



***i*Merchants Limited**

Second Quarterly Report 2005-2006

***i*Merchants**
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.

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.

SUMMARY

The Group's unaudited consolidated profit for the six months ended 30 September 2005 was approximately HK\$5,956,000, compared to the unaudited consolidated loss of approximately HK\$9,990,000 of the Group for the corresponding six-month period in 2004. No interim dividend is recommended for the period.

GROUP BUSINESS REVIEW

iMerchants targets investments in technology ventures in selected market sectors where we can provide 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. For the six months ended 30 September 2005, iMerchants generated a net profit of approximately HK\$5,956,000 compared to a net loss of approximately HK\$9,990,000 for the corresponding six-month period in 2004. The improvement in operating results is largely attributable to the revised business focus and reduction in operation expenses and to the satisfactory contribution of iMerchants' treasury investments. As iMerchants may or may not hold majority interests in its venture investments, the business turnovers of such investee companies may or may not be consolidated into the group accounts of iMerchants as evidenced by the turnovers of past years. Our energy will focus on enhancing the overall value and return on investment for iMerchants in the future.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

There has been no change in the capital structure of iMerchants during the six months ended 30 September 2005. iMerchants continues to be in a healthy financial position with current assets plus investments in marketable securities and time deposits (after investments in eBANK Corporation of Japan ("eBANK")) totalling approximately HK\$200 million (31 March 2005: approximately HK\$197 million) and there was no bank borrowing as at 30 September 2005. Because approximately 16% of this total comprised of bank balances, deposits and cash, and 83% of the total were marketable securities, the management of iMerchants consider its financial resources to be highly liquid. iMerchants aims to minimize its financing costs by managing the maturity of its investments and deposits so as to provide sufficient funds to cover daily operating costs.

Save for the information mentioned in the section headed "Group Business Review" above, the management of iMerchants do not have any concrete plan to acquire or take any equity stakes in companies for expansion. Any future capital expenditures and the daily operation expenses will be financed from iMerchants' existing financial resources. The Directors do not foresee the need for any material financing activities in order to execute iMerchants' plans. iMerchants did not undertake any material acquisitions and disposals of subsidiaries and affiliated companies in the course of the six months ended on 30 September 2005.

For trade and other receivables, as it mainly comprises of interest receivables from time deposits and fixed income securities, the default risk is very low.

As of 30 September 2005, approximately 13% of iMerchants' cash and bank balances and marketable investments were denominated in Hong Kong dollars, approximately 76% in US dollars, approximately 10% in Australian dollars and a nominal amount is held in Renminbi. Given the liquid nature of these marketable investments and the currency peg between the Hong Kong dollars and the US dollars, iMerchants does not hedge its exchange rate exposures.

iMerchants' gearing ratio at 30 September 2005 was 0% (31 March 2005: 0%), as calculated by taking the ratio of iMerchants' total interest-bearing borrowings, divided by its shareholders' funds. iMerchants has no borrowings and no contingent liabilities as at 30 September 2005 (31 March 2005: Nil). iMerchants had no charges on its assets as at 30 September 2005 (31 March 2005: Nil).

As mentioned in the announcement dated 17 June 2005 and the circular dated 27 June 2005 ("Circular") issued by the Company, the Company intended to implement a capital reduction by eliminating the entire amount standing to the credit of the Company's share premium account of approximately HK\$207,130,000 and applying the credit arising from such elimination to write off the Company's total accumulated losses of approximately HK\$146,538,000 as at 31 March 2005 ("Capital Reduction"). The Capital Reduction is conditional upon the passing of a special resolution by the shareholders of the Company, the confirmation of the Capital Reduction by the High Court of the Hong Kong Special Administrative Region ("High Court") and the registration of the order of the High Court and the minutes thereof by the Registrar of Companies in Hong Kong. The special resolution approving the Capital Reduction was duly passed by the shareholders of the Company at an extraordinary general meeting on 22 July 2005 and thereafter the Company made a petition to the High Court for confirmation of the Capital Reduction. A hearing on the Summons for Directions in relation to the Capital Reduction was held on 25 October 2005 at which the High Court ordered, amongst other things, the settlement of a list of creditors of the Company be dispensed with, a notice of the presentation of the said petition and the said date fixed for the hearing thereof be published once in an

English newspaper and once in a Chinese newspaper on or before 29 November 2005 and that the said petition be heard on 13 December 2005. The Capital Reduction is therefore expected to become effective on or about 13 December 2005.

