iMerchants Limited

Annual Report 2005-2006

(Stock Code: 8009)

iMerchants

www.imerchants.com

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

THE 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 the GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risk 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 risk 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 the GEM mean that it is a market more suited to professional and other sophisticated investors.

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

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

This annual 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 annual 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 annual report misleading; and (3) all opinions expressed in this annual report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

Contents

EXECUTIVE DIRECTORS

Mr. Leroy Kung Lin Yuen *(Chairman)*
Ms. Lena Foo

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ronny Chow Fan Chim
Mr. Kenneth Tseung Yuk Hei
Mr. Matthew P. Johnston

COMPANY SECRETARY

Mr. Clement Leung Yuen Wing
CPA, FCCA

COMPLIANCE OFFICER

Ms. Lena Foo

QUALIFIED ACCOUNTANT

Mr. Clement Leung Yuen Wing
CPA, FCCA

AUDIT COMMITTEE

Mr. Ronny Chow Fan Chim
Mr. Kenneth Tseung Yuk Hei
Mr. Matthew P. Johnston

AUTHORISED REPRESENTATIVES

Mr. Leroy Kung Lin Yuen
Ms. Lena Foo

REGISTERED OFFICE, HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Units 6803-05
68th Floor
The Center
99 Queen's Road Central
Hong Kong

WEB-SITE ADDRESS

www.imerchants.com

AUDITORS

Deloitte Touche Tohmatsu
Certified Public Accountants

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Tengis Limited
26/F Tesbury Centre
28 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

Citibank N.A.
Citigroup Global Markets Asia Limited
Goldman Sachs (Asia) L.L.C.
HSBC Private Bank (Swisse) S.A.
Standard Bank Asia Limited
Wing Hang Bank, Limited

FINANCIAL HIGHLIGHTS

iMerchants Limited presents its audited financial results for the year ended 31 March 2006. For that year, the Group reported an audited consolidated profit of approximately HK$16,714,000, compared to the consolidated loss of approximately HK$7,374,000 in the previous year. The Board of Directors recommends the payment of a final dividend of HK0.2 cents per share for the year ended 31 March 2006.

The Group continues to be in a healthy financial position and ended the year with current assets plus financial investments and deposits at a comfortable level of over HK$209 million without any bank borrowings.

BUSINESS DEVELOPMENT

For the financial year ended 31 March 2006, iMerchants recorded an audited consolidated profit of approximately HK$16,714,000 contributed by a satisfactory return in treasury investments. Net assets of the Company grew from approximately HK$209,923,000 on 31 March 2005 to approximately HK$223,403,000 on 31 March 2006, with approximately 94% of the amount being current assets plus financial investments and deposits.

eBANK Corporation ("eBANK") in Japan, in which we invested in March 2005, has made great strides in developing its business in its financial year ended 31 March 2006. The number of customers grew quickly from about 1.01 million as of 31 March 2005 to about 1.47 million as of 31 March 2006. In addition, eBANK has continuously been ranked as the No.1 internet-only bank by Yahoo!Japan for the last three years in Japan surpassing Japan Net Bank and SONY Bank. eBANK is actively promoting its business in Japan. We expect that it will continue to be the leader in internet banking in Japan and the active promotion with the full support from its strategic investors which are large Japanese corporations will further strengthen its position.

In April 2006, right after the financial year end date, we invested in e.Energy Lighting Limited ("e.Energy") through the purchase of a convertible bond of HK$4 million issued by e.Energy. e.Energy is an affiliate of the City University of Hong Kong and produces lighting management systems with patented technologies to reduce power consumption, especially for public lightings. It is estimated that the system can save around 20% to 30% of annual electricity costs. For the customer, the expected payback period for installing the system is typically less than two years. Such efficiency can significantly reduce energy costs for commercial sites as well as public lighting systems around the world.

We live in a time of tremendous opportunities. With advance communication technologies, innovations can effect dramatic changes on businesses and lifestyles overnight. iMerchants is constantly looking for such breakthroughs and will identify companies positioned to take advantage of the opportunities. We believe that focusing our investments on a small number of companies with impact-laden innovations, whose aspirations we share, will outdo less selective strategies, and should give us a better return in the long run.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

There has been no change in the capital structure of iMerchants during the financial year ended on 31 March 2006. iMerchants continues to be in a healthy financial situation with current assets plus financial investments and deposits totaling approximately HK$209 million (31 March 2005: approximately HK$197 million) and no bank borrowings as at 31 March 2006. As 10% of this total consists of bank balances, deposits and cash, and financial investments account for a further 90% of the total, iMerchants considers its financial resources to be highly liquid. iMerchants aims to minimize its financing costs by managing the maturity of its financial investments and deposits so as to provide sufficient funds to cover ongoing expenditures.

Save for the information mentioned in the section headed "Business Development" above, iMerchants currently does not have any specific plan to acquire or take any equity stakes in companies for expansion. It is expected that any future capital expenditures and the ongoing operating 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 year ended on 31 March 2006.

The Group has no trade receivables as at 31 March 2006. As of 31 March 2006, approximately 16% of iMerchants' cash and bank balances and financial investments were denominated in Hong Kong dollars, approximately 75% in US dollars, approximately 9% in Australian dollars and a nominal amount is held in Renminbi. Given the liquid nature of these financial investments and the currency peg between Hong Kong dollar and US dollar, iMerchants does not hedge its exchange rate exposures.

iMerchants's gearing ratio at 31 March 2006 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 31 March 2006 (31 March 2005: Nil). As at 31 March 2006, one of the Company's subsidiaries pledged financial investments of approximately HK$53,645,000 to a financial institution in respect of the due and punctual payment of its obligations (31 March 2005: Nil). At the balance sheet date, the Group had no outstanding balance with that financial institution.

CAPITAL REDUCTION

Regarding the Capital Reduction of the Company, as announced by the Company on 14 December 2005, the Board is pleased that the High Court made an order on 13 December 2005 confirming the Capital Reduction pursuant to section 60 of the Companies Ordinance (Cap. 32 of the Laws of Hong Kong). The Registrar of Companies also issued on 3 January 2006 a "Certificate of Registration on Cancellation of Share Premium Account under section 61 of the Companies Ordinance" certifying the filing and registration of the High Court's order by the Company on 16 December 2005. The Company's Capital Reduction has become effective since then. The entire share premium account of the Company of approximately HK$207,130,000 had been cancelled and the credit arising from such cancellation was applied to write off the total accumulated losses of the Company of approximately HK$146,538,000 as at 31 March 2005. The remaining balance of approximately HK$60,592,000 of the Company was transferred to a special capital reserve of the Company. The Capital Reduction of the Company has provided a capital structure that would permit payment of dividends as and when the Directors consider it appropriate.

