$7,374,000. This compares to the consolidated loss of approximately HK\$9,927,000 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\$197 million without any bank borrowings.

## BUSINESS REVIEW

In the financial year ended on 31 March 2005, iMerchants completed its transition to concentrate on direct venture investments. In the future, individual venture operations will be conducted through the respective investee companies and iMerchants at the group level will focus on the identification of new potential investments and on providing business and corporate development assistance to our portfolio of companies. We believe our refined business focus will be able to best utilize the skill sets, networks and backgrounds of the management team.

For future investments, iMerchants will target both technology ventures as well as businesses where new applications of technologies have been identified to enhance their market competitiveness in a significant way. We will concentrate our effort in selected market sectors where we can bring in added value in business and corporate development to the target companies. In these sectors, we will identify market trends that are likely to lead to significant growth and invest in companies in such markets that can best capture the business opportunities.

In the last quarter of the financial year, iMerchants has identified a number of potential candidates and made an investment in eBANK Corporation ("eBANK"), one of the leading online banks in Japan. In addition to being an investor, we also aim to assist eBANK in its business expansion outside of Japan.

# Chairman's Statement

## **LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE**

There has been no change in the capital structure of iMerchants during the financial year ended on 31 March 2005. iMerchants continues to be in a healthy financial situation with current assets plus investments in marketable securities and time deposits (after investment in eBANK) totaling approximately HK\$197 million (31 March 2004: approximately HK\$215 million) and no bank borrowings as at 31 March 2005. As 18% of this total consists of bank balances, deposits and cash, and marketable securities account for a further 81% of the total, iMerchants considers its financial resources to be highly liquid. iMerchants 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.

Save for the information mentioned in the section headed "Business Review" above, iMerchants currently does not have any plan to acquire or take any equity stakes in companies for expansion. Any future capital expenditures and the ongoing operating expenses will be financed from iMerchants' existing financial resources. The Directors do not foresee the need for any material financing activities in order to execute iMerchants' plans. iMerchants did not undertake any material acquisitions and disposals of subsidiaries and affiliated companies in the course of the year ended on 31 March 2005.

For trade receivables, as iMerchants' customers are predominantly banks and divisions of large multinational companies, the management believes the risk of default payment by the customers to be very low.

As of 31 March 2005, approximately 14% of iMerchants' cash and bank balances and marketable investments were denominated in Hong Kong dollars, approximately 75% in US dollars, approximately 10% 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, iMerchants does not hedge its exchange rate exposures.

iMerchants's gearing ratio at 31 March 2005 was 0% (31 March 2004: 0%), as calculated by taking the ratio of iMerchants' total interest-bearing borrowings, divided by its shareholders' funds. iMerchants has no borrowings and no contingent liabilities as at 31 March 2005 (31 March 2004: Nil). iMerchants had no charges on its assets as at 31 March 2005 (31 March 2004: HK\$505,000).

# Chairman's Statement

## INVESTMENTS

In late March 2005, iMerchants made an investment worth approximately HK\$10,500,000 in eBANK and thereby became its minority shareholder. eBANK, one of the leading internet-focused licensed banks in Japan, obtained the bank license from the Financial Service Agency of Japan in July 2001 and started operations in the same month. Though there is no concrete cooperation plan with eBANK at the moment, the management believes that the investment has allowed iMerchants to establish business connections with eBANK and expects that this will create the potential to attract further business to iMerchants' investee companies such as Net Alliance Company Limited ("Net Alliance") and Beanstalk Limited ("Beanstalk"). The management believes that investment in eBANK will also provide a tighter business relationship between iMerchants and eBANK and pave the way for future co-operation to explore the financial services market in Asia. iMerchants currently has no intention to sell the shares of eBANK in the foreseeable future and intends to hold the shares as a long term investment.

iMerchants retains its investment of approximately HK\$3.6 million in Net Alliance, a company that provides online banking service bureau operations to a number of banks in Hong Kong. Net Alliance has implemented a means of delivering a shared IT platform to financial institutions resulting in comparatively low costs to the individual institution. iMerchants expects Net Alliance's revenues and profits to remain quite stable during the coming years.

As of 31 March 2005, iMerchants has investments in marketable securities worth approximately HK\$158 million (31 March 2004: approximately HK\$131 million). The management will continue its conservative approach and intends to hold these investments 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.

## Chairman's Statement

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

The financial year ended on 31 March 2005 has been a period of transition for iMerchants. The management now focuses on the business expansion of its venture investments and the establishment of partnerships and will continue to evaluate potential strategic investments in businesses and assets. Should suitable opportunities arise, subject to the results of the financial and operational reviews, iMerchants will consider investments with a view to expanding and diversifying its business.