INVESTMENTS

In late March 2005, iMerchants made an investment worth approximately HK\$10,500,000 in eBANK and thereby became its minority shareholder. eBANK is one of the leading internet-focused licensed banks in Japan. The management of iMerchants believe that investment in eBANK will pave the way for future co-operation to explore the financial services market in Asia. iMerchants has no intention to sell the investment in eBANK in the foreseeable future and intends to hold the shares as a long term investment.

iMerchants retains its investment of approximately HK\$3.7 million in Net Alliance, a company that provides online banking service bureau operations to a number of banks in Hong Kong. iMerchants expects Net Alliance's revenues and profits to remain quite stable during the coming years.

As of 30 September 2005, iMerchants has investments in marketable securities worth approximately HK\$167 million (31 March 2005: approximately HK\$158 million). The management will continue its conservative approach and intends to hold these investments on a long-term basis. In general, the investment strategy will be reviewed frequently to take appropriate actions whenever necessary in response to changes in market situation.

REVENUE, GROSS PROFIT AND ADMINISTRATIVE EXPENSES

The management of iMerchants continue to focus on the business expansion of its venture investments and the establishment of partnerships and evaluate potential strategic investments in businesses and assets. Should there exist any suitable opportunities, subject to the results of financial and operational reviews, iMerchants will consider investments with a view to expanding and diversifying its business.

As iMerchants may not hold majority interests in the venture investments, the business turnovers of such investee companies may not be consolidated into the group accounts of iMerchants as evidenced by the turnovers of past years. Our energy will focus on enhancing the overall value and return on investment for iMerchants in the future. For the six months ended 30 September 2005, the Group's turnover was approximately HK\$212,000 which mainly comprised of recurring income from maintenance services for custom-made software developed in the past. The turnover does not include the turnovers of iMerchants' other venture investments in which

iMerchants holds minority interests. The decrease in turnover was mainly due to the management decision to streamline the operation of its wholly-owned subsidiaries and to transfer relating system integration works to our business partners.

The Group generated a net profit of approximately HK\$5,956,000 for the six months ended 30 September 2005, compared to a net loss of approximately HK\$9,990,000 for the corresponding 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 from iMerchants' treasury investments.

COMMENTARY ON SEGMENTAL INFORMATION

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

EMPLOYEES

As it is the intention of the management that operational and personnel expansion would mainly occur within the investee companies, it is expected that iMerchants will be able to keep a focused team at the group level. As of 30 September 2005, iMerchants on the group level employed 8 full time staff (31 March 2005: 9) excluding all employees under our portfolio companies in which we have a minority stake (Net Alliance, eBANK and she.com).

Remuneration for iMerchants' employees is typically reviewed once a year, or as the management deems appropriate. For the six months ended 30 September 2005, iMerchants' total remuneration expenses, including contributions to the Mandatory Provident Fund, were approximately HK\$2.4 million (six months ended 30 September 2004: approximately HK\$7.7 million). The total was approximately 69% lower than that of the corresponding period in 2004, mainly due to the decrease in headcount over the period in 2005.

iMerchants has introduced share option schemes to recognize the contributions of its employees to the development of iMerchants. As of 30 September 2005, a total of 6,780,000 share options remained outstanding (31 March 2005: 19,100,000). None had been exercised during this financial period.

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 2005)
	<i>HK\$ million</i>	<i>HK\$ million</i>
For enhancing knowledge creation and management processes and strengthening corporate infrastructure	90	43
For enhancing service offering and expand capacity to deliver	35	40
For geographical expansion in Asia	42	6
For business development and marketing activities	48	22
For acquisition of or investment in ventures	64	35
For general working capital	46	119
	<hr/>	<hr/>
Total	<u>325</u>	<u>265</u>

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

Due to the changing economic situation in Hong Kong and a very competitive market, the IT industry has developed and transformed into something quite different from the Group's forecast and the expected market situation at the time of listing. In response, the Group has taken a more conservative approach in rolling out its business objectives than originally planned 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 within the Greater China region. Correspondingly, corporate infrastructure requirements as well as expenditure for business development and marketing have been limited to that required to support operations in that region. The Group has, to date, also used less than originally planned for investment in or acquisition of ventures due to the Group's tight criteria for investment and the changed market environment.