INVESTMENTS

iMerchants made an equity investment of approximately HK$10,500,000 in eBANK as a minority shareholder. eBANK, one of the leading internet-focused licensed banks in Japan, obtained its banking license from the Financial Service Agency of Japan in July 2001 and started operations in the same month. The company's revenues, profitability and customer base have grown quickly in recent years. The investment in eBANK is expected to provide a tighter business relationship between iMerchants and eBANK, and pave the way for future co-operation to explore the financial services market in Asia. iMerchants currently has no intention to sell the shares of eBANK in the foreseeable future and intends to hold the equity interest as a long term investment.

iMerchants retains its investment of approximately HK$3,912,000 in NET Alliance Company Limited ("NET Alliance"), a company that provides online banking service bureau operations to a number of banks in Hong Kong. NET Alliance has implemented a means of delivering a shared IT platform to financial institutions resulting in comparatively low costs to the individual institution. iMerchants expects NET Alliance's revenues and profits to remain quite stable during the coming years.

As of 31 March 2006, iMerchants had financial investments with fair values of approximately HK$187 million (31 March 2005: approximately HK$158 million). The management will continue its conservative approach. 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 continues to focus on the business expansion of its technology venture investments and the establishment of partnerships and will continue to evaluate potential strategic investments in businesses and assets. Should there exist any suitable opportunities, subject to the results of the financial and operational due diligence, iMerchants will consider investments with a view to expanding and diversifying its business.

As iMerchants may not hold majority interests in future 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 year ended 31 March 2006, the Group's turnover was approximately HK$648,000 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 subsidiaries and to transfer relating system integration works to our business partners, and then to focus on technology venture investments.

The Group generated a net profit of approximately HK$16,714,000 for the year ended 31 March 2006, compared to a net loss of approximately HK$7,374,000 for the year ended 31 March 2005. The improvement in the annual results is largely attributable to the revised business focus and the reduction of operating costs, and also to the satisfactory contribution of iMerchants' treasury investments.

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 can maintain a focused team at the group level. As of 31 March 2006, iMerchants on the group level employed 8 staff (31 March 2005: 9) excluding all employees under our portfolio companies in which we have a minority stake (including NET Alliance, eBANK and she.com).

Remuneration for iMerchants' employees is typically reviewed once a year, or as the management deems appropriate. For the year ended 31 March 2006, iMerchants' total remuneration expenses, including contributions to the Mandatory Provident Fund, were approximately HK$4.6 million (2005: approximately HK$10.8 million). The total was approximately 58% lower than that of the last financial year.

iMerchants has introduced share option schemes to recognize the contributions of its employees to the development of iMerchants. As of 31 March 2006, a total of 6,780,000 share options remained outstanding (31 March 2005: 19,100,000). None had been exercised during the financial year.

COMMENTARY ON SEGMENTAL INFORMATION

iMerchants principally operates in Hong Kong and engages in the provision of information technology services and technology venture investments. Neither assets nor revenue from information technology services nor technology venture investments contribute 10% to the Group's total assets and revenue, respectively. Accordingly, no analysis by business and geographical segments is presented.

Leroy Kung Lin Yuen
Chairman

Hong Kong, 20 June 2006

1. CORPORATE GOVERNANCE PRACTICES

The Board and senior management are committed to the principles of Corporate Governance and have dedicated significant efforts to provide transparency, accountability and independence.

The Company has adopted the Code of Corporate Governance Practice and the Rules on Corporate Governance Report as set out in the GEM Listing Rules Appendix 15 and Appendix 16 effective from the accounting periods from 1 April 2005, save as the deviations as disclosed in section 3 regarding Code Provision A.4.2, section 4 regarding Code Provision A.2.1 and section 5 regarding Code Provision A.4.1.

2. COMPLIANCE OF CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted stringent procedures governing securities transactions by Directors 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 above Rules. Having made specific enquiry of all Directors, all Directors of the Company have complied with the required standard of dealings and the code of conduct regarding securities transactions by Directors adopted by the Company throughout the twelve months ended 31 March 2006.

3. EFFECTIVE AND EXPERIENCED BOARD

Board Composition

The Directors of the Company during the year and up to the date of this report were:

Executive Directors:

Mr. Leroy Kung Lin Yuen
Ms. Lena Foo
Mr. Edward Un Ding Bong (resigned on 30 June 2005)

Independent non-executive Directors:

Mr. Kenneth Tseung Yuk Hei
Mr. Matthew P. Johnston
Mr. Ronny Chow Fan Chim (re-designated from non-executive Director on 27 July 2005)
Dr. Alice Piera Lam Lee Kiu Yue (resigned on 27 July 2005)

Code Provision A.4.2 requires every director should be subject to retirement by rotation at least once every three years. Pursuant to Article 120 of the Company's Articles of Association, the Chairman of the Board is not required to retire by rotation. Resolution will be proposed at the forthcoming annual general meeting to amend the Company's Articles of Association to comply with Code Provision A.4.2.

Number of Meetings and Directors' Attendance

Regular board meetings should be held at least four times a year at approximately quarterly intervals for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company.

During the year ended 31 March 2006, four regular board meetings, four audit committee meetings and one remuneration committee meeting were held. The individual attendance record of each Director at the meetings during the financial year is set out below:

	Attendance/ Number of Meetings		
Name of Directors	**Board**	**Audit Committee**	**Remuneration Committee**
Mr. Leroy Kung Lin Yuen ("Mr. Kung")	4/4		1/1
Ms. Lena Foo	4/4		
Mr. Kenneth Tseung Yuk Hei	3/4	4/4	1/1
Mr. Matthew P. Johnston	3/4	4/4	1/1
Mr. Ronny Chow Fan Chim	3/4	3/4	0/1
Mr. Edward Un Ding Bong (resigned on 30 June 2005)	1/1		
Dr. Alice Piera Lam Lee Kiu Yue (resigned on 27 July 2005)	0/1	0/1	

Practices and Conduct of Meetings

The principal roles of the Board are to oversee the Group's strategic development, to approve the Company's objectives, strategies and policies and to monitor the operational and financial performance of the Group. The Board also reviews and approves the quarterly and annual reports of the Group.

Directors are given notice of regular Board meetings of at least 14 days in advance. The Directors will receive details of agenda with comprehensive reports of complete and reliable information at least 3 days before each Board meeting or committee meeting to keep the Directors/committee members apprised of the latest developments and financial position of the Group and to enable them to make informed decisions. The Board and each Director also have separate and independent access to the senior management whenever necessary. Moreover, they 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.

The executive Directors and senior management meet every week to review company business matters and escalate the matters to the Board meeting for further discussion whenever necessary.

The non-executive Directors have a wide range of experience and calibre. They bring independent and valuable advice and judgment on the Group's business strategy, investments and risk management issues.

The Company Secretary is responsible to take and keep minutes of all Board meetings and committee meetings. Draft minutes are normally circulated to Directors for comment within a reasonable time after each meeting and the final version is open for Directors' inspection.