As iMerchants may or may not hold majority interests in future venture investments, the business turnovers of such investee companies may or may not be consolidated into the group accounts of iMerchants as evidenced by the turnovers of past years. Our energy will focus on enhancing the overall value and return on investment for iMerchants in the future. For the year ended on 31 March 2005, iMerchants' turnover was HK\$2,695,000 which mainly comprised of the sales of Beanstalk wealth management solution products and recurring income from maintenance services for custom-made software developed in the past. The turnover does not include the turnovers of iMerchants' other venture investments in which iMerchants holds minority interests. The decrease in turnover was mainly due to the management decision to streamline the operation of Beanstalk and to transfer relating system integration works to our business partner.

iMerchants generated a net loss of HK\$7,374,000 for the year ended 31 March 2005, compared to HK\$9,927,000 for the year ended 31 March 2004. The reduced loss is largely attributable to the decrease of staff costs after the streamlining of Beanstalk's operations and to the satisfactory contribution of iMerchants' treasury investments. The higher than expected other operating expenses was due to the project-based engagements of external consultants for Beanstalk's product development and branding.



# Chairman's Statement

## EMPLOYEES

As it is the intention of the management that operational and personnel expansion will mainly occur within the investee companies, it is expected that iMerchants will be able to maintain a focused team at the group level and, consequently, the Group has gradually reduced its headcount since early 2004. As of 31 March 2005, iMerchants on the group level employed 9 full time staff (31 March 2004: 36) excluding all employees under our portfolio companies in which we have a minority stake (Net Alliance, eBANK and she.com).

Remuneration for iMerchants' employees is typically reviewed once a year, or as the management deems appropriate. For the year ended 31 March 2005, iMerchants' total remuneration expenses, including contributions to the Mandatory Provident Fund, were approximately HK\$11 million (2004: approximately HK\$18 million). The total was approximately 38% lower than that of last financial year, mainly due to the decrease in headcount over the period.

iMerchants has introduced share option schemes to recognize the contributions of its employees to the development of iMerchants. As of 31 March 2005, a total of 19,100,000 share options remained outstanding (31 March 2004: 28,330,000). None had been exercised during this financial year.

## COMMENTARY ON SEGMENTAL INFORMATION

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

**Leroy Kung Lin Yuen**

*Chairman*

Hong Kong, 15 June 2005

## 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>	<b>Actual (from 1 April 2000 to 31 March 2005) <i>HK\$ million</i></b>
For enhancing knowledge creation and management processes and strengthening corporate infrastructure	90	<b>43</b>
For enhancing service offering and expand capacity to deliver	35	<b>40</b>
For geographical expansion in Asia	42	<b>6</b>
For business development and marketing activities	48	<b>22</b>
For acquisition of or investment in ventures	64	<b>35</b>
For general working capital	46	<b>114</b>
	<hr/>	<hr/>
Total	<u>325</u>	<u><b>260</b></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.

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 approach in rolling out its business objectives than originally planned because 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 within the Greater China region. Correspondingly, corporate infrastructure requirements as well as expenditure for business development and marketing have been limited to that required to support operations in that region. 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.

# 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 38, is responsible for setting the strategic direction of the Group. 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 40, 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; General Manager and Chief Technology Officer of Beanstalk Limited:** Mr. Un, aged 39, is responsible for steering Beanstalk's product direction and overseeing the design and development of all Beanstalk software products. 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 65, 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.

**Kenneth Tseung Yuk Hei** — Mr. Tseung, aged 39, is an executive director of ABN AMRO ("ABN AMRO") and a former executive director of BNP Paribas Peregrine Capital Limited ("BNP Peregrine"). He is a member of The Institute of Chartered Accountants in Australia and graduated from Macquarie University in Australia in 1988 with a bachelor's degree in Economics. Prior to joining BNP Peregrine in 1994, Mr. Tseung was with KPMG in Sydney and Ernst & Young in Hong Kong. Mr. Tseung has extensive experience in banking and corporate finance. At ABN AMRO and BNP Peregrine, Mr. Tseung led various financial advisory assignments and a number of significant projects of initial public offerings on The Stock Exchange of Hong Kong Limited. Mr. Tseung was appointed as an independent non-executive Director of the Company on 22 September 2004.

**Matthew P. Johnston** — Mr. Johnston, aged 32, is currently working with an international bank where he develops product and market strategies for the institution. For the period from 31 January 2000 to 20 July 2002, he was an executive director of iMerchants. At iMerchants, he was Vice President of Corporate Development and was responsible for strategic and financial planning, and building business and strategic partnerships and alliances. Mr. Johnston has also worked as a management consultant with Deloitte Consulting and Braxton Associates, Deloitte Consulting's strategy consulting practice. Mr. Johnston earned a Master of Business Administration degree with Honours from the Wharton School at the University of Pennsylvania, where he graduated as a Palmer Scholar. He also holds a Bachelor's degree in Arts, awarded with great distinction, in Economics and Political Science from McGill University in Canada and a Management Studies Diploma from Cambridge University in the United Kingdom. Mr. Johnston was appointed as an independent non-executive Director of the Company on 6 December 2004.



## Directors and Senior Management Profile

### Non-executive Director

**Ronny Chow Fan Chim** — Mr. Chow, aged 36, 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 and re-designated as a non-executive Director on 6 December 2004.

### Senior Management

**Clement Leung Yuen Wing — Financial Controller and Company Secretary:** Mr. Leung, aged 37, 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 Institute of Certified Public 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 2005.

### **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 and technology investment.

### **SUBSIDIARIES AND ASSOCIATE**

Details of the Company's subsidiaries and an associate as at 31 March 2005 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 2005 are set out in the consolidated income statement on page 22 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 19 to the financial statements. There was no movement in the Company's share capital during the year.

