



iMerchants Limited
First Quarterly Report 2004-2005

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

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

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

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

CHAIRMAN'S STATEMENT

BUSINESS

The Group holds equity interests in a wholly-owned subsidiary which engages in the development of wealth management technologies, and in the associate Net Alliance Company Limited, which provides outsourcing services for financial institutions. The Group continues to be in a healthy financial position and will continue to identify other prudent investment opportunities in the future. As at the end of the quarter ended 30 June 2004, the Group held current assets plus investments in marketable securities and time deposits of approximately HK\$206 million without any bank borrowings.

FINANCIAL REVIEW

The quarter ended 30 June 2004 continued the transitional period of the Group from development of customized IT solutions to wealth management solution products. For the first quarter of the 2004/2005 financial year, the Group's turnover decreased to approximately HK\$787,000 from approximately HK\$1,212,000 for the corresponding period in 2003. The Group is consolidating its resources to build quality product solutions in the wealth management arena. Due to the size and nature of the wealth management technology products, our product development team is required to conduct more in-depth research on business requirements and thus the lead time in developing the products is longer. Although the turnover decreased, the Group's consolidated gross profit increased to approximately HK\$668,000 from approximately HK\$211,000 for the same period in the previous year. The gross profit margin improved significantly to approximately 85% from approximately 17%. The increase in gross profit margin is partially attributed to increase in percentage of revenue from the Group's Client Support Services, which consist of mainly after-sales maintenance services provided to support customers' operation of the Group's customized projects, and which usually generated a healthy revenue margin for the Group.

During the period under review, the management of the Group continued to take a prudence approach towards generating income from its surplus funds by either placing deposits in interest-bearing bank accounts, investing directly in highly-rated bonds and blue-chip or large-cap equity stocks, or investing indirectly through experienced fund managers with proven track records. The income from investments and interest for the three months ended 30 June 2004 was approximately HK\$573,000 compared to approximately HK\$2,028,000 for the same period in last financial year. The management will continue its conservative approach and intends to hold the investments in bonds and equities 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.

With effective cost control measures, the Group was able to keep its administrative expenses at approximately HK\$6,630,000 for the quarter compared to approximately HK\$6,236,000 for the corresponding period in 2003.

Overall, the Group's net loss for the quarter ended 30 June 2004 was approximately HK\$5,369,000 compared to approximately HK\$3,977,000 for the corresponding period in 2003. The Group continues to be in a healthy financial position, with current assets plus investments in marketable securities and time deposits at a comfortable level of approximately HK\$206 million without any bank borrowings as at 30 June 2004.

RESULTS

The board of Directors (the "Board") of the Company presents the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the three months ended 30 June 2004, together with the comparative unaudited figures for the corresponding period in 2003 as follows:

		Three months ended 30 June	
		2004	2003
	<i>Notes</i>	HK\$'000	<i>HK\$'000</i>
Turnover	2	787	1,212
Cost of sales and direct costs		(119)	(1,001)
Gross profit		668	211
Other operating income		593	2,048
Administrative expenses		(6,630)	(6,236)
Loss before taxation	3	(5,369)	(3,977)
Taxation	4	-	-
Loss for the period		<u>(5,369)</u>	<u>(3,977)</u>
Loss per share – basic and diluted	5	<u>HK(0.462) cent</u>	<u>HK(0.342) cent</u>

Notes:

1. Basis of preparation of the financial statements

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.

2. Turnover

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

3. Loss before taxation

Loss before taxation has been arrived at after charging (crediting):

	Three months ended	
	30 June	
	2004	2003
	HK\$'000	HK\$'000
Depreciation	320	842
Bank interest income	(246)	(691)
Dividend from listed securities	(559)	-
Interest income from debt securities	(1,131)	(1,337)
Net realized and unrealized loss on listed trading securities	1,363	-

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

5. Loss per share

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

	Three months ended	
	30 June	
	2004	2003
	HK\$'000	HK\$'000
Loss for the period	<u>5,369</u>	<u>3,977</u>
Number of ordinary shares for the purpose of basic and diluted loss per share	<u>1,161,382,000</u>	<u>1,161,382,000</u>

The calculation of the diluted loss per share did not assume the exercise of the Company's outstanding share options as their exercise prices were higher than the average market price of the Company's shares for both periods.

6. Interim dividend

The Directors do not recommend the payment of an interim dividend for the three months ended 30 June 2004 (2003: Nil).