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 the six months ended 30 September 2005 together with the comparative unaudited figures for the corresponding periods in 2004 as follows:

Unaudited Consolidated Income Statement

For the three months and six months ended 30 September 2005

	Notes	Three months ended		Six months ended	
		30 September		30 September	
		2005	2004	2005	2004
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	2	88	806	212	1,593
Other operating income		7,406	2,431	11,145	3,024
Staff costs		(1,084)	(3,995)	(2,359)	(7,661)
Depreciation		(97)	(281)	(220)	(601)
Other operating expenses		(1,302)	(3,582)	(2,822)	(6,345)
Profit/(loss) from operations	4	5,011	(4,621)	5,956	(9,990)
Taxation	5	-	-	-	-
Profit/(loss) for the period		5,011	(4,621)	5,956	(9,990)
Earnings/(loss) per share					
- basic and diluted	6	0.432 cent	[0.398] cent	0.513 cent	[0.860] cent

Consolidated Balance Sheet

As at 30 September 2005

		30 September 2005 (Unaudited) HK\$'000	31 March 2005 (Audited) HK\$'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment		502	713
Interests in an associate		3,737	3,561
Investments in securities		77,035	69,016
Long-term bank deposits		15,600	7,800
		<hr/> 96,874 <hr/>	<hr/> 81,090 <hr/>
CURRENT ASSETS			
Trade and other receivables	8	1,686	1,995
Investments in securities		100,697	99,812
Short-term bank deposits		3,512	13,930
Bank balances and cash		12,282	14,518
		<hr/> 118,177 <hr/>	<hr/> 130,255 <hr/>
CURRENT LIABILITIES			
Trade and other payables	9	485	1,085
Equity securities sold, but not yet purchased		-	337
		<hr/> 485 <hr/>	<hr/> 1,422 <hr/>
NET CURRENT ASSETS		<hr/> 117,692 <hr/>	<hr/> 128,833 <hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		<hr/> 214,566 <hr/>	<hr/> 209,923 <hr/>
CAPITAL AND RESERVES			
Share capital	10	116,139	116,139
Reserves		98,427	93,784
		<hr/> 214,566 <hr/>	<hr/> 209,923 <hr/>

Unaudited Condensed Consolidated Cash Flow Statement

For the six months ended 30 September 2005

	Six months ended	
	30 September	
	2005	2004
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Net cash from/(used in) operating activities	2,871	(12,621)
Net cash from investing activities	2,501	3,611
Net cash (used in)/from financing activities	(18,026)	28,166
	<hr/>	<hr/>
Net (decrease)/increase in cash and cash equivalents	(12,654)	19,156
Cash and cash equivalents at beginning of period	28,448	64,763
	<hr/>	<hr/>
Cash and cash equivalents at end of period	15,794	83,919
	<hr/> <hr/>	<hr/> <hr/>
Analysis of balances of cash and cash equivalents		
Short-term bank deposits	3,512	8,189
Less: Short-term bank deposits with original maturity more than three months	-	-
Bank balances and cash	12,282	75,730
	<hr/>	<hr/>
	15,794	83,919
	<hr/> <hr/>	<hr/> <hr/>

Unaudited Consolidated Statement of Changes in Equity

For the six months ended 30 September 2005

	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	Accumulated 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 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>

	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	Accumulated losses HK\$'000	Total HK\$'000
At 1 April 2005	116,139	207,130	1,884	409	45,918	(734)	(160,823)	209,923
Deficit on revaluation of other securities and not recognized in the income statement	-	-	-	-	-	(1,313)	-	(1,313)
Profit for the period	-	-	-	-	-	-	5,956	5,956
At 30 September 2005	<u>116,139</u>	<u>207,130</u>	<u>1,884</u>	<u>409</u>	<u>45,918</u>	<u>(2,047)</u>	<u>(154,867)</u>	<u>214,566</u>

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

1. Basis of preparation

In 2004, the Hong Kong Institute of Certified Public Accountants (“HKICPA”) issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards (herein collectively referred to as “HKFRSs”) which are effective for accounting periods beginning on or after 1 January 2005.

The financial statements of the Group have been prepared in accordance with all applicable HKFRSs issued by the HKICPA, accounting principles generally accepted in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance and the disclosure requirements of the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

The measurement basis used in the preparation of the financial statements is historical cost modified by the marking to market of certain investments in securities at the balance sheet date.

2. 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.