According to current Board practice, any material transaction, which involves a conflict of interests for a substantial shareholder or a Director, will be considered and dealt with by the Board at a duly convened Board meeting. The Company's Articles of Association also contains provisions requiring Directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Directors or any of their associates have a material interest.

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 all 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 Group's strategy and other matters. The composition of the Audit Committee meets the requirements of Rule 5.28 of the GEM Listing Rules. 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. The Audit Committee also reviews the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of the external auditors.

The Audit Committee meets four times per annum to review with senior management and once a year with the Company's auditors for the Company's audit findings, accounting policies and standards, compliance to GEM Listing Rules, internal and audit controls, etc.

The Board has not taken any different view from that of the Audit Committee regarding the selection, appointment, resignation or dismissal of the external auditors.

The Company's annual audited results for the year ended 31 March 2006 have been reviewed by the Audit Committee.

Remuneration Committee

The Remuneration Committee was established in February 2006.

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.

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. The Remuneration Committee meets annually, or on an ad hoc basis.

The composition of the Remuneration Committee includes Mr. Leroy Kung Lin Yuen as the chairman and the three independent non-executive Directors, namely, Messrs. Ronny Chow Fan Chim, Kenneth Tseung Yuk Hei and Matthew P. Johnston.

During the period under review, a meeting of the Remuneration Committee was held in February 2006.

4. CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Under Code Provision A.2.1, the roles of chairman and chief executive officer should be separated.

Mr. Kung serves as the Chairman of the Board and the Chief Executive Officer. The reason for not splitting the roles of chairman and chief executive officer are as follows:

- The size of the Group 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

Mr. Kung is primarily responsible for leadership of the Group and the Board, setting strategic direction, ensuring the effectiveness of management in execution of the strategy approved by the Board. Execution responsibilities lie with another executive Director and senior management of the Company.

Thus, the Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Company.

5. NON-EXECUTIVE DIRECTORS

Code Provision A.4.1 provides that non-executive directors should be appointed for a specific term and subject to re-election. In addition, all the company's 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. However, the Company's non-executive Directors were not appointed for a specific term during the financial year. Appointment letters have been signed with the non-executive Directors after the financial year end date that the term of office for each of the non-executive Directors has been fixed for a specific term and subject to re-election.

6. RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS AND AUDITORS' REMUNERATION

The Board is responsible for presenting a clear and understandable assessment of annual and quarterly reports, price-sensitive announcements and other disclosures required under the GEM Listing Rules and other regulatory requirements.

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 March 2006.

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the "Auditors' Report" in this annual report.

The remuneration of the external auditors of the Company in respect of audit services for the year ended 31 March 2006 amounted to HK$415,000. In order to facilitate our Capital Reduction, the auditors prepared a report on certain financial information of the Company and charged HK$8,000. The Tax Services Department of the Company's external auditors provided tax services to the Company and its subsidiaries for the year ended 31 March 2006 for fees totaling HK$94,800.

7. INTERNAL CONTROLS

The Board recognizes the importance of maintaining a sound internal control system to safeguard shareholders' interest and investments and manage the Group's assets and liabilities. Senior management assumes the overall responsibility for reviewing the adequacy and integrity of the Group's internal control and risk management system with the guidance of the executive Directors.

The Board has delegated to management the implementation of such system of internal controls as well as the review of relevant financial, operational and compliance controls and risk management procedures. Qualified personnel maintain and monitor the compliance to these controls on an ongoing basis and report any variations to the executive Directors in the weekly meetings.

The Compliance Officer independently reviews these controls and evaluates their adequacy, effectiveness and compliance, and reports directly to the Chief Executive Officer on a regular basis.

The Group's internal control system highlights several important areas:

- Check and balance
  All senior and sensitive positions and tasks will have check and balance control requiring either dual signatures or maker-checker functions. Major transactions or undertakings will have level control, thorough discussions, requiring different levels of review and approval.

- Segregation of duties
  Clear segregation of duties is in place to provide segregate control of important duties.

Based on the assessment made by senior management on the Group's corporate governance practice during the year ended 31 March 2006, the Board is satisfied that:

- The internal controls and accounting systems of the Group are designed to provide reasonable assurance that material assets are protected, business risks attributable to the Group are identified and monitored, material transactions are executed in accordance with management's authorization and the financial statements are reliable for publication; and

- There is an ongoing process in place for identifying, evaluating and managing the significant risks faced by the Group.

8. BUSINESS ETHICS AND PROFESSIONAL CODE OF CONDUCTS

The Group puts high standards on business ethics and professional conducts. Employees are briefed regularly on the code of ethics and on the conducts of keeping confidentiality of the information of business partners and the Group.

The Group also adopts good employment standards of non-discrimination policy and fair compensation scheme.

9. SHAREHOLDERS' RIGHTS

The rights of shareholders and the procedures for demanding a poll on resolutions at general meetings are contained in the Company's Articles of Association. Details of such rights to demand a poll are included in all circulars to shareholders and will be explained during the proceedings of meetings. Whenever voting by way of poll is required, the detailed procedures for conducting a poll will be explained at the meeting.

Results on any voting conducted by poll will be posted on the website of the Stock Exchange by way of an announcement on the business day following the general meeting.

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. The chairman of the Board as well as the chairmen of the Board committees or, in their absence, other members of the respective committees and, where applicable, the independent Board committee, are normally available to answer questions at the general meetings.

Separate resolutions are proposed at the general meetings on each substantial issue, including the election of individual directors.

The net proceeds raised from the public listing on 31 March 2000 were approximately HK$325 million. These 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) *HK$ million*	**Actual (from 1 April 2000 to 31 March 2006)** ***HK$ million***
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	**124**
Total	325	**270**

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

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 because it was considered to be in the best interest of the Group and its shareholders.

Due to the risks associated with regional expansion, the Group has focused its geographical expansion to date within the Greater China region or indirectly through its investments in technology ventures. 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.

EXECUTIVE OFFICERS AND DIRECTORS

Executive Directors

Leroy Kung Lin Yuen — Chairman, Chief Executive Officer (CEO): As founder and CEO of the Group, Mr. Kung, aged 39, is responsible for setting the strategic direction of the Group. He started his career as a software developer with Fujitsu America Limited in Silicon Valley, where he was responsible for research and development on network technologies. He later worked for three years with an investment bank in Hong Kong. Mr. Kung holds a Bachelor's degree in Electrical Engineering and a Master's degree in Computer Engineering from The University of Southern California in the U.S.A., and a Master's degree in Engineering Economic Systems from Stanford University in the U.S.A.

Lena Foo — Director, Chief Operating Officer and Vice President, Business Development: Ms. Foo, aged 41, co-founded the Group with Mr. Kung in 1996 and is responsible for overseeing the Group's operations and new business development activities. Ms. Foo has close to 19 years of business experience encompassing systems design and development, strategic planning, operations design and management and project management. Prior to co-founding iMerchants, Ms. Foo worked with Hongkong Telecom's IMS division (now part of PCCW Limited), DHL Worldwide Express and IBM. Ms. Foo holds a Bachelor's degree in Science in Management Information Systems from Carnegie Mellon University in the U.S.A.

