



***i*Merchants Limited**

*First Quarterly Report 2005-2006*

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

**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.**

**The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements 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.**

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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 financial year ended on 31 March 2005, iMerchants completed its business transition to concentrate on direct venture investments. iMerchants targets investments in both technology ventures as well as businesses where new applications of technologies have been identified to enhance their market competitiveness in a significant way. Our effort is concentrated 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 continue to 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.

## **FINANCIAL REVIEW**

iMerchants generated a net profit of HK\$945,000 for the three months ended 30 June 2005, compared to a net loss of HK\$5,369,000 for the corresponding three-month period in 2004. The improvement in operating results is largely attributable to the revised business focus and reduction in operating expenses, and also with the satisfactory contribution of iMerchants' treasury investments.

iMerchants continues to be in a healthy financial situation. As at 30 June 2005, iMerchants holds current assets plus investments in marketable securities and time deposits (after investment in eBANK Corporation of Japan in March 2005) totaling approximately HK\$197 million and has no bank borrowings.

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 accounts of iMerchants as evidenced by the turnovers of the past years. Our energy will focus on enhancing the overall value and return on investments for iMerchants in the future. For the three months ended 30 June 2005, iMerchants' turnover was HK\$124,000 which mainly comprised of the 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 does not hold majority interests.

## 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 2005 together with the comparative unaudited figures for the corresponding period in 2004 as follows:

		<b>Three months ended</b>	
		<b>30 June</b>	30 June
		<b>2005</b>	2004
	<i>Notes</i>	<b>HK\$'000</b>	<i>HK\$'000</i>
Turnover	3	<b>124</b>	787
Other operating income		<b>3,739</b>	593
Staff costs		<b>(1,275)</b>	(3,540)
Depreciation		<b>(123)</b>	(320)
Other operating expenses		<b>(1,520)</b>	(2,889)
		<hr/>	<hr/>
Profit/(loss) before taxation	4	<b>945</b>	(5,369)
Taxation	5	<b>-</b>	-
		<hr/>	<hr/>
Profit/(loss) for the period		<b>945</b>	(5,369)
		<hr/> <hr/>	<hr/> <hr/>
Earnings/(loss) per share			
– basic and diluted	6	<b>HK0.081 cent</b>	HK(0.462) cent
		<hr/> <hr/>	<hr/> <hr/>

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 provide a more meaningful analysis of expenditure, the management has decided to present the income statement by an analysis of expenditure by nature. 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) before taxation**

Profit/(loss) before taxation is arrived at after charging (crediting):

	<b>Three months ended</b>	
	<b>30 June</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Operating lease charges in respect of rented premises	<b>303</b>	448
Staff costs including Directors' emoluments		
Salaries and allowances	<b>1,272</b>	3,546
Redundancy payments	<b>80</b>	–
Contributions to retirement benefits schemes, net of forfeiture	<b>(77)</b>	(6)
	<b>1,275</b>	3,540
Interest income from bank deposits	<b>(133)</b>	(246)
Interest income from debt securities	<b>(1,018)</b>	(1,131)
Dividends from listed securities	<b>(993)</b>	(559)
Net realised and unrealised (gain)/loss on listed trading securities	<b>(1,531)</b>	1,363
Rental income	<b>(64)</b>	(20)
	<b>—————</b>	<b>—————</b>

## 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 per share for the three months ended 30 June 2005 is based on the profit of the Group of approximately HK\$945,000 (2004: loss of approximately HK\$5,369,000), and on the number of ordinary shares of 1,161,382,000 (2004: 1,161,382,000).

The computation of the diluted earnings/(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 three months ended 30 June 2005 (2004: Nil).

## 8. Movements of reserves

	Share premium	Negative goodwill	Capital	Investment			Total
			redemption reserve	Merger reserve	revaluation reserve	Accumulated losses	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
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 not recognized 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>

	Share premium	Capital		Investment			Total
		Negative redemption goodwill	reserve	Merger revaluation		Accumulated losses	
				reserve	reserve		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2005	207,130	1,884	409	45,918	(734)	(160,823)	93,784
Profit for the period	-	-	-	-	-	945	945
Deficit on revaluation of other securities and net losses not recognized in the income statement	-	-	-	-	(181)	-	(181)
<b>At 30 June 2005</b>	<b>207,130</b>	<b>1,884</b>	<b>409</b>	<b>45,918</b>	<b>(915)</b>	<b>(159,878)</b>	<b>94,548</b>

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

At no time during the three months ended 30 June 2005 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' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

At 30 June 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 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)	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.

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

No long 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.

### 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\$0.10 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 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 2005, none of the directors 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.

## **INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS**

At 30 June 2005, the following persons (other than the interests disclosed above in respect of certain director 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**

<b>Name</b>	<b>Capacity</b>	<b>Number of ordinary shares</b>	<b>Percentage of issued share capital</b>
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 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 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.

### ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

The following share options to purchase shares of the Company were granted to a former executive director, Mr Edward Un Ding Bong ("Mr Un"). Mr Un has resigned as an executive director of the Company with effect from 30 June 2005.

Name	Capacity	Date of grant	Exercise price	Exercisable period	Number of options held
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 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 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 would be exercisable from 1 September 2003 to 28 August 2012; and
  - b. The balance of 4,000,000 share options would be exercisable from 1 September 2004 to 28 August 2012.

Other than the share option schemes as described 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.

## **CORPORATE GOVERNANCE**

The Board of the Company is committed to principles of good corporate governance in enhancing shareholders' value. The Board has established the Audit Committee and Remuneration Committee with defined terms of reference, which are of no less exacting terms than those set out in the Code on Corporate Governance Practices of the GEM Listing Rules.

### **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, Messrs. Ronny Chow Fan Chim, Kenneth Tseung Yuk Hei and Matthew P. Johnston. All committee members possess appropriate industry and financial experience to advise on the Company's strategy and other matters. 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.

### **Directors' Securities Transactions**

The Group has adopted stringent procedures governing directors' securities transactions in compliance with Rules 5.48 to 5.67 of the GEM Listing Rules. Relevant employees who are likely to be in possession of unpublished price-sensitive information of the Group are also subject to compliance with guidelines on no less exacting terms than those set out in the Rules. No incidence of non-compliance was noted for the three-month period ended 30 June 2005.

### **Compliance with the Code on Corporate Governance Practices of the GEM Listing Rules**

The Hong Kong Stock Exchange has promulgated a new Code on Corporate Governance Practices ("the Code") which came into effect in January 2005, and replaced the "Board Practices and Procedures" as set out in Rules 5.34 to 5.45 of the GEM Listing Rules. The Company has put in place corporate governance practices to meet all the provisions and most of the recommended best practices as set out in the Code.

The Board has reviewed the Company's corporate governance practices and is satisfied that the Company has full compliance with the Code as set out in Appendix 15 of the GEM Listing Rules for the three-month period ended 30 June 2005.

By order of the Board  
**Leroy Kung Lin Yuen**  
*Chairman*

Hong Kong, 12 August 2005

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

*Executive Directors:*

Mr. Leroy Kung Lin Yuen

Ms. Lena Foo

*Independent Non-executive Directors:*

Mr. Ronny Chow Fan Chim

Mr. Kenneth Tseung Yuk Hei

Mr. Matthew P. Johnston