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

# Directors' Report

## FINANCIAL SUMMARY

A summary of the results of the Group for the past five financial years is set out on page 59 of the annual report.

## DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The Directors of the Company during the year and up to the date of this report were:

### Executive Directors:

Mr. Leroy Kung Lin Yuen

Ms. Lena Foo

Mr. Edward Un Ding Bong

### Independent non-executive Directors:

Dr. Alice Piera Lam Lee Kiu Yue

Mr. Kenneth Tseung Yuk Hei (appointed on 22 September 2004)

Mr. Matthew P. Johnston (appointed on 6 December 2004)

Mr. Alex Ko Po Ming (resigned on 22 September 2004)

### Non-executive Director:

Mr. Ronny Chow Fan Chim (re-designated on 6 December 2004)

In accordance with Article 120 of the Company's Articles of Association, Mr. Ronny Chow Fan Chim shall retire from his office by rotation at the forthcoming annual general meeting. In addition, in accordance with Article 100, Mr. Kenneth Tseung Yuk Hei and Mr. Matthew P. Johnston, newly appointed Directors, shall retire from their offices at the forthcoming annual general meeting. In accordance with Articles 100 and 120, Mr. Ronny Chow Fan Chim, Mr. Kenneth Tseung Yuk Hei and Mr. Matthew P. Johnston, 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 an initial 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.

## Directors' Report

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' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES**

At 31 March 2005, 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 in the Company 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")	-	-	751,323,000 (Note)	751,323,000	64.69%

Note:

The registered shareholder of 751,323,000 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 751,323,000 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 2004 and 31 March 2005
Mr. Edward Un Ding Bong	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 would be 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 would be exercisable from 1 September 2003 to 28 August 2012; and
  - The balance of 4,000,000 share options would be 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 2005, 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 2005, 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
GEM Global Yield Fund Ltd.	Beneficial owner	58,125,000	5.00%

#### 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 ordinary shares of HK\$0.1 each of the Company

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 2005, 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 21 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 21 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**

No contract 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 81% of the turnover of the Group and the largest customer accounted for approximately 23% 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. Kenneth Tseung Yuk Hei and Matthew P. Johnston.

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 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 2005; 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 2005 with Rules 5.34 to 5.45 of the GEM Listing Rules.

## Directors' Report

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all directors, all directors confirmed they have complied with the required standard of dealings and the code of conduct regarding securities transactions by directors adopted by the Company.

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company considers all of the independent non-executive directors are independent.

### **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.

### **RETIREMENT BENEFITS SCHEMES**

Details of the Group's retirement benefits schemes are set out in note 23 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, 15 June 2005

## 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 22 to 58 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 Institute of Certified Public 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 2005 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

15 June 2005

## Consolidated Income Statement

For the year ended 31 March 2005

	NOTES	2005 HK\$'000	2004 HK\$'000 (restated)
Turnover	5	2,695	4,592
Other operating income	6	12,156	15,050
Staff costs	7	(10,815)	(17,452)
Depreciation		(1,066)	(2,447)
Other operating expenses		(10,344)	(9,670)
		<hr/>	<hr/>
Loss before taxation	8	(7,374)	(9,927)
Taxation	10	-	-
		<hr/>	<hr/>
Loss for the year		<b>(7,374)</b>	<b>(9,927)</b>
		<hr/> <hr/>	<hr/> <hr/>
Loss per share	11		
– Basic and diluted		<b>HK (0.63) cent</b>	HK (0.85) cent
		<hr/> <hr/>	<hr/> <hr/>

## Consolidated Balance Sheet

At 31 March 2005

	NOTES	2005 HK\$'000	2004 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	12	713	1,141
Interest in an associate	14	3,561	4,890
Investments in securities	15	69,016	50,438
Long-term bank deposits		7,800	7,800
		<b>81,090</b>	64,269
<b>CURRENT ASSETS</b>			
Amounts due from customers			
for contract work	16	-	33
Trade and other receivables	17	1,995	2,744
Investments in securities	15	99,812	80,728
Amount due from an associate		-	303
Short-term bank deposits		13,930	15,790
Pledged bank deposit	18	-	505
Bank balances and cash		14,518	56,959
		<b>130,255</b>	157,062
<b>CURRENT LIABILITIES</b>			
Amounts due to customers for contract work	16	-	141
Other payables		1,085	1,423
Equity securities sold, but not yet purchased		337	278
		<b>1,422</b>	1,842
<b>NET CURRENT ASSETS</b>		<b>128,833</b>	155,220
		<b>209,923</b>	219,489
<b>CAPITAL AND RESERVES</b>			
Share capital	19	116,139	116,139
Reserves		93,784	103,350
		<b>209,923</b>	219,489

The financial statements on pages 22 to 58 were approved and authorised for issue by the Board of Directors on 15 June 2005 and are signed on its behalf by:

**Leroy Kung Lin Yuen**  
DIRECTOR

**Lena Foo**  
DIRECTOR



## Balance Sheet

At 31 March 2005

	NOTES	2005 HK\$'000	2004 HK\$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	13	195,604	204,829
Interest in an associate	14	4,000	5,680
Investments in securities	15	-	2,000
Long-term bank deposits		7,800	7,800
		<u>207,404</u>	<u>220,309</u>
CURRENT ASSETS			
Other receivables		137	216
Short-term bank deposits		-	7,986
Bank balances		4,833	2,040
		<u>4,970</u>	<u>10,242</u>
CURRENT LIABILITIES			
Other payables		-	20
Amounts due to subsidiaries		4,130	11,137
		<u>4,130</u>	<u>11,157</u>
NET CURRENT ASSETS (LIABILITIES)		<u>840</u>	<u>(915)</u>
		<u><b>208,244</b></u>	<u><b>219,394</b></u>
CAPITAL AND RESERVES			
Share capital	19	116,139	116,139
Reserves	20	92,105	103,255
		<u>208,244</u>	<u>219,394</u>

**Leroy Kung Lin Yuen**  
DIRECTOR

**Lena Foo**  
DIRECTOR

## Consolidated Statement of Changes In Equity

For the year ended 31 March 2005

	Share capital	Share premium	Negative goodwill	Capital redemption reserve	Merger reserve	Investment revaluation reserve	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2003	116,139	207,130	1,884	409	45,918	-	(143,522)	227,958
Surplus on revaluation of other securities and not recognised in the income statement	-	-	-	-	-	1,458	-	1,458
Loss for the year	-	-	-	-	-	-	(9,927)	(9,927)
At 31 March 2004 and 1 April 2004	116,139	207,130	1,884	409	45,918	1,458	(153,449)	219,489
Release of investment revaluation reserve upon disposals of other securities	-	-	-	-	-	77	-	77
Deficit on revaluation of other securities and not recognised in the income statement	-	-	-	-	-	(2,269)	-	(2,269)
Loss for the year	-	-	-	-	-	-	(7,374)	(7,374)
At 31 March 2005	<u>116,139</u>	<u>207,130</u>	<u>1,884</u>	<u>409</u>	<u>45,918</u>	<u>(734)</u>	<u>(160,823)</u>	<u>209,923</u>

(note 20)

## Consolidated Cash Flow Statement

For the year ended 31 March 2005

	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Operating activities		
Loss before taxation	<b>(7,374)</b>	(9,927)
Adjustments for:		
Amortisation of premium and discount on acquisition of debt securities	-	542
Depreciation	<b>1,066</b>	2,447
Dividends from listed securities	<b>(1,338)</b>	(266)
Loss on disposal of property, plant and equipment	<b>64</b>	71
Net realised loss (gain) on disposal of debt securities	<b>271</b>	(608)
Interest income from bank deposits	<b>(826)</b>	(1,878)
Interest income from debt securities	<b>(4,465)</b>	(5,362)
Recognition of unrealised gain eliminated on consolidation in prior years for consultancy and software development services rendered to an associate	<b>(351)</b>	(350)
Operating cash flows before movements in working capital	<b>(12,953)</b>	(15,331)
Decrease in inventories	-	121
Decrease in amounts due from customers for contract work	<b>33</b>	102
Decrease (increase) in trade and other receivables	<b>1,023</b>	(99)
Increase in trading securities	<b>(32,471)</b>	(58,123)
Decrease in amount due from an associate	<b>303</b>	37
Decrease in amounts due to customers for contract work	<b>(141)</b>	(274)
Decrease in other payables	<b>(338)</b>	(155)
Increase in equity securities sold, but not yet purchased	<b>59</b>	278
Cash used in operation	<b>(44,485)</b>	(73,444)
Dividends received	<b>1,338</b>	266
Interest received from bank deposits	<b>883</b>	3,217
Net cash used in operating activities	<b>(42,264)</b>	(69,961)

## Consolidated Cash Flow Statement

For the year ended 31 March 2005

	<b>2005</b> <b>HK\$'000</b>	2004 HK\$'000
Investing activities		
Purchases of other securities	<b>(32,064)</b>	(26,021)
Purchases of property, plant and equipment	<b>(786)</b>	(310)
Proceeds from redemption of other securities	<b>24,410</b>	5,507
Decrease in bank deposits with original maturity more than three months	<b>7,986</b>	41,154
Interest received from debt securities	<b>4,134</b>	5,362
Loan repaid from an associate	<b>1,680</b>	2,120
Decrease (increase) in pledged bank deposit	<b>505</b>	(5)
Proceeds from disposal of property, plant and equipment	<b>84</b>	76
Proceeds from disposal of debt securities	<b>-</b>	77,092
	<hr/>	<hr/>
Net cash from investing activities	<b>5,949</b>	104,975
	<hr/>	<hr/>
Net (decrease) increase in cash and cash equivalents	<b>(36,315)</b>	35,014
Cash and cash equivalents at beginning of the year	<b>64,763</b>	29,749
	<hr/>	<hr/>
Cash and cash equivalents at end of the year	<b>28,448</b>	64,763
	<hr/> <hr/>	<hr/> <hr/>
Being:		
Short-term bank deposits	<b>13,930</b>	15,790
Less: Short-term bank deposits with original maturity more than three months	<b>-</b>	(7,986)
	<hr/>	<hr/>
	<b>13,930</b>	7,804
Bank balances and cash	<b>14,518</b>	56,959
	<hr/>	<hr/>
	<b>28,448</b>	64,763
	<hr/> <hr/>	<hr/> <hr/>

# Notes to the Financial Statements

*For the year ended 31 March 2005*

## **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 and technology investment.

## **2. CHANGE IN PRESENTATION OF INCOME STATEMENT**

In order to provide a more meaningful analysis of expenditure, the management has decided to present the income statement by an analysis of expenditure by nature in this reporting period. Comparative amounts for prior periods have been restated in order to achieve a consistent presentation.