7. Movements of reserves

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

	Share premium HK\$'000	Negative goodwill HK\$'000	Capital		Investment		Total HK\$'000
			redemption	Merger	revaluation	Accumulated	
			reserve	reserve	reserve	losses	
At 1 April 2004	207,130	1,884	409	45,918	1,458	(153,449)	103,350
Loss for the period	-	-	-	-	-	(5,369)	(5,369)
Deficit on revaluation of other securities and net losses not recognised in the income statement	-	-	-	-	(4,086)	-	(4,086)
At 30 June 2004	<u>207,130</u>	<u>1,884</u>	<u>409</u>	<u>45,918</u>	<u>(2,628)</u>	<u>(158,818)</u>	<u>93,895</u>

PURCHASE, SALE OR REDEMPTION OF SHARES

During the three months ended 30 June 2004, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

COMPETING INTERESTS

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

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

At 30 June 2004, the interests and short positions of the directors and chief executives in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register 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 GEM Listing Rules were as follows:

Long positions in ordinary shares of HK\$0.10 each of the Company

Name of director	Number of issued ordinary shares held			Total	Percentage of issued share capital of the Company
	Beneficial owner	Held by trust	Held by controlled corporation		
Mr Leroy Kung Lin Yuen ("Mr Kung")	-	-	751,323,000 (Note i)	751,323,000	64.69%

Note:

- (i) 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.

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

Name of director	Capacity	Date of grant	Exercise price	Exercisable period	Number of options held at 1 April 2004 and outstanding at 30 June 2004
Mr Edward Un ("Mr Un")	Beneficial owner	23 August 2000	HK\$0.53	In various stages from 1 April 2001 to 23 August 2010	2,000,000 <i>(note i)</i>
		27 September 2002	HK\$0.172	In various stages from 1 September 2003 to 28 August 2012	8,000,000 <i>(note ii)</i>

Notes:

- (i) 2,000,000 share options were granted on 23 August 2000 under the 2000 Share Option Scheme, which was approved by the written resolution of the shareholders of the Company dated 15 March 2000. Share options granted under the 2000 Share Option Scheme may be exercised in accordance with the terms of the scheme as to:
- a. one quarter of the share options would be exercisable from 1 April 2001 ("First Exercise Date");
 - b. 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
 - c. the balance of the share options exercisable after the expiry of a period of 48 months from 1 April 2001.
- (ii) 8,000,000 share options were granted on 27 September 2002 under the 2002 Share Option Scheme, which was approved by the shareholders of the Company in the special general meeting dated 2 August 2002. Share options granted under the 2002 Share Option Scheme may be exercisable in accordance with the terms of the scheme as to:

- a. Share options to subscribe for 4,000,000 shares of the Company will be exercisable from 1 September 2003 to 28 August 2012; and
- b. The balance of 4,000,000 share options is exercisable from 1 September 2004 to 28 August 2012.

Long positions debentures

No long positions of directors and chief executives in the debentures of the Company and its associated corporations were recorded in the register or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

Short positions in ordinary shares of HK\$0.10 each of the Company

No short positions of directors and chief executives in the shares of the Company and its associated corporations were recorded in the register or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

Short positions in underlying shares

No short positions of directors and chief executives in the underlying shares of the equity derivatives of the Company and its associated corporations were recorded in the register or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

Short positions in debentures

No short positions of directors and chief executives in the debentures of the Company and its associated corporations were recorded in the register or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

Save as disclosed above, as at 30 June 2004, none of the directors and chief executives had any interest in any shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

INTEREST DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

At 30 June 2004, the following persons (other than the interests disclosed above in respect of certain directors of the Company) had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

Long positions in ordinary shares of HK\$0.10 each of the Company

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

Note:

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

Long positions in underlying shares

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

Short positions in Shares

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

Short positions in underlying shares

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

Save as disclosed above, as at 30 June 2004, the directors were not aware of any other person who had an interest or a short position in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the share option schemes as described in the section headed "DIRECTORS' AND CHIEF EXECUTIVES' INTEREST AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES" above, at no time during the period was the Company, 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.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance to which the Company, any of its holding companies, fellow subsidiaries or subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the period or at any time during the period.

AUDIT COMMITTEE

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

BOARD PRACTICES AND PROCEDURES

The Company has complied with Board Practices and Procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules throughout the three months ended 30 June 2004.

By order of the Board
Leroy Kung Lin Yuen
Chairman

Hong Kong, 6 August 2004

The Directors of the Company as at the date of this report are as follows:

Executive Directors:

Mr. Leroy Kung Lin Yuen (*Chairman and Chief Executive Officer*)
Ms. Lena Foo
Mr. Edward Un Ding Bong

Independent Non-executive Directors:

Dr. Alice Piera Lam Lee Kiu Yue
Mr. Alex Ko Po Ming
Mr. Ronny Chow Fan Chim