Independent non-executive Directors

Ronny Chow Fan Chim — Mr. Chow, aged 37, is a practicing solicitor in Hong Kong and a partner of Deacons. Mr. Chow graduated from The University of Hong Kong with a Bachelor's degree in Laws in 1990, a Postgraduate Certificate in Laws in 1991 and a Masters degree in Laws in 1996. Mr. Chow was appointed as an independent non-executive Director of the Company on 15 March 2000, re-designated as a non-executive Director on 6 December 2004 and then re-designated as an independent non-executive Director on 27 July 2005.

Kenneth Tseung Yuk Hei — Mr. Tseung, aged 40, is an executive director of ABN AMRO ("ABN AMRO") and a former executive director of BNP Paribas Peregrine Capital Limited ("BNP Peregrine"). He is a member of The Institute of Chartered Accountants in Australia and graduated from Macquarie University in Australia in 1988 with a bachelor's degree in Economics. Prior to joining BNP Peregrine in 1994, Mr. Tseung was with KPMG in Sydney and Ernst & Young in Hong Kong. Mr. Tseung has extensive experience in banking and corporate finance. At ABN AMRO and BNP Peregrine, Mr. Tseung led various financial advisory assignments and a number of significant projects of initial public offerings on The Stock Exchange of Hong Kong Limited. Mr. Tseung was appointed as an independent non-executive Director of the Company on 22 September 2004.

Matthew P. Johnston — Mr. Johnston, aged 33, is currently working with an international bank where he develops product and market strategies for the institution. For the period from 31 January 2000 to 20 July 2002, he was an executive director of iMerchants. At iMerchants, he was Vice President of Corporate Development and was responsible for strategic and financial planning, and building business and strategic partnerships and alliances. Mr. Johnston has also worked as a management consultant with Deloitte Consulting and Braxton Associates, Deloitte Consulting's strategy consulting practice. Mr. Johnston earned a Master of Business Administration degree with Honours from the Wharton School at the University of Pennsylvania, where he graduated as a Palmer Scholar. He also holds a Bachelor's degree in Arts, awarded with great distinction, in Economics and Political Science from McGill University in Canada and a Management Studies Diploma from Cambridge University in the United Kingdom. Mr. Johnston was appointed as an independent non-executive Director of the Company on 6 December 2004.

Senior Management

Clement Leung Yuen Wing — Financial Controller and Company Secretary: Mr. Leung, aged 38, is responsible for managing the Group's finance and accounting processes, maintaining financial control within the Group, performing statutory financial reporting and providing the management information needed to run the Group's business. Mr. Leung is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants, the United Kingdom. Prior to joining the Group in March 2000, Mr. Leung was an Audit Manager with PriceWaterhouseCoopers. Other previous experience includes a managerial position in the Greater China corporate finance division at Peregrine Capital Limited and seven years with KPMG's audit division. Mr. Leung holds a Bachelor of Business Administration degree from the Chinese University of Hong Kong.

The Directors present their annual report and the audited financial statements for the year ended 31 March 2006.

Pursuant to the special resolution passed on 22 July 2005, the Chinese name of the Company was changed from 菱控電子商業有限公司 to 菱控有限公司 with effect from 4 August 2005.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its subsidiaries and an associate are the provision of information technology services and technology venture investments.

SUBSIDIARIES AND ASSOCIATE

Details of the Company's subsidiaries and an associate as at 31 March 2006 are set out in notes 16 and 17 to the financial statements respectively.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 March 2006 are set out in the consolidated income statement on page 29 of the annual report.

The Directors recommend the payment of a final dividend of HK0.2 cent per ordinary share for the year ended 31 March 2006 to the shareholders on the register of members of the Company as at 27 July 2006, payable on about 18 August 2006.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 15 to the financial statements.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 23 to the financial statements. There was no movement in the Company's share capital during the year.

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

RESERVES AND DISTRIBUTABLE RESERVES

Details of movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity in the financial statements.

As at 31 March 2006, the reserves of the Company available for distribution to shareholders were approximately HK$106,755,000, comprising special capital reserve of HK$60,592,000, contributed surplus of HK$31,104,000 and accumulated profit of HK$15,059,000.

FINANCIAL SUMMARY

A summary of the results of the Group for the past five financial years is set out on page 76 of the annual report.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The Directors of the Company during the year and up to the date of this report were:

Executive Directors:
Mr. Leroy Kung Lin Yuen
Ms. Lena Foo
Mr. Edward Un Ding Bong (resigned on 30 June 2005)

Independent non-executive Directors:
Mr. Kenneth Tseung Yuk Hei
Mr. Matthew P. Johnston
Mr. Ronny Chow Fan Chim (re-designated from Non-executive Director on 27 July 2005)
Dr. Alice Piera Lam Lee Kiu Yue (resigned on 27 July 2005)

In accordance with Article 120 of the Company's Articles of Association, Ms. Lena Foo retire from her office by rotation at the forthcoming annual general meeting and, being eligible, offer herself for re-election.

Mr. Leroy Kung Lin Yuen and Ms. Lena Foo have entered into service contracts with the Company on 15 March 2000. All such service contracts are for an initial term of two years and will continue thereafter unless and until terminated by either party by giving to the other party not less than three months written notice.

The term of office of each non-executive Director is the period up to his/her retirement by rotation in accordance with the Company's Articles of Association.

None of the Directors has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

At 31 March 2006, 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 Rules Governing the Listing of Securities on The Growth Enterprise Market ("GEM") of the Stock Exchange (the "GEM Listing Rules") were as follows:

Long positions in ordinary shares of HK$0.1 each of the Company

	Number of issued ordinary shares in the Company held			
Name of Director	**Beneficial owner**	**Held by controlled corporation**	**Total**	**Percentage of issued share capital of the Company**
Mr. Leroy Kung Lin Yuen ("Mr. Kung")	–	758,381,000 *(Note)*	758,381,000	65.30%
Mr. Matthew P. Johnston	100,000	–	100,000	<1%

Note: The registered shareholder of 758,381,000 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 758,381,000 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$0.1 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, at 31 March 2006, none of the Directors had any interests 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 31 March 2006, 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$0.1 each of the Company

Name	Capacity	Number of ordinary shares	Percentage of issued share capital of the Company
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 ordinary shares of HK$0.1 each of the Company

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, at 31 March 2006, 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.

SHARE OPTION SCHEMES

Particulars of the Company's share option schemes and details of movements in the share options to subscribe for shares of HK$0.1 each in the Company granted under the Company's share option schemes during the year are set out in note 25 to the financial statements.