## **3. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS**

In 2004, the Hong Kong Institute of Certified Public Accountants ("HKICPA") issued a number of new and revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards (herein collectively referred to as the "New HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these New HKFRSs in the financial statements for the year ended 31 March 2005.

The management has commenced considering the potential impact of these New HKFRSs but is not yet in a position to determine whether these New HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. The New HKFRSs may result in changes on how the results and financial position are prepared and presented in the future.

# Notes to the Financial Statements

*For the year ended 31 March 2005*

## **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 a 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 as an income immediately.



# Notes to the Financial Statements

For the year ended 31 March 2005

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

### Revenue recognition

When the outcome of a contract for consultancy and software development can be estimated reliably, revenue from fixed price contracts is recognised on the percentage of completion method, measured by reference to the proportion that costs incurred to date bear to estimated total costs for each contract. When the outcome of a contract cannot be estimated reliably, revenue is recognised to the extent of contract costs incurred that it is probable that they will be recoverable.

Maintenance service income is recognised when services are rendered.

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.

Dividend income from investments is recognised when the shareholders' right to receive payment have been established.

Realised profits and losses arising from trading securities are accounted for in the period in which the securities are sold as the difference between the net sales proceeds and the carrying amount of the securities. Unsold trading securities are valued at market rate with unrealised profits and losses included in the income statements.

### 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 its useful life from the commencement of commercial operation.

Where no intangible asset can be recognised, research and other development costs relating to the platform development and platform maintenance costs are expensed in the period in which they are incurred.

# Notes to the Financial Statements

For the year ended 31 March 2005

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

### 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.

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 year 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.

# Notes to the Financial Statements

For the year ended 31 March 2005

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

### **Property, plant and equipment**

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

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

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

The gain or loss arising from the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

### **Investments in subsidiaries**

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

### **Interests in associates**

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.

# Notes to the Financial Statements

For the year ended 31 March 2005

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

### **Investments in securities** *(continued)*

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

Where securities are held for trading purposes, 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, but not yet purchased, which are for trading purposes, are stated at market value with unrealised gains and losses included in net profit and loss for the year.

### **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, unless the relevant asset is carried at a revalued amount under another Statement of Standard Accounting Practice ("SSAP"), in which case the impairment loss is treated as revaluation decrease under that SSAP.

# Notes to the Financial Statements

For the year ended 31 March 2005

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

### **Impairment** *(continued)*

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, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the reversal of impairment loss is treated as revaluation increase under that other SSAP.

### **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.

# Notes to the Financial Statements

For the year ended 31 March 2005

## 5. TURNOVER AND SEGMENT INFORMATION

Turnover represents revenue generated from contracts of consultancy and sale of software licenses and the amounts received and receivable for other related services rendered by the Group to customers during the year.

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.

## 6. OTHER OPERATING INCOME

	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Interest income from bank deposits	<b>826</b>	1,878
Interest income from debt securities, net of amortization of premium and discount on acquisition of nil (2004: HK\$542,000)	<b>4,465</b>	4,820
Total interest income	<b>5,291</b>	6,698
Dividends from listed securities	<b>1,338</b>	266
Net realised (loss) gain on disposal of debt securities	<b>(271)</b>	608
Net realised and unrealised gain on listed trading securities	<b>5,098</b>	7,253
Rental income	<b>148</b>	80
Sundries	<b>552</b>	145
	<b>12,156</b>	15,050



# Notes to the Financial Statements

For the year ended 31 March 2005

## 7. STAFF COSTS

	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Salaries and allowances	<b>10,087</b>	16,420
Redundancy payments	<b>866</b>	630
Contributions to retirement benefits schemes, net of forfeiture	<b>(138)</b>	402
	<b><u>10,815</u></b>	<b><u>17,452</u></b>

## 8. LOSS BEFORE TAXATION

	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Loss before taxation has been arrived at after charging:		
Auditors' remuneration	<b>351</b>	360
Loss on disposal of property, plant and equipment	<b>64</b>	71
Operating lease charges in respect of rented premises	<b><u>1,698</u></b>	<b><u>1,972</u></b>

## Notes to the Financial Statements

For the year ended 31 March 2005

### 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

	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Non-executive Directors:		
Fees	<b>80</b>	–
Executive Directors:		
Fees	–	–
Salaries and allowances	<b>3,132</b>	2,393
Retirement benefits scheme contributions	<b>36</b>	27
	<b>3,168</b>	2,420
	<b>3,248</b>	2,420