3. Segment information

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

4. Profit/(loss) from operations

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

	Six months ended	
	30 September	
	2005	2004
	HK\$'000	HK\$'000
Net realised and unrealised (gain)/loss on listed trading securities	(7,101)	526
Operating lease charges in respect of rented premises	590	982
Staff costs including Directors' emoluments		
Salaries and allowances	2,336	6,555
Long service/redundancy payments	80	895
Contributions to retirement benefits schemes, net of forfeiture	(57)	211
	2,359	7,661
Interest income from bank deposits	(242)	(481)
Interest income from debt securities	(2,138)	(2,253)
Dividends from listed securities	(1,537)	(776)
Rental income	(127)	(40)

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 six months ended 30 September 2005 is based on the profit of the Group of approximately HK\$5,011,000 (2004: loss of approximately HK\$4,621,000) and approximately HK\$5,956,000 (2004: loss of approximately HK\$9,990,000), respectively, and on the number of ordinary shares of 1,161,382,000 (2004: 1,161,382,000).

The computation of 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 six months ended 30 September 2005 (2004: Nil).

8. 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 2005	31 March 2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 60 days	–	28
61–90 days	–	–
Over 90 days	–	10
	<hr/>	<hr/>
Trade receivables	–	38
Other receivables	1,686	1,957
	<hr/>	<hr/>
	1,686	1,995
	<hr/> <hr/>	<hr/> <hr/>

9. Trade and other payables

	30 September 2005	31 March 2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables	–	–
Other payables	485	1,085
	<hr/>	<hr/>
	485	1,085
	<hr/> <hr/>	<hr/> <hr/>

There were no trade payables as at 30 September 2005 and so no ageing analysis is presented.

10. Share capital

	Number of ordinary shares	Amount <i>HK\$'000</i>
Ordinary shares of HK\$0.10 each		
<i>Authorised:</i>		
At 31 March and 30 September 2005	<u>8,000,000,000</u>	<u>800,000</u>
<i>Issued and fully paid:</i>		
At 31 March and 30 September 2005	<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 2005.

There was no movement in the Company's authorised share capital and issued and fully paid share capital for the year ended 31 March 2005 and for the six months ended 30 September 2005.

11. 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 2005 <i>HK\$'000</i>	31 March 2005 <i>HK\$'000</i>
Within one year	1,077	1,051
In the second to fifth year inclusive	<u>1,198</u>	<u>1,539</u>
	<u>2,275</u>	<u>2,590</u>

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

As lessor

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

	30 September 2005	31 March 2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	42	248
	<u>42</u>	<u>248</u>

12. Capital commitments

At 30 September and 31 March 2005, the Group had no capital commitment.

13. Related party disclosures

During the period, the Group had the following transactions with a related party:

	Six months ended	
	30 September	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue generated from contracts for consultancy and software development performed for an associate	-	110
Maintenance service income from an associate	175	325
Rental income from an associate	127	40

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 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' INTEREST AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

At 30 September 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")	-	-	752,381,000 <i>(Note)</i>	752,381,000	64.78%
Mr. Matthew P. Johnston	100,000	-	-	100,000	<1%

Note: The registered shareholder of 752,381,000 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 752,381,000 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 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 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.

INTEREST DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

At 30 September 2005, the following person (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
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 September 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. These options were lapsed when he ceased to be employed by the Company on the same date.

Name of former director	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.

OUTSTANDING SHARE OPTIONS

Pursuant to the Pre-IPO Share Option Plan and 2000 Share Option Scheme, there were 3,390,000 and 3,390,000 share options, respectively, granted to and held by the grantees as at 30 September 2005. Details of which are as follows:

(a) Pre-IPO Share Option Plan

As at 30 September 2005, options comprising an aggregate of 3,390,000 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 2005 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 movements in the number of outstanding Pre-IPO share options during the six months ended 30 September 2005 are set out below:

Type of grantees	As at 1 April 2005	Lapsed during the six months	As at 30 September 2005
Employees	<u>4,550,000</u>	<u>(1,160,000)</u> <i>(note 1)</i>	<u>3,390,000</u>

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. Up to 30 September 2005, no options under the Pre-IPO Share Option Plan have been exercised or cancelled.

(b) 2000 Share Option Scheme

As at 30 September 2005, options comprising an aggregate of 3,390,000 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 2005 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 Note (i) of the previous section headed "ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES".

Details of the movements in the number of outstanding options under the 2000 Share Option Scheme during the six months ended 30 September 2005 are set out below:

Type of grantees	As at 1 April 2005	Lapsed during the six months	As at 30 September 2005
Director	2,000,000	(2,000,000)	–
Employees	4,550,000	(1,160,000)	3,390,000
	<u>6,550,000</u>	<u>(3,160,000)</u>	<u>3,390,000</u>

(note 1)

Notes:

1. These options granted to a number of employees and Mr Un were lapsed when they ceased to be employed by the Company.
2. The exercise period of the share options under the 2000 Share Option Scheme is from 31 March 2001 to 23 August 2010.
3. 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.
4. Up to 30 September 2005, 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 2005	Lapsed during the six months	As at 30 September 2005
Director	<u>8,000,000</u>	<u>(8,000,000)</u> <i>(note 2)</i>	<u>—</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. These options granted to Mr Un were lapsed when he ceased to be employed by the Company on 30 June 2005.
3. Up to 30 September 2005, no options under the 2002 Share Option Scheme have been exercised or cancelled.

