



iMerchants Limited
Third Quarterly Report 2004-2005

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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 nine months 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 new investment opportunities in other technology businesses with strong management teams, market leadership and economic drivers. For the nine months ended 31 December 2004, iMerchants has recorded a loss of HK\$2,569,000 and remains in a healthy financial position with current assets plus investment in marketable securities and time deposits totaling approximately HK\$213 million.

FINANCIAL REVIEW

For the nine months ended 31 December 2004, the Group's turnover was HK\$2,174,000 which mainly comprised of the sale of Beanstalk wealth management solution products and recurring income from maintenance services for custom-made software developed in the previous years. For Beanstalk, the management have decided to streamline the operation and our business partner will handle the relating system integration works in the future. The Group generated a net loss of HK\$2,569,000 for the nine months ended 31 December 2004, compared to HK\$4,230,000 for the corresponding period in 2003/04. The decrease of loss is largely resulted from the decrease of staff costs after the streamlining of Beanstalk's operation. However, earlier in the year the Group had spent more external consultancy fees and promotion expenses for Beanstalk's product development and branding as revealed by the increase in other operating expenses.

The Group continues to hold a 40% interest 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 service to other financial institutions in Hong Kong and other regions in Asia.

The management of the Group has continued to take a prudence approach towards generating income from its surplus funds by placing investments directly in highly-rated bonds, in blue-chip or big-size equity stocks, or indirectly in equity stocks through experienced fund managers with proven track records. The management intends to hold the investments on a long-term basis and would not trade actively.

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 nine months ended 31 December 2004 together with the comparative unaudited figures for the corresponding periods in 2003 as follows:

		Three months ended		Nine months ended	
		31 December		31 December	
		2004	2003	2004	2003
Notes		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	3	581	839	2,174	3,355
Other revenue		11,123	10,611	14,147	14,568
Total revenue		11,704	11,450	16,321	17,923
Staff costs		(1,613)	(5,125)	(9,274)	(13,545)
Depreciation and amortization expenses		(266)	(506)	(867)	(2,092)
Other operating expenses		(2,404)	(2,955)	(8,749)	(6,516)
Total operating expenses		(4,283)	(8,586)	(18,890)	(22,153)
Profit/(loss) from operations	4	7,421	2,864	(2,569)	(4,230)
Taxation	5	-	-	-	-
Profit/(loss) for the period attributable to shareholders		7,421	2,864	(2,569)	(4,230)
Earnings/(loss) per share – basic and diluted	6	0.639 cent	0.247 cent	(0.221) cent	(0.364) cent

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. 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 last reporting period (i.e. for the six months ended 30 September 2004). 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. Profit/(loss) from operations

Profit/(loss) from operations is arrived at after charging (crediting):

	Nine months ended	
	31 December	
	2004	2003
	HK\$'000	HK\$'000
Operating lease charges in respect of rented premises	1,453	1,117
Staff costs including		
Directors' emoluments		
Salaries and allowances	8,163	12,742
Redundancy payments	895	481
Contributions to retirement benefits schemes	216	322
	9,274	13,545
Interest income from bank deposits	(688)	(1,813)
Interest income from debt securities	(3,228)	(3,639)
Dividends from listed securities	(1,010)	-
Net realised and unrealised gain on listed trading securities	(9,136)	(9,056)
Rental income	(85)	(60)

5. Taxation

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

6. Earnings/(loss) per share

The calculation of the basic and diluted earnings/(loss) per share for the three months and the nine months ended 31 December 2004 is based on the profit of the Group of approximately HK\$7,421,000 (2003: profit of approximately HK\$2,864,000) and loss of approximately HK\$2,569,000 (2003: loss of approximately HK\$4,230,000), 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.

7. Interim dividend

The Directors do not recommend the payment of an interim dividend for the nine months ended 31 December 2004 (2003: Nil).

8. Movements of reserves

	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
At 1 April 2003	207,130	1,884	409	45,918	-	(143,522)	111,819
Loss for the period	-	-	-	-	-	(4,230)	(4,230)
At 31 December 2003	<u>207,130</u>	<u>1,884</u>	<u>409</u>	<u>45,918</u>	<u>-</u>	<u>(147,752)</u>	<u>107,589</u>

	Share	Negative	Capital	Investment			Total
	premium	goodwill	redemption	Merger	revaluation	Accumulated	
	HK\$'000	HK\$'000	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	-	-	-	-	-	(2,569)	(2,569)
Deficit on revaluation of other securities and net losses not recognized in the income statement	-	-	-	-	(1,348)	-	(1,348)
At 31 December 2004	<u>207,130</u>	<u>1,884</u>	<u>409</u>	<u>45,918</u>	<u>110</u>	<u>(156,018)</u>	<u>99,433</u>

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

At no time during the nine months ended 31 December 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 31 December 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 <i>(Note i)</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 31 December 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 31 December 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 31 December 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 31 December 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 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. Kenneth Tseung Yuk Hei and Matthew P. Johnston. 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 nine months ended 31 December 2004.

By order of the Board
Lena Foo
Chief Operating Officer

Hong Kong, 7 February 2005

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

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