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

	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Mr. Leroy Kung Lin Yuen	<b>1,212</b>	303
Ms. Lena Foo	<b>888</b>	961
Mr. Edward Un Ding Bong ("Mr. Un")	<b>1,068</b>	1,156
Dr. Alice Piera Lam Lee Kiu Yue	<b>22</b>	–
Mr. Ronny Chow Fan Chim	<b>22</b>	–
Mr. Kenneth Tseung Yuk Hei	<b>16</b>	–
Mr. Matthew P. Johnston	<b>10</b>	–
Mr. Alex Ko Po Ming	<b>10</b>	–
	<b>3,248</b>	2,420

# Notes to the Financial Statements

For the year ended 31 March 2005

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

### (b) Employees' emoluments

During the year, the five highest paid individuals included three Directors (2004: two) of the Company, details of their emoluments are set out above. The emoluments of the remaining two (2004: three) individuals are as follows:

	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Salaries and allowances	<b>1,356</b>	2,232
Retirement benefits scheme contributions	<b>23</b>	35
	<u><b>1,379</b></u>	<u>2,267</u>

The emoluments were within the following bands:

	<b>Number of employees</b>	
	<b>2005</b>	2004
HK\$1,000,000 or below	<u><b>2</b></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 2005

### 10. TAXATION

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

	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Loss before taxation	<b><u>(7,374)</u></b>	<u>(9,927)</u>
Taxation at domestic income tax rate of 17.5%	<b>(1,291)</b>	(1,737)
Tax effect of estimated tax losses not recognised	<b>2,012</b>	1,744
Tax effect of expenses not deductible for tax purpose	<b>82</b>	388
Tax effect of income not taxable for tax purpose	<b>(145)</b>	(400)
Utilisation of deferred tax assets/estimated tax losses previously not recognised	<b>(589)</b>	(247)
Others	<b><u>(69)</u></b>	<u>252</u>
Taxation charge for the year	<b><u>-</u></b>	<u>-</u>

At 31 March 2005, the Group has unused estimated tax losses and other deductible temporary differences of approximately HK\$159,588,000 (2004: HK\$148,091,000) and HK\$123,000 (2004: HK\$3,489,000) respectively 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 2005

### 11. LOSS PER SHARE

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

	<b>2005</b> <b>HK\$'000</b>	2004 HK\$'000
Loss for the year	<u><b>(7,374)</b></u>	<u>(9,927)</u>
	<b>Number</b>	Number
Number of ordinary shares for the purpose of basic and diluted loss per share	<u><b>1,161,382,000</b></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.

## Notes to the Financial Statements

For the year ended 31 March 2005

### 12. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements <i>HK\$'000</i>	Furniture, fixtures and office equipment <i>HK\$'000</i>	Computer equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>THE GROUP</b>				
COST				
At 1 April 2004	5,361	3,380	13,938	22,679
Additions	489	92	205	786
Disposals	(5,381)	(2,464)	(8,005)	(15,850)
	<u>469</u>	<u>1,008</u>	<u>6,138</u>	<u>7,615</u>
At 31 March 2005	469	1,008	6,138	7,615
<b>DEPRECIATION AND IMPAIRMENT</b>				
At 1 April 2004	5,327	2,660	13,551	21,538
Provided for the year	95	589	382	1,066
Eliminated on disposals	(5,370)	(2,389)	(7,943)	(15,702)
	<u>52</u>	<u>860</u>	<u>5,990</u>	<u>6,902</u>
At 31 March 2005	52	860	5,990	6,902
<b>NET BOOK VALUES</b>				
At 31 March 2005	<u>417</u>	<u>148</u>	<u>148</u>	<u>713</u>
At 31 March 2004	<u>34</u>	<u>720</u>	<u>387</u>	<u>1,141</u>



# Notes to the Financial Statements

For the year ended 31 March 2005

## 13. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2005	2004
	HK\$'000	HK\$'000
Unlisted shares, at cost	<u>33,164</u>	<u>33,164</u>
Loans to subsidiaries	<b>299,240</b>	297,445
Allowance for loans to subsidiaries	<b>(136,800)</b>	<u>(125,780)</u>
	<u>162,440</u>	<u>171,665</u>
	<b><u>195,604</u></b>	<b><u>204,829</u></b>

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 2005

## 13. INTERESTS IN SUBSIDIARIES (continued)

Details of the Company's subsidiaries at 31 March 2005 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 activities
				Directly	Indirectly	
Beanstalk Limited	Incorporated	Hong Kong	Ordinary shares HK\$2,624,253	100%	–	Provision of information technology services
iMerchants Asia Limited	Incorporated	BVI/ Hong Kong	Ordinary shares US\$6,001,000	100%	–	Investment holdings, management services and technology investment
iMerchants Consulting Limited	Incorporated	Hong Kong	Ordinary shares HK\$100	–	100%	Provision of information technology services
Asia Financial Network Limited (formerly known as 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 2005

## 14. INTEREST IN AN ASSOCIATE

	THE GROUP		THE COMPANY	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Unlisted shares, at cost	-	-	4,000	4,000
Share of net assets	3,561	3,210	-	-
	3,561	3,210	4,000	4,000
Loan to an associate	-	1,680	-	1,680
	<b>3,561</b>	<b>4,890</b>	<b>4,000</b>	<b>5,680</b>

Details of the Group's associate at 31 March 2005 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 an associate is unsecured, non-interest bearing and has no fixed repayment terms.