Save as disclosed above, during the six months ended 30 September 2005, 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 2005 and thus the valuation of share options as set out in Rule 23.08 is not applicable to the Company for the period.

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 REPORT

Corporate Governance Practices

- (i) The Company is committed to achieving high standards of Corporate Governance and follows the principles set out in the Code on Corporate Governance Practices for GEM listed companies as set out in Appendix 15 of the GEM Listing Rules (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.
- (ii) The Company meets the code provisions set out in the Code.
- (iii) The Company has not had any deviations from the code provisions as set out in the Code, except as detailed below.

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 six-month period ended 30 September 2005.

Board Composition

- (i) The Board currently comprises two executive Directors and three non-executive Directors. The non-executive Directors are with a wide range of experience and calibre, bringing valuable judgment on issues of strategy, performance and resources.
- (ii) The principal roles of the Board are to oversee the Company's strategic development, to approve the Company's objectives, strategies, policies, business plans and to monitor the operating and financial performance of the Group. The Board also reviews and approves the quarterly and annual reports of the Company.
- (iii) The Company has complied with Rules 5.05(1) and (2) of the GEM Listing Rules relating to the appointment of sufficient number of independent non-executive Directors and one of them has appropriate professional qualifications or accounting or related financial management expertise.
- (iv) The Company considers that each of the independent non-executive Directors are independent in accordance with the guidelines for assessing independence set out in Rule 5.09 of the GEM Listing Rules.
- (v) The Company considers that there is no relationship (including financial, business, family or other material/relevant relationship) among the members of the Board.

Chairman and Chief Executive Officer

- (i) Mr Leroy Kung Lin Yuen serves as the Chairman and the Chief Executive Officer.
- (ii) The reason for not splitting the roles of Chairman and Chief Executive Officer at this moment are as follow:
 - The size of the Company is still relatively small and thus not justified in separating the roles of Chairman and Chief Executive Officer
 - The Group has in place an internal control system to perform the check and balance function

Non-executive Directors

The non-executive Directors are not appointed for a specific term. However, all Directors appointed to fill a casual vacancy are subject to election by shareholders at the first general meeting after their appointment and every Director is subject to retirement by rotation at least once every three years.

Board Process

The Board meets at least quarterly. All Directors are provided with comprehensive reports on the management's strategic plans, updates on business progress, financial performance review, etc. All Directors have access to the Company Secretary who is responsible for ensuring that Board procedures are complied with and advises the Board on corporate governance and compliance matters.

Audit Committee

- (i) The Company's audit committee was formed on 15 March 2000 with written terms of reference in compliance with the GEM Listing Rules.
- (ii) 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.
- (iii) The composition of the audit committee meets the requirements of Rule 5.28 of the GEM Listing Rules.
- (iv) The primary duties of the audit committee are to review the financial information of the Group and supervise the financial reporting process and internal control procedures of the Group.
- (v) The audit committee has reviewed the draft of this report and has provided advice and comments thereon.

Remuneration Committee

- (i) The Company adopted that a remuneration committee be established with specific written terms of reference which deal clearly with its authority and duties. The terms of reference follows the requirement of Code Provision B.1.3.
- (ii) The principle functions of the Remuneration Committee include recommending to the Board the policy and structure for the remuneration of the executive Directors and senior management, determining the specific remuneration packages of all the executive Directors and senior management, reviewing and approving performance-based remuneration and compensation for loss or termination of office payable to executive Directors and senior management, ensuring no Director is involved in deciding his own remuneration and approving the service contracts of Directors and senior management.
- (iii) The composition of the remuneration committee includes Chairman Mr. Leroy Kung Lin Yuen and the three independent non-executive directors, namely, Messrs. Ronny Chow Fan Chim, Kenneth Tseung Yuk Hei and Matthew P. Johnston.
- (iv) During the six-month period under review, the Board has not approved any matter relating to the remuneration policy in respect of the Directors of the Company.

Compliance with 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 six-month period ended 30 September 2005.

By order of the Board
Leroy Kung Lin Yuen
Chairman

Hong Kong, 14 November 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