



iMerchants Limited
Second Quarterly Report 2004-2005

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

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

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

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

GROUP BUSINESS REVIEW

In the first half of the current financial year, iMerchants has focused on the establishment of partnerships and the business expansion of its current venture investments. In the future, iMerchants will continue to identify suitable investment opportunities in other technology businesses with strong management teams, market leadership and economic drivers. In the six months ended 30 September 2004, iMerchants has recorded a loss of HK\$9,990,000 and remains in a healthy financial position with current assets plus investment in marketable securities and time deposits totalling approximately HK\$203 million.

TECHNOLOGY INVESTMENTS UPDATE

1. **Beanstalk Limited**

Beanstalk Limited (“Beanstalk”, formerly Asia Financial Network Limited) is a wholly owned subsidiary of iMerchants Limited, and is focused in the development of wealth management related enterprise software for financial institutions. **Beanstalk Enterprise**, the flagship software suite of Beanstalk, has been successfully launched during the first half of the current financial year. In the coming months, Beanstalk will be engaging various professional services partners in Hong Kong and other regions to expand its service coverage to other parts of Asia.

2. **Net Alliance Company Limited**

iMerchants Limited holds a 40% interests in Net Alliance Company Limited (“Net Alliance”), which focuses on providing shared banking technology platform and outsourcing services to multiple financial institutions. In the past, Net Alliance has provided services mainly to its four founding member banks in Hong Kong. Currently, Net Alliance is identifying expansion opportunities to extend its services to other financial institutions in Hong Kong and other regions in Asia.

3. She.com International Holdings Limited

iMerchants continues to hold a minority interests in She.com International Holdings Limited ("She.com"), a multimedia company that provides online and offline services related to the marketing and promotion of consumer products and services catered for the young professional community. She.com has recently obtained a number of awards offered by The Association of Accredited Advertising Agents of Hong Kong recognizing its good quality works.

MANAGEMENT DISCUSSION AND ANALYSIS

Prospects for new business

Beanstalk focuses on the development of wealth management software products. With special domain knowledge in this area, Beanstalk will continue to enrich the functions and features of its product line to enhance its value to the financial institutions in the Asia region.

Financial performance review

For the six months ended 30 September 2004, the Group's turnover, mainly from Beanstalk, was HK\$1,593,000 compared to HK\$2,516,000 for the corresponding period in 2003/04. In the previous years, in addition to the development of wealth management solution software products, the Group was also engaged in the provision of custom-made software and system integration services. However, the profit margin of such activities is not stable and highly dependent on market environment. For Beanstalk, the management have decided to streamline the operation and focus on product development of wealth management software and the relating system integration works will be handled by our business partners. With the help of business partners located overseas, the Group can more effectively broaden its geographical coverage to cities outside Hong Kong. As Beanstalk has concentrated on product development, the turnover of the Group has decreased for this half year compared with the corresponding period last year. The Group generated a net loss of HK\$9,990,000 for the six months ended 30 September 2004, compared to HK\$7,094,000 for the corresponding period in 2003. This increase in the amount of loss largely results from the increase in the operating expenses, mainly in the areas of consultancy fee and promotion expense relating to the development of Beanstalk's product line. Since early 2004, world class consulting companies and experts were engaged to enrich Beanstalk's domain knowledge in the area of wealth management, to develop our product road map, sales strategy and product packaging for the Asia market.

The Group has an investment of approximately HK\$5.1 million in Net Alliance. Net Alliance has been successful at implementing new means of delivering shared banking technology platforms at a comparatively lower cost to financial institutions in Hong Kong as the cost is shared among the member banks of Net Alliance. For the future, Net Alliance plans to expand its services to other financial institutions in Hong Kong and other regions in Asia.

Commentary on segmental information

The Group, mainly through Beanstalk, principally focuses on the development of software products and operates in Hong Kong. Accordingly, no analysis by business and geographical segments is presented in the financial statements.