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 2005

## 15. INVESTMENTS IN SECURITIES

	THE GROUP					
	Trading securities		Other securities		Total	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Equity securities:						
Listed	<b>90,594</b>	58,123	-	-	<b>90,594</b>	58,123
Unlisted	-	-	<b>10,500</b>	-	<b>10,500</b>	-
	<b>90,594</b>	58,123	<b>10,500</b>	-	<b>101,094</b>	58,123
Debt securities:						
Listed	-	-	-	1,596	-	1,596
Unlisted	-	-	<b>67,734</b>	71,447	<b>67,734</b>	71,447
	-	-	<b>67,734</b>	73,043	<b>67,734</b>	73,043
Total:						
Listed						
Hong Kong	<b>31,475</b>	28,464	-	-	<b>31,475</b>	28,464
Overseas	<b>59,119</b>	29,659	-	1,596	<b>59,119</b>	31,255
Unlisted	-	-	<b>78,234</b>	71,447	<b>78,234</b>	71,447
	<b>90,594</b>	58,123	<b>78,234</b>	73,043	<b>168,828</b>	131,166
Market value of listed securities	<b>90,594</b>	58,123	-	1,596	<b>90,594</b>	59,719
Carrying amount analysed for reporting purposes as:						
Current	<b>90,594</b>	58,123	<b>9,218</b>	22,605	<b>99,812</b>	80,728
Non-current	-	-	<b>69,016</b>	50,438	<b>69,016</b>	50,438
	<b>90,594</b>	58,123	<b>78,234</b>	73,043	<b>168,828</b>	131,166

# Notes to the Financial Statements

For the year ended 31 March 2005

## 15. INVESTMENTS IN SECURITIES (continued)

	<b>THE COMPANY</b>	
	<b>Other securities</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Non-current unlisted debt securities	-	2,000
	<u>-</u>	<u>2,000</u>

## 16. AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONTRACT WORK

	<b>THE GROUP</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Costs incurred	-	33
Less: Progress billings	-	(141)
	<u>-</u>	<u>(108)</u>
Analysed for reporting purposes as:		
Amounts due from customers for contract work	-	33
Amounts due to customers for contract work – advances received	-	(141)
	<u>-</u>	<u>(108)</u>

## Notes to the Financial Statements

For the year ended 31 March 2005

### 17. 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 receivables at the reporting date:

	THE GROUP	
	2005	2004
	HK\$'000	HK\$'000
0 – 60 days	28	328
Over 90 days	10	161
	<hr/>	<hr/>
Trade receivables	38	489
Other receivables	1,957	2,255
	<hr/>	<hr/>
	<b>1,995</b>	<b>2,744</b>
	<hr/> <hr/>	<hr/> <hr/>

### 18. PLEDGED BANK DEPOSIT

#### THE GROUP

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

# Notes to the Financial Statements

For the year ended 31 March 2005

## 19. SHARE CAPITAL

	<b>Number of ordinary shares</b>	<b>Amount</b> <i>HK\$'000</i>
Ordinary shares of HK\$0.1 each		
Authorised:		
At 31 March 2004 and 31 March 2005	<u>8,000,000,000</u>	<u>800,000</u>
Issued and fully paid:		
At 31 March 2004 and 31 March 2005	<u>1,161,382,000</u>	<u>116,139</u>

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

## 20. RESERVES

	<b>Share premium</b> <i>HK\$'000</i>	<b>Capital redemption reserve</b> <i>HK\$'000</i>	<b>Contributed surplus</b> <i>HK\$'000</i>	<b>Accumulated losses</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
<b>THE COMPANY</b>					
At 1 April 2003	207,130	409	31,104	(125,529)	113,114
Loss for the year	<u>—</u>	<u>—</u>	<u>—</u>	<u>(9,859)</u>	<u>(9,859)</u>
At 31 March 2004 and 1 April 2004	207,130	409	31,104	(135,388)	103,255
Loss for the year	<u>—</u>	<u>—</u>	<u>—</u>	<u>(11,150)</u>	<u>(11,150)</u>
At 31 March 2005	<u>207,130</u>	<u>409</u>	<u>31,104</u>	<u>(146,538)</u>	<u>92,105</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.

## Notes to the Financial Statements

For the year ended 31 March 2005

### **20. RESERVES** *(continued)*

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 2005

## 21. SHARE OPTION SCHEMES

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

Pursuant to the 2000 Share Option Scheme, the Company may grant 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 following 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 2005

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

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

The Company may seek approval from shareholders in general meeting for refreshing the 10% limit or for granting further 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 will be 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 2005

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

### (ii) Pre-IPO Share Option Plan

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

- (a) the subscription price is set at HK\$1.48;
- (b) employees include full-time employees of the Group, employees who are not in full time employment of the Group, consultants and advisers to the Group;
- (c) no further 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.

### (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.

## Notes to the Financial Statements

For the year ended 31 March 2005

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

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

The purpose of the 2002 Share Option Scheme is to recognise and acknowledge the contributions that Participants had made or may make to the Group. 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.

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.