No share option was granted during the year and thus the valuation of share options as set out in Rule 23.08 of the GEM Listing Rules is not applicable to the Company for this financial year.

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 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.

					Number of share options held at	
Name	**Capacity**	**Date of grant**	**Exercise price**	**Exercisable period**	**1 April 2005**	**31 March 2006**
Mr. Un	Beneficial owner	23 August 2000	HK$0.53	In various stages from 1 April 2001 to 23 August 2010	2,000,000 *(note i)*	–
		27 September 2002	HK$0.172	In various stages from 1 September 2003 to 28 August 2012	8,000,000 *(note ii)*	–

Notes:

(i) 2,000,000 share options were granted on 23 August 2000 under the share option scheme which was approved by the written resolution of the shareholders of the Company on 15 March 2000 ("2000 Share Option Scheme"). 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 share option scheme which was approved by the shareholders of the Company in the special general meeting on 2 August 2002 ("2002 Share Option Scheme"). 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.

Other than the share option schemes as described in the paragraph above and note 25 to the financial statements, at no time during the year 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.

CONNECTED TRANSACTIONS

During the year, there was no transaction which need to be disclosed as connected transaction in accordance with the requirements of the GEM Listing Rules.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract 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 year or at any time during the year.

COMPETING INTERESTS

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

MAJOR CUSTOMERS AND SUPPLIERS

The five largest suppliers of the Group in aggregate accounted for less than 10% of its cost of sales and direct costs for the year.

During the year, the five largest customers of the Group accounted for approximately 100% of the turnover of the Group and the largest customer accounted for approximately 54% of the total turnover.

At no time during the year did a Director, an associate of a Director or a shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the issued share capital of the Company) have an interest in any of the five largest customers.

CORPORATE GOVERNANCE

The Company is committed to maintain a high standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 8 to 14 of the annual report.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

EMOLUMENT POLICY

The emoluments of the executive Directors and senior management of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted share option schemes as an incentive to Directors and eligible employees, details of the schemes are set out in note 25 to the financial statements.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

RETIREMENT BENEFITS SCHEMES

Details of the Group's retirement benefits schemes are set out in note 28 to the financial statements.

DONATIONS

During the year, the Group made charitable and other donations amounting to HK$53,000.

CONFIRMATION OF INDEPENDENCE

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company considers all of the independent non-executive Directors are independent.

POST BALANCE SHEET EVENTS

Details of the significant events occurring after the balance sheet date are set out in note 30 to the financial statements.

AUDITORS

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

Leroy Kung Lin Yuen
CHAIRMAN

Hong Kong, 20 June 2006

Deloitte.
德勤

TO THE SHAREHOLDERS OF iMERCHANTS LIMITED
菱控有限公司
(incorporated in Hong Kong with limited liability)

We have audited the financial statements of iMerchants Limited (the "Company") and its subsidiaries (the "Group") from pages 29 to 75 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with section 141 of the Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 March 2006 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

20 June 2006

Consolidated Income Statement

For the year ended 31 March 2006

	NOTES	**2006** HK$'000	2005 HK$'000
Turnover	6	**648**	2,695
Other income	7	**9,419**	7,058
Net realised and unrealised gain on listed trading securities		**17,927**	5,098
Staff costs	8	**(4,576)**	(10,815)
Depreciation		**(303)**	(1,066)
Other operating expenses		**(6,401)**	(10,344)
Profit (loss) before taxation	9	**16,714**	(7,374)
Taxation	13	**–**	–
Profit (loss) for the year attributable to equity holders of the Company		**16,714**	(7,374)
Earnings (loss) per share	14		
– Basic and diluted		**HK 1.44 cents**	HK (0.63) cents

Consolidated Balance Sheet

At 31 March 2006

	NOTES	2006 HK$'000	2005 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**516**	713
Interest in an associate	17	**3,912**	3,561
Available-for-sale investments	18	**10,500**	–
Investments in securities	19	**–**	69,016
Long-term bank deposit	22	**7,800**	7,800
		22,728	81,090
CURRENT ASSETS			
Trade and other receivables	22	**1,909**	1,995
Derivative financial instruments	20	**40,060**	–
Available-for-sale investments	18	**19,652**	–
Held-for-trading investments	21	**127,901**	–
Investments in securities	19	**–**	99,812
Short-term bank deposits	22	**1,004**	13,930
Bank balances and cash	22	**10,889**	14,518
		201,415	130,255
CURRENT LIABILITIES			
Other payables	22	**740**	1,085
Equity securities sold, but not yet purchased		**–**	337
		740	1,422
NET CURRENT ASSETS		**200,675**	128,833
		223,403	209,923
CAPITAL AND RESERVES			
Share capital	23	**116,139**	116,139
Reserves		**107,264**	93,784
Equity attributable to equity holders of the Company		**223,403**	209,923

The financial statements on pages 29 to 75 were approved and authorised for issue by the Board of Directors on 20 June 2006 and are signed on its behalf by:

Leroy Kung Lin Yuen	**Lena Foo**
DIRECTOR	*DIRECTOR*

	NOTES	2006 HK$'000	2005 HK$'000
NON-CURRENT ASSETS			
Investments in subsidiaries	16	**33,164**	33,164
Interest in an associate	17	**4,000**	4,000
Long-term bank deposit	22	**7,800**	7,800
		44,964	44,964
CURRENT ASSETS			
Amounts due from subsidiaries	22	**181,949**	162,440
Other receivables	22	**134**	137
Bank balances	22	**401**	4,833
		182,484	167,410
CURRENT LIABILITIES			
Other payables	22	**29**	–
Amounts due to subsidiaries	22	**4,116**	4,130
		4,145	4,130
NET CURRENT ASSETS		**178,339**	163,280
		223,303	208,244
CAPITAL AND RESERVES			
Share capital	23	**116,139**	116,139
Reserves	24	**107,164**	92,105
		223,303	208,244

Leroy Kung Lin Yuen
DIRECTOR

Lena Foo
DIRECTOR

Consolidated Statement of Changes In Equity

For the year ended 31 March 2006

	Attributable to equity holders of the Company								
	Share capital	Share premium	Negative goodwill	Capital redemption reserve	Merger reserve	Investment revaluation reserve	Special capital reserve	Accumulated (losses) profit	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* *(note b)*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 April 2004	116,139	207,130	1,884	409	45,918	1,458	–	(153,449)	219,489
Loss on revaluation of other securities and net expenses recognised directly in equity	–	–	–	–	–	(2,269)	–	–	(2,269)
Release of investment revaluation reserve upon disposals of other securities	–	–	–	–	–	77	–	–	77
Loss for the year	–	–	–	–	–	–	–	(7,374)	(7,374)
	–	–	–	–	–	77	–	(7,374)	(7,297)
Total recognised income and expenses for the year	–	–	–	–	–	(2,192)	–	(7,374)	(9,566)
At 31 March 2005 and 1 April 2005 as originally stated	116,139	207,130	1,884	409	45,918	(734)	–	(160,823)	209,923
Effects of changes in accounting policies *(see Note 2)*	–	–	(1,884)	–	–	1,942	–	(58)	–
At 1 April 2005 as restated	116,139	207,130	–	409	45,918	1,208	–	(160,881)	209,923
Loss on fair value changes of available-for-sale investments and net expenses recognised directly in equity	–	–	–	–	–	(1,561)	–	–	(1,561)

	Attributable to equity holders of the Company								
	Share capital	Share premium	Negative goodwill	Capital redemption reserve	Merger reserve	Investment revaluation reserve	Special capital reserve	Accumulated (losses) profit	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* (*note b*)	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Release of investment revaluation reserve upon disposals of available-for-sale investments	–	–	–	–	–	(1,673)	–	–	(1,673)
Profit for the year	–	–	–	–	–	–	–	16,714	16,714
	–	–	–	–	–	(1,673)	–	16,714	15,041
Total recognised income and expenses for the year	–	–	–	–	–	(3,234)	–	16,714	13,480
Elimination of accumulated losses as at 31 March 2005 against share premium account (*note a*)	–	(146,538)	–	–	–	–	–	146,538	–
Transfer to special capital reserve (*note a*)	–	(60,592)	–	–	–	–	60,592	–	–
	–	(207,130)	–	–	–	–	60,592	146,538	–
At 31 March 2006	**116,139**	**-**	**-**	**409**	**45,918**	**(2,026)**	**60,592**	**2,371**	**223,403**

Notes:

a. Pursuant to a special resolution passed at an extraordinary general meeting of the Company held on 22 July 2005 and the subsequent order of the High Court of Hong Kong (the "High Court") made on 13 December 2005, the entire amount of HK$207,130,000 then standing to the credit of the share premium account of the Company was cancelled in accordance with the provisions of the Hong Kong Companies Ordinance (the "Capital Reduction").

   Out of the credit arising from the Capital Reduction, HK$146,538,000 was applied to eliminate the accumulated losses of the Company as at 31 March 2005 and the remaining balance of HK$60,592,000 of the credit arising from the Capital Reduction was credited to a special capital reserve in the accounting records of the Company.

b. The merger reserve of the Group represents the difference between the nominal amount of the share capital of the subsidiaries at the date on which they were acquired by the Group and the nominal amount of the Company's shares issued as consideration for the acquisition in March 2000 less the premium arising on repurchase of shares and the amount transferred to the capital redemption reserve.

Consolidated Cash Flow Statement

For the year ended 31 March 2006

	2006	2005
	HK$'000	HK$'000
Operating activities		
Profit (loss) before taxation	**16,714**	(7,374)
Adjustments for:		
Depreciation	**303**	1,066
Dividends from listed securities	**(2,507)**	(1,338)
Loss on disposal of property, plant and equipment	**1**	64
Net realised (gain) loss on disposal of debt securities	**(1,515)**	271
Decrease in fair values of derivative financial instruments at fair value through profit or loss	**898**	–
Interest income from bank deposits	**(442)**	(826)
Interest income from debt securities	**(4,590)**	(4,465)
Recognition of unrealised gain eliminated on consolidation in prior years for consultancy and software development services rendered to an associate	**(351)**	(351)
Operating cash flows before movements in working capital	**8,511**	(12,953)
Decrease in amounts due from customers for contract work	**–**	33
Decrease in trade and other receivables	**86**	1,023
Decrease in amount due from an associate	**–**	303
Decrease in amounts due to customers for contract work	**–**	(141)
Decrease in other payables	**(345)**	(338)
Cash from (used in) operation	**8,252**	(12,073)
Interest received from bank deposits	**442**	883
Net cash from (used in) operating activities	**8,694**	(11,190)

	2006	2005
	HK$'000	*HK$'000*
Investing activities		
Increase in trading securities	**(37,307)**	(32,471)
Increase in derivative financial instruments	**(15,600)**	–
Purchases of available-for-sale investments	**(9,884)**	–
(Decrease) increase in equity securities sold, but not yet purchased	**(337)**	59
Purchases of property, plant and equipment	**(110)**	(786)
Proceeds from redemptions of available-for-sale investments	**30,889**	–
Interest received from debt securities	**4,590**	4,134
Dividends received	**2,507**	1,338
Proceeds from disposal of property, plant and equipment	**3**	84
Purchases of other securities	**–**	(32,064)
Proceeds from redemption of other securities	**–**	24,410
Decrease in bank deposits with original maturity more than three months	**–**	7,986
Loan repaid from an associate	**–**	1,680
Decrease in pledged bank deposit	**–**	505
Net cash used in investing activities	**(25,249)**	(25,125)
Net decrease in cash and cash equivalents	**(16,555)**	(36,315)
Cash and cash equivalents at beginning of the year	**28,448**	64,763
Cash and cash equivalents at end of the year	**11,893**	28,448
Being:		
Short-term bank deposits	**1,004**	13,930
Bank balances and cash	**10,889**	14,518
	11,893	28,448

1. GENERAL

The Company is a public limited company incorporated in Hong Kong with its shares being listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM"). Its parent is iMerchants Group Limited, a company incorporated in the British Virgin Islands ("BVI") and its ultimate holding company is Galaface Limited, a company also incorporated in the BVI. The address of the registered office and principal place of business of the Company is disclosed on page 2 to the annual report.

The financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

The Company is an investment holding company. The principal activities of its subsidiaries are the provision of information technology services and technology venture investments.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRS(s)"), Hong Kong Accounting Standards ("HKAS(s)") and Interpretations (hereinafter collectively referred to as "New HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are effective for accounting periods beginning on or after 1 January 2005. The adoption of the New HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current accounting years are prepared and presented.

The Company has also applied the New HKFRSs. The adoption of the New HKFRSs has had no material effect on how the results for the current or prior accounting years except for share-based payments and financial instruments as set out below.

Business Combinations

In the current year, the Group has applied HKFRS 3 Business Combinations. The principal effects of the application of HKFRS 3 to the Group are summarised below:

Excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as "negative goodwill")

In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition ("discount on acquisition") is recognised immediately in profit or loss in the period in which the acquisition takes place. In previous periods, negative goodwill arising on acquisitions prior to 1 April 2001 was held in reserves. In accordance with the relevant transitional provisions in HKFRS 3, the Group derecognised all negative goodwill on 1 April 2005 (of which negative goodwill of HK$1,884,000 was previously recorded in reserves), with a corresponding increase to the accumulated losses.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

Share-based payments

In the current year, the Group has applied HKFRS 2 "Share-based payment" which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of share options granted to directors and employees of the Company, determined at the date of grant of the share options, over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1 April 2005. In relation to share options granted before 1 April 2005, the Group chooses not to apply HKFRS 2 with respect to share options granted on or before 7 November 2002 and vested before 1 April 2005. Therefore, the change in accounting policy has had no effect on the results for the current or prior periods.

Financial Instruments

In the current year, the Group has applied HKAS 32 Financial Instruments: Disclosure and Presentation and HKAS 39 Financial Instruments: Recognition and Measurement. HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The application of HKAS 32 has had no material impact on how financial instruments of the Group are presented for current and prior accounting periods. The principal effects resulting from the implementation of HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to the classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

Financial Instruments *(continued)*

By 31 March 2005, the Group classified and measured its debt and equity securities in accordance with the alternative treatment of Statement of Standard Accounting Practice 24 ("SSAP 24"). Under SSAP 24, investments in debt or equity securities are classified as "trading securities", "other securities" or "held-to-maturity investments" as appropriate. Both "trading securities" and "other securities" are measured at fair value. Unrealised gains or losses of "trading securities" are reported in profit or loss for the period in which gains or losses arise. Unrealised gains or losses of "other securities" are reported in equity until the securities are sold or determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for that period. From 1 April 2005 onwards, the Group has classified and measured its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. Available-for-sale equity investments that do not have quoted market prices in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost less impairment after initial recognition. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method after initial recognition.

On 1 April 2005, the Group classified and measured its debt and equity securities in accordance with the requirements of HKAS 39. Included in other securities of HK$52,876,000 as reported at 31 March 2005 was classified as available-for-sale investments as at 1 April 2005. The trading securities as reported at 31 March 2005 amounted to HK$90,594,000 were classified as held-for-trading investments as at 1 April 2005.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

Financial Instruments *(continued)*

Financial assets and financial liabilities other than debt and equity securities

From 1 April 2005 onwards, the Group has classified and measured its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "other financial liabilities". Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value being recognised in profit or loss directly. Other financial liabilities are carried at amortised cost using the effective interest method after initial recognition.

Derivatives

From 1 April 2005 onwards, all derivatives that are within the scope of HKAS 39 are required to be carried at fair value at each balance sheet date regardless of whether they are deemed as held for trading or designated as effective hedging instruments. Under HKAS 39, derivatives (including embedded derivatives separately accounted for from the non-derivative host contracts) are deemed as held-for-trading financial assets or financial liabilities, unless they qualify and are designated as effective hedging instruments. The corresponding adjustments on changes in fair values would depend on whether the derivatives are designated as effective hedging instruments, and if so, the nature of the item being hedged. For derivatives that are deemed as held for trading, changes in fair values of such derivatives are recognised in profit or loss for the period in which they arise.

The Group has applied the relevant transitional provisions in HKAS 39. Included in the Group's other securities of HK$25,358,000 as reported at 31 March 2005 was derivatives embedded which are not separated and are accounted for together with the host contracts (the LIBOR range accrual notes). The LIBOR range accrual notes were designated as financial assets at fair value through profit or loss at 1 April 2005. The investment revaluation reserve of HK$1,942,000 related to the financial assets at fair value through profit or loss at 1 April 2005 has been transferred to the Group's accumulated losses.

3. SUMMARY OF THE EFFECTS ON CHANGES IN ACCOUNTING POLICIES

The effect of the changes in the accounting policies described in note 2 on the results for the current year are as follows:

	2006	2005
	HK$'000	*HK$'000*
Decrease in fair value of derivative financial instruments at fair value through profit or loss and decrease in profit for the year	**898**	–

The effects of the application of the New HKFRSs to the Group's assets, liabilities and equity on 1 April 2005 are summarised below:

	As at 1 April 2005 (originally stated)	**Adjustments**		**As at 1 April 2005 (restated)**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
		HKFRS3	HKAS39	
ASSETS				
Available-for-sale investment	–	–	52,876	52,876
Investments in securities	168,828	–	(168,828)	–
Derivative financial instruments	–	–	25,358	25,358
Held-for-trading investments	–	–	90,594	90,594
EFFECTS ON ASSETS AND LIABILITIES	168,828	–	–	168,828
Share capital	116,139	–	–	116,139
Share premium	207,130	–	–	207,130
Negative goodwill	1,884	(1,884)	–	–
Capital redemption reserve	409	–	–	409
Merger reserve	45,918	–	–	45,918
Investment revaluation reserve	(734)	–	1,942	1,208
Accumulated losses	(160,823)	1,884	(1,942)	(160,881)
EFFECTS ON EQUITY	209,923	–	–	209,923

3. SUMMARY OF THE EFFECTS ON CHANGES IN ACCOUNTING POLICIES *(continued)*

The Group has not early applied the following new standards, amendments and interpretations ("2007 New Standards") that have been issued but are not yet effective. The Directors of the Company anticipate that the application of the 2007 New Standards will have no material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures[2]
HKAS 21 (Amendment)	Net investment in a Foreign Operation[2]
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions[2]
HKAS 39 (Amendment)	The Fair Value Option[2]
HKAS 39 & HKFRS 4 (Amendments)	Financial Guarantee Contracts[2]
HKFRS 6	Exploration for and Evaluation of Mineral Resources[2]
HKFRS 7	Financial Instruments: Disclosures[1]
HK(IFRIC)-Int 4	Determining whether an Arrangement Contains a Lease[2]
HK(IFRIC)-Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds[2]
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market, Waste Electrical and Electronic Equipment[3]
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4]
HK(IFRIC)-Int 8	Scope of HKFRS 2[5]
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives[6]

[1] Effective for annual periods beginning on or after 1 January 2007.
[2] Effective for annual periods beginning on or after 1 January 2006.
[3] Effective for annual periods beginning on or after 1 December 2005.
[4] Effective for annual periods beginning on or after 1 March 2006.
[5] Effective for annual periods beginning on or after 1 May 2006.
[6] Effective for annual periods beginning on or after 1 June 2006.

4. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The financial statements have been prepared in accordance with HKFRSs issued by the Hong Kong Institute of Certified Public Accountants. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the GEM and by the Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 March each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Revenue recognition

When the outcome of a contract for consultancy and software development can be estimated reliably, revenue from fixed price contracts is recognised on the percentage of completion method, measured by reference to the proportion that costs incurred to date bear to estimated total costs for each contract. When the outcome of a contract cannot be estimated reliably, revenue is recognised to the extent of contract costs incurred that it is probable that they will be recoverable.

Maintenance service income is recognised when services are rendered.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Rental income is recognised on a straight-line basis over the relevant lease term.

Dividend income from investments is recognised when the shareholders' right to receive payment have been established.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition *(continued)*

Prior to 1 April 2005, realised profits and losses arising from trading securities are accounted for in the period in which the securities are sold as the difference between the net sales proceeds and the carrying amount of the securities. Unsold trading securities are valued at market rate with unrealised profits and losses included in the income statement.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes items of income or expense that are never taxable or deductible.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group as a parent is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it related to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation and accumulated impairment losses, if any.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

Investments in associates

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

The results of associates are accounted for by the Company on the basis of dividends received and receivable during the year. In the Company's balance sheet, interests in associates are stated at cost, as reduced by any identified impairment loss.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are mainly including financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as any of the other categories (set out above). At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. Any impairment losses on available-for-sale financial assets are recognised in profit or loss. Impairment losses on available-for-sale equity investments will not reverse in subsequent periods. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities at fair value through profit or loss
Financial liabilities at fair value through profit or loss has two subcategories, including financial liabilities held for trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Other financial liabilities
Other financial liabilities including other payables are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments
Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derivatives that do not qualify for hedge accounting
Derivatives that do not qualify for hedge accounting are deemed as financial assets held for trading or financial liabilities held for trading. Changes in fair values of such derivatives are recognised directly in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Embedded derivatives

Derivatives embedded in non-derivative host contracts are separated from the relevant host contracts and deemed as held-for-trading when the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contracts, and the combined contracts are not measured at fair value through profit or loss. The LIBOR range accrual notes and equity linked notes are designated as fair value through profit or loss at initial recognition with fair value changes recognised directly in profit or loss. In all other circumstances, derivatives embedded are not separated and are accounted for together with the host contracts in accordance with appropriate standards.

Equity-settled share-based payment transactions

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to accumulated profits.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that these assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as an income immediately.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Operating leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the relevant lease term.

Retirement benefits costs

Payments to the defined contribution retirement benefits schemes are charged as an expense as they fall due.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's financial instruments include equity and debt investments, derivative financial instruments, trade and other receivables, bank deposits, bank balances and cash and other payables. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Credit risk

The credit risk on derivative financial instruments as well as bank balances and deposits is limited as the counterparties are banks with high credit rating assigned by international credit-rating agencies.

The Group's credit risk on debts securities is also limited as such debt securities have high credit rating assigned by international credit-rating agencies.

Price risk

The Group's available-for-sale investments (except for available-for-sale equity investments that do not have a quoted market price in an active market), held-for-trading investments and derivative financial instruments are measured at fair value at each balance sheet date. Therefore, the Group is exposed to price risk on equity and debt securities and financial instruments. The management manages this exposure by maintaining a portfolio of investments with different risk profiles.

Currency risk

Certain investments of the Group are denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

Interest rate risk

The Group's cash flow interest rate related primarily to its long-term bank deposit. The Group has not used any derivative contracts to hedge its exposure on interest rate risk.

6. TURNOVER AND SEGMENT INFORMATION

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

The Group principally operates in Hong Kong and engages in the provision of information technology services and technology venture investments. Neither assets nor revenue from information technology services and technology venture investments contribute 10% to the Group's total assets and revenue respectively, accordingly, no analysis by business and geographical segments is presented.

7. OTHER INCOME

	2006	2005
	HK$'000	*HK$'000*
Interest income from bank deposits	**442**	826
Interest income from debt securities	**4,590**	4,465
Total interest income	**5,032**	5,291
Dividends from listed securities	**2,507**	1,338
Net realised gain (loss) on disposal of debt securities	**1,515**	(271)
Rental income	**285**	148
Sundries	**80**	552
	9,419	7,058

8. STAFF COSTS

	2006	2005
	HK$'000	*HK$'000*
Salaries and allowances	**4,650**	10,087
Redundancy payments	**80**	866
Net refund resulted from forfeiture of contributions of retirement benefits schemes	**(154)**	(138)
	4,576	10,815

9. PROFIT (LOSS) BEFORE TAXATION

	2006	2005
	HK$'000	*HK$'000*
Profit (loss) before taxation has been arrived at after charging:		
Auditors' remuneration	**418**	351
Loss on disposal of property, plant and equipment	**1**	64
Operating lease charges in respect of rented premises	**1,083**	1,698
Net foreign exchange loss	**312**	–
Decrease in fair values of derivative financial instruments at fair value through profit or loss	**898**	–

10. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the seven (2005: eight) Directors were as follows:

Name of Director	**Fees**	**Salaries and other benefits**	**Performance related incentive payments**	**Retirement benefit scheme contributions**	**Statutory compensation paid to a former Director for loss of office**	**Total**
	HK$'000	*HK$'000*	*HK$'000* *(note)*	*HK$'000*	*HK$'000*	*HK$'000*
Mr. Leroy Kung Lin Yuen	–	1,200	100	12	–	1,312
Ms. Lena Foo	–	876	73	12	–	961
Mr. Kenneth Tseung Yuk Hei	30	–	–	–	–	30
Mr. Matthew P. Johnston	30	–	–	–	–	30
Mr. Ronny Chow Fan Chim	30	–	–	–	–	30
Mr. Edward Un Ding Bong	–	337	–	3	80	420
Dr. Alice Piera Lam Lee Kiu Yue	10	–	–	–	–	10
Total for 2006	100	2,413	173	27	80	2,793

10. DIRECTORS' EMOLUMENTS *(continued)*

Name of Director	Fees	Salaries and other benefits	Performance related incentive payments	Retirement benefit scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Mr. Leroy Kung Lin Yuen	–	1,200	–	12	1,212
Ms. Lena Foo	–	876	–	12	888
Mr. Edward Un Ding Bong	–	1,056	–	12	1,068
Mr. Kenneth Tseung Yuk Hei	16	–	–	–	16
Mr. Matthew P. Johnston	10	–	–	–	10
Mr. Ronny Chow Fan Chim	22	–	–	–	22
Dr. Alice Piera Lam Lee Kiu Yue	22	–	–	–	22
Mr. Alex Ko Po Ming	10	–	–	–	10
Total for 2005	80	3,132	–	36	3,248

Note: The performance related incentive payments is determined as a thirteenth month discretionary bonus, and was given based on the Group's overall performance.

During both years, no remuneration was paid by the Group to the Directors as an inducement to join or upon joining the Group. None of the Directors has waived any remuneration during both years.

During the year ended 31 March 2006, Mr. Edward Un Ding Bong resigned as an executive Director and Dr. Alice Piera Lam Lee Kiu Yue resigned as an independent non-executive Director.

During the year ended 31 March 2005, Mr. Kenneth Tseung Yuk Hei and Mr. Matthew P. Johnston were appointed as independent non-executive Directors and Mr. Alex Ko Po Ming resigned as an independent non-executive Director.

11. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three (2005: three) were Directors of the Company whose emoluments are included in the disclosures in note 10 above. The emoluments of the remaining two (2005: two) individuals were as follows:

	2006	2005
	HK$'000	*HK$'000*
Salaries and allowances	**1,098**	1,306
Performance related incentive payments	**92**	50
Retirement benefit scheme contributions	**24**	23
	1,214	1,379

The emoluments were within the following bands:

	Number of employees	
	2006	2005
HK$1,000,000 or below	**2**	2

12. DIVIDENDS