Investments

At 30 September 2004, the Group has approximately HK\$108 million (31 March 2004: approximately HK\$131 million) worth of investments in marketable securities. The management will continue its conservative principle and has the intention 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.

Liquidity, financial resources and capital structure

There has been no change in the capital structure of the Group during the reporting period. The Group continues to be in a healthy financial position with current assets plus investments in marketable securities and time deposits totalling approximately HK\$203 million (31 March 2004: HK\$215 million) and without bank borrowings as at 30 September 2004. As 45% of this total consists of bank balances, time deposits and cash held in-hand, and investments in marketable securities account for a further 54% of the total, the Group considers its financial resources to be highly liquid. The Group aims to minimize its financing costs by managing the maturity of the financial investments in order to provide sufficient funds to cover ongoing expenditures.

The Group continues to explore the possibility of acquiring or taking equity stakes in companies whose activities have synergy with those of the Group. However, the Group does not currently have any target company. The Group expects its primary capital expenditures to be investments in technology related businesses. These capital expenditures and the ongoing operating expenses will be financed from the Group's existing financial resources and the Directors do not currently foresee the need for any material financing activities in order to execute the Group's plans. The Group did not undertake any material acquisitions and disposals of subsidiaries and affiliated companies in the course of the six months ended 30 September 2004.

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

At 30 September 2004, approximately 19% of the Group's cash and bank balances and marketable investments were denominated in Hong Kong dollars, approximately 71% in US dollars, approximately 9% in Australian dollars and a nominal amount is held in Renminbi. Given the liquid nature of these marketable investments and the currency peg between the Hong Kong dollar and the US dollar, the Group does not hedge its exchange rate exposures.

The Group's gearing ratio at 30 September 2004 was 0% (31 March 2004: 0%), as calculated by taking the ratio of the Group's total interest-bearing borrowings, divided by its shareholders' funds. The Group has no borrowings and no contingent liabilities as at 30 September 2004 (31 March 2004: Nil). In order to secure a banking facility granted to one of the Group companies, a bank deposit amounting to HK\$505,000 was pledged to a bank as at 30 September 2004 (31 March 2004: HK\$505,000). Other than this pledged bank deposit, the Group had no charges on its assets as at 30 September 2004.

Employees

As at 30 September 2004, the Group employed 14 full-time staff (31 March 2004: 36). Starting from early 2004, the Group has started hiring staff on a short-term contract basis so that the Group can enjoy higher flexibility in respect of human resources. As mentioned earlier in this report, Beanstalk determines to focus its business in product development of wealth management solution products and would find business partners to handle the system integration and related works. Therefore, in order to keep costs under control and to maintain only those staff whose skills are in the best possible fit with the Group's future business plan, the headcounts were reduced gradually and a number of our previous team members have been transferred to our business partners. The above-mentioned number of employees does not include that of Net Alliance. We envisage the business of Net Alliance is growing and thus it will have to expand the size of its core team members in the near future. After the restructuring, the iMerchants Group can now effectively leverage the manpower of its business and outsourcing partners and also of its associated companies to provide better services, while at the same time streamline the core team to control fixed costs.

Remuneration for the Group's employees is typically reviewed once per year, or as the management deems appropriate. Changes in remuneration are based on a range of factors including the Group's performance, the competitiveness of remuneration with the external market, and individual employees' performance during the year. For the six months ended 30 September 2004, the Group's total remuneration expenses, including contributions to the Mandatory Provident Fund were HK\$7.7 million (six months ended 30 September 2003: HK\$8.4 million). A portion of these expenses was paid for compensation and severance as a result of the restructuring exercise. The total was approximately 8% lower than the corresponding period last year, mainly due to the decrease in headcounts over the period.

The Group has introduced share option schemes to recognise the contributions of the employees to the development of the Group. As at 30 September 2004, a total of 21,700,000 share options remained outstanding (31 March 2004: 28,330,000). None had been exercised during the reporting period. The schemes have been or will be amended from time to time to reflect changes in market conditions and the GEM Listing Rules.

USE OF PROCEEDS

The net proceeds raised from the public listing on 31 March 2000 were approximately HK\$325 million. The proceeds were applied to achieve the business objectives as set out in the prospectus dated 27 March 2000 ("Prospectus") and detailed below:

	As stated in the Prospectus (from 1 April 2000 to 31 March 2002)	Actual (from 1 April 2000 to 30 September 2004)
	<i>HK\$ million</i>	<i>HK\$ million</i>
For enhancing knowledge creation and management processes and strengthening corporate infrastructure	90	42
For enhancing service offering and expand capacity to deliver	35	40
For geographical expansion in Asia	42	5
For business development and marketing activities	48	22
For acquisition of or investment in ventures	64	24
For general working capital	46	108
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Total	325	241

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

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

Due to the changing economic situation in Hong Kong and a very competitive market, the IT industry has developed and transformed into something quite different from the Group's forecast and the expected market situation at the time of listing. In response, the Group has taken a more conservative tact in rolling out its business objectives than originally planned as it was considered to be in the best interests of the Group and its shareholders.

Due to the risks associated with regional expansion, the Group has limited its geographical expansion to date to mainland China ("PRC").

Correspondingly, corporate infrastructure requirements as well as expenditure for business development and marketing have been limited to that required to support operations in the Hong Kong and PRC markets. The Group has, to date, also used less than originally planned for investment in or acquisition of ventures due to the Group's tight criteria for investment and the changed market environment.

RESULTS

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

Unaudited Consolidated Income Statement

For the three months and six months ended 30 September 2004

	Notes	Three months ended 30 September		Six months ended 30 September	
		2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Turnover	3	806	787	1,593	2,516
Other revenue		2,431	593	3,024	3,957
Total revenue		3,237	1,380	4,617	6,473
Staff costs		(3,995)	(3,666)	(7,661)	(8,420)
Depreciation and amortization expenses		(281)	(320)	(601)	(1,586)
Other operating expenses		(3,582)	(2,763)	(6,345)	(3,561)
Total operating expenses		(7,858)	(6,749)	(14,607)	(13,567)
Loss from operations	5	(4,621)	(5,369)	(9,990)	(7,094)
Taxation	6	-	-	-	-
Loss for the period attributable to shareholders		(4,621)	(5,369)	(9,990)	(7,094)
Loss per share - basic and diluted	7	(0.398) cent	(0.462) cent	(0.860) cent	(0.611) cent

Consolidated Balance Sheet

As at 30 September 2004

	Notes	30 September 2004 (Unaudited) HK\$'000	31 March 2004 (Audited) HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		745	1,141
Interests in associates		5,066	4,890
Investments in securities		47,786	50,438
Long-term bank deposits		7,800	7,800
		61,397	64,269
CURRENT ASSETS			
Amount due from customers for contract work		-	33
Trade and other receivables	9	2,117	2,744
Investments in securities		60,676	80,728
Amount due from an associate		-	303
Short-term bank deposits		8,189	15,790
Pledged bank deposit		505	505
Bank balances and cash		75,730	56,959
		147,217	157,062
CURRENT LIABILITIES			
Amounts due to customers for contract work		381	141
Trade and other payables	10	825	1,423
Equity securities sold, not yet purchased		227	278
		1,433	1,842
NET CURRENT ASSETS		145,784	155,220
TOTAL ASSETS LESS CURRENT LIABILITIES		207,181	219,489
CAPITAL AND RESERVES			
Share capital	11	116,139	116,139
Reserves		91,042	103,350
		207,181	219,489

Unaudited Condensed Consolidated Cash Flow Statement

For the six months ended 30 September 2004

	Six months ended	
	30 September	
	2004	2003
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Net cash used in operating activities	(12,621)	(8,928)
Net cash from investing activities	3,611	6,096
Net cash from financing activities	28,166	4,598
	<hr/>	<hr/>
Net increase in cash and cash equivalents	19,156	1,766
Cash and cash equivalents at beginning of period	64,763	29,749
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Cash and cash equivalents at end of period	83,919	31,515
	<hr/> <hr/>	<hr/> <hr/>
Analysis of balances of cash and cash equivalents		
Short-term bank deposits	8,189	23,419
Less: Short-term bank deposits with original maturity more than three months	-	(11,700)
Bank balances and cash	75,730	19,796
	<hr/>	<hr/>
	83,919	31,515
	<hr/> <hr/>	<hr/> <hr/>

Unaudited Consolidated Statement of Changes in Equity

For the six months ended 30 September 2004

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

	Share capital HK\$'000	Share premium HK\$'000	Negative goodwill HK\$'000	Capital redemption reserve HK\$'000	Merger reserve HK\$'000	Investment revaluation reserve HK\$'000	Accumu- lated losses HK\$'000	Total HK\$'000
At 1 April 2004	116,139	207,130	1,884	409	45,918	1,458	(153,449)	219,489
Deficit on revaluation of other securities and net loss not recognized in the income statement	-	-	-	-	-	(2,318)	-	(2,318)
Loss for the period	-	-	-	-	-	-	(9,990)	(9,990)
At 30 September 2004	<u>116,139</u>	<u>207,130</u>	<u>1,884</u>	<u>409</u>	<u>45,918</u>	<u>(860)</u>	<u>(163,439)</u>	<u>207,181</u>

Notes to the condensed interim financial statements

1. Basis of preparation and accounting policies

The unaudited condensed interim financial statements have been prepared under the historical cost convention and in accordance with Hong Kong Statement of Standard Accounting Practice (“**SSAP**”) 2.125 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants and the disclosure requirements set out in Chapter 18 of the GEM Listing Rules. The unaudited condensed interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 March 2004.

The accounting policies and methods of computation used in the preparation of the unaudited condensed interim financial statements are consistent with those used in the annual financial statements for the year ended 31 March 2004.

2. Change in presentation of income statement

In order to better present the results of the Group in a more logical manner, the management has decided to adopt the “nature of expense” method for the presentation of the income statement since this reporting period. Comparative amounts for prior periods have been restated in order to achieve a consistent presentation.

3. Turnover

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

4. Segment information

The Group principally engages in the operation of software development business and operates in Hong Kong. Accordingly, no analysis by business and geographical segments is presented.

5. Loss from operations

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

	Six months ended 30 September	
	2004	2003
	HK\$'000	HK\$'000
Net realised and unrealised loss/(gain) on listed trading securities	526	(112)
Operating lease charges in respect of rented premises	982	903
Staff costs including Directors' emoluments		
Salaries and allowances	6,555	7,897
Redundancy payments	895	306
Contributions to retirement benefits schemes	211	217
	7,661	8,420
Interest income from bank deposits	(481)	(1,251)
Interest income from debt securities	(2,253)	(2,554)
Dividends from listed securities	(776)	-
Rental income	(40)	(40)
	<u>(40)</u>	<u>(40)</u>

6. Taxation

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

7. Loss per share

The calculation of the basic and diluted loss per share for the three months and the six months ended 30 September 2004 is based on the loss of the Group of approximately HK\$4,621,000 (2003: loss of approximately HK\$3,117,000) and approximately HK\$9,990,000 (2003: loss of approximately HK\$7,094,000), respectively, and on the number of ordinary shares of 1,161,382,000 (2003: 1,161,382,000).

The computation of 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.

8. Interim dividend

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

9. Trade and other receivables

The Group allows an average credit period of 30-45 days to its trade customers.

The following is an aged analysis of trade receivables at the period end date:

	30 September 2004 HK\$'000	31 March 2004 HK\$'000
0 – 60 days	590	328
61 – 90 days	–	–
Over 90 days	65	161
	<hr/>	<hr/>
Trade receivables	655	489
Other receivables	1,462	2,255
	<hr/>	<hr/>
	2,117	2,744
	<hr/> <hr/>	<hr/> <hr/>

10. Trade and other payables

	30 September 2004 HK\$'000	31 March 2004 HK\$'000
Trade payables	–	–
Other payables	825	1,423
	<hr/>	<hr/>
	825	1,423
	<hr/> <hr/>	<hr/> <hr/>

There were no trade payables as at 30 September 2004 and so no ageing analysis is presented.

11. Share capital

	Number of ordinary shares	Amount HK\$'000
Ordinary shares of HK\$0.10 each		
Authorised:		
At 31 March and 30 September 2004	<u>8,000,000,000</u>	<u>800,000</u>
Issued and fully paid:		
At 31 March and 30 September 2004	<u>1,161,382,000</u>	<u>116,139</u>

None of the Company or its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 September 2004.

There was no movement in the Company's authorised share capital and issued and fully paid share capital for the year ended 31 March 2004 and for the six months ended 30 September 2004.

12. 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:

	30 September 2004 HK\$'000	31 March 2004 HK\$'000
Within one year	<u>463</u>	<u>1,327</u>
	<u>463</u>	<u>1,327</u>

Operating lease payments in respect of land and buildings represent rentals payable by the Group for its office premises. Leases are negotiated for an average term of four years and rentals are fixed for an average of two years.

As lessor

At the balance sheet date, the Group had contracted with a tenant for future minimum lease payments for land and buildings of approximately as follows:

	30 September 2004 HK\$'000	31 March 2004 HK\$'000
Within one year	<u>20</u>	<u>57</u>
	<u>20</u>	<u>57</u>

13. Capital commitments

At 30 September and 31 March 2004, the Group had no capital commitment.

14. Related party disclosures

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

	Six months ended 30 September	
	2004 HK\$'000	2003 HK\$'000
Revenue generated from contracts for consultancy and software development performed for associates	110	910
Maintenance service income from an associate	325	413
Rental income from an associate	<u>40</u>	<u>40</u>

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

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

At no time during the six months ended 30 September 2004 did the Company or its subsidiaries purchase, sell or redeem any of the Company's listed securities.

COMPETING INTERESTS

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

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

At 30 September 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 Sept 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 in debentures

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

OUTSTANDING SHARE OPTIONS

Pursuant to the Pre-IPO Share Option Plan, 2000 Share Option Scheme and 2002 Share Option Scheme, there were 5,720,000, 7,980,000 and 8,000,000 share options, respectively, granted to and held by the grantees (which include the options granted to a director of the Company, as disclosed above) as at 30 September 2004. Details of which are as follows:

(a) Pre-IPO Share Option Plan

As at 30 September 2004, options comprising an aggregate of 5,720,000 underlying shares to subscribe for shares in the Company at an exercise price of HK\$1.48 per share (granted on 15 March 2000) were outstanding. No options have been granted during the six months ended 30 September 2004 under the Pre-IPO Share Option Plan as the right to do so was terminated upon the listing of the Company on the GEM.

Details of the outstanding Pre-IPO share options during the six months ended 30 September 2004 are set out below:

Type of grantees	As at 1 April 2004	Lapsed during the six months ended 30 September 2004	As at 30 September 2004
Employees	<u>9,010,000</u>	<u>(3,290,000)</u>	<u>5,720,000</u>
		<i>(note 1)</i>	

Notes:

1. These options granted to a number of employees were lapsed when they ceased to be employed by the Company.
2. The exercise period of the Pre-IPO options is from 31 March 2001 to 14 March 2010.
3. Options pursuant to the Pre-IPO Share Option Plan may be exercised in accordance with the terms of the scheme as to:
 - a. one quarter of the options (rounded down to the nearest board lot) will be exercisable from 1 April 2001 ("First Exercise Date");

- b. an additional one eighth of the options (rounded down to the nearest board lot) will be exercisable after the expiry of each successive six-month period from the First Exercise Date; and
 - c. the balance of the options exercisable after the expiry of a period of 48 months from 1 April 2001.
4. As of 30 September 2004, no options under the Pre-IPO Share Option Plan have been exercised or cancelled.

(b) 2000 Share Option Scheme

As at 30 September 2004, options comprising an aggregate of 7,980,000 underlying shares to subscribe for shares in the Company at an exercise price of HK\$0.53 per share (granted on 23 August 2000) were outstanding. No options have been granted during the six months ended 30 September 2004 under the 2000 Share Option Scheme. Details of the grant of share options under the 2000 Share Option Scheme to the Directors are set out in the previous section headed "DIRECTORS' AND CHIEF EXECUTIVES' INTEREST AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES" in this report.

Details of the outstanding options under the 2000 Share Option Scheme during the six months ended 30 September 2004 are set out below:

Type of grantees	As at 1 April 2004	Lapsed during the six months	As at 30 September 2004
Director	2,000,000	–	2,000,000
Employees	9,320,000	(3,340,000)	5,980,000
	<u>11,320,000</u>	<u>(3,340,000)</u>	<u>7,980,000</u>
		<i>(note 1)</i>	

Notes:

1. These options granted to a number of employees were lapsed when they ceased to be employed by the Company.
2. On 23 August 2000, 2,000,000 share options were granted to Mr Un when he was a full-time employee of the Company. Mr Un was appointed as an executive director of the Company with effect from 25 June 2002 and so the options are reclassified.
3. The exercise period of the share options under the 2000 Share Option Scheme is from 31 March 2001 to 23 August 2010.
4. Options pursuant to the 2000 Share Option Scheme may be exercised in accordance with the terms of the relevant scheme which are the same as those of the Pre-IPO Share Option Plan set out in Note 3 of the subsection headed "Pre-IPO Share Option Plan" above.
5. As of 30 September 2004, no options under the 2000 Share Option Scheme have been exercised or cancelled.

(c) 2002 Share Option Scheme

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

Type of grantees	As at 1 April 2004	Granted during the six months	As at 30 September 2004
Director	<u>8,000,000</u>	<u>-</u>	<u>8,000,000</u>

Notes:

1. 8,000,000 share options were granted to Mr Un on 27 September 2002 under the 2002 Share Option Scheme at an exercise price of HK\$0.172 per share.
2. The exercise period of the share options under the 2002 Share Option Scheme is from 1 September 2003 to 28 August 2012.
3. Options pursuant to the 2002 Share Option Scheme may be exercisable in accordance with the terms of the scheme as to:
 - a. Options to subscribe for 4,000,000 shares of the Company (rounded down to the nearest board lot) will be exercisable from 1 September 2003 to 28 August 2012; and
 - b. The balance of 4,000,000 options is exercisable from 1 September 2004 to 28 August 2012.
4. As of 30 September 2004, no options under the 2002 Share Option Scheme have been exercised or cancelled.

Save as disclosed above, during the six months ended 30 September 2004, none of the directors and employees of the Company or its subsidiaries was granted options to subscribe for shares in the Company.

Valuation of share options

No share option had been granted during the six months ended 30 September 2004 and thus the valuation of share options as set out in Rule 23.08 is not applicable to the Company for the period.

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 with written terms of reference in compliance with the GEM Listing Rules. The audit committee has three members comprising the independent non-executive directors, namely, Dr. Alice Piera Lam Lee Kiu Yue and Messrs. Ronny Chow Fan Chim and Kenneth Tseung Yuk Hei. 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 six months ended 30 September 2004.

By order of the Board
Leroy Kung Lin Yuen
Chairman

Hong Kong, 12 November 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. Ronny Chow Fan Chim
Mr. Kenneth Tseung Yuk Hei