# Notes to the Financial Statements

For the year ended 31 March 2005

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

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

The 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 2005, the total number of shares available for issue under the Company's share option schemes was 116,138,200 (2004: 116,138,200), representing 10.00% (2004: 10.00%) of the shares of the Company in issue at that date.

# Notes to the Financial Statements

For the year ended 31 March 2005

## 21. SHARE OPTION SCHEMES (continued)

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

Name of scheme	Date of grant	Exercise price HK\$	Exercisable period	Outstanding at 1 April 2003	Lapsed during the year and 1 April 2004	Outstanding at 31 March 2004	Lapsed during the year	Outstanding at 31 March 2005	Vesting Period
Director									
Mr. Un	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	In various stages from 23 August 2000 to 1 April 2004
	27 September 2002	0.172	In various stages from 1 September 2003 to 28 August 2012	8,000,000	-	8,000,000	-	8,000,000	In various stages from 27 September 2002 to 30 September 2004
				10,000,000	-	10,000,000	-	10,000,000	
Employees									
Pre-IPO Share Option Plan	15 March 2000	1.48	In various stages from 1 April 2001 to 14 March 2010	13,640,000	(4,630,000)	9,010,000	(4,460,000)	4,550,000	In various stages from 15 March 2000 to 30 March 2004
	23 August 2000	0.53	In various stages from 1 April 2001 to 23 August 2010	13,950,000	(4,630,000)	9,320,000	(4,770,000)	4,550,000	In various stages from 23 August 2000 to 1 April 2004
				27,590,000	(9,260,000)	18,330,000	(9,230,000)	9,100,000	
				37,590,000	(9,260,000)	28,330,000	(9,230,000)	19,100,000	

The exercise in full of the outstanding 19,100,000 share options at 31 March 2005 would, under the present capital structure of the Company, result in the issue of 19,100,000 additional shares for a total cash consideration, before expenses, of approximately HK\$11,582,000.

# Notes to the Financial Statements

For the year ended 31 March 2005

## 21. SHARE OPTION SCHEMES (continued)

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recognised in the income statement in respect of the value of options granted in the year. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

## 22. 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	
	2005	2004
	HK\$'000	HK\$'000
Within one year	1,051	1,327
In the second to fifth year inclusive	1,539	–
	<u>2,590</u>	<u>1,327</u>

  

	THE COMPANY	
	2005	2004
	HK\$'000	HK\$'000
Within one year	1,014	–
In the second to fifth year inclusive	1,539	–
	<u>2,553</u>	<u>–</u>

## Notes to the Financial Statements

For the year ended 31 March 2005

### 22. OPERATING LEASE COMMITMENTS (continued)

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

	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Within one year	<b><u>248</u></b>	<u>57</u>

### 23. 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 costs charged to income statement and the forfeited voluntary contributions credited to the income statement amounted to approximately HK\$260,000 (2004: 402,000) and HK\$398,000 (2004: nil) respectively. The retirement benefits costs charged to income statements represents contributions payable to the schemes by the Group at rates specified in the rules of the schemes.



# Notes to the Financial Statements

For the year ended 31 March 2005

## 24. RELATED PARTY DISCLOSURES

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

	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Revenue generated from contracts for consultancy and software development performed for an associate	<b>110</b>	580
Maintenance service income from an associate	<b>302</b>	825
Rental income from an associate	<b>148</b>	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

### RESULTS

	Year ended 31 March				2005 HK\$'000
	2001 HK\$'000 (restated)	2002 HK\$'000 (restated)	2003 HK\$'000 (restated)	2004 HK\$'000 (restated)	
Turnover	41,960	20,866	8,200	4,592	<b>2,695</b>
Other operating income	19,935	9,640	7,630	15,050	<b>12,156</b>
Staff costs	(36,910)	(29,729)	(34,304)	(17,452)	<b>(10,815)</b>
Depreciation and amortization	(4,140)	(8,119)	(5,601)	(2,447)	<b>(1,066)</b>
Other operating expenses	(22,721)	(30,309)	(12,256)	(9,670)	<b>(10,344)</b>
Impairment losses	–	(40,115)	(157)	–	–
Loss from operations	(1,876)	(77,766)	(36,488)	(9,927)	<b>(7,374)</b>
Finance costs	(2)	(9)	–	–	–
Share of results of associates	(5,655)	(1,924)	–	–	–
Share of result of a jointly controlled entity	(2)	–	–	–	–
Loss before taxation	(7,535)	(79,699)	(36,488)	(9,927)	<b>(7,374)</b>
Taxation (charge) credit	(437)	27	(2)	–	–
Loss for the year	<u>(7,972)</u>	<u>(79,672)</u>	<u>(36,490)</u>	<u>(9,927)</u>	<u><b>(7,374)</b></u>

### ASSETS AND LIABILITIES

	As at 31 March				2005 HK\$'000
	2001 HK\$'000	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000	
Total assets	344,213	267,121	229,951	221,331	<b>211,345</b>
Total liabilities	(4,196)	(2,673)	(1,993)	(1,842)	<b>(1,422)</b>
Shareholders' funds	<u>340,017</u>	<u>264,448</u>	<u>227,958</u>	<u>219,489</u>	<u><b>209,923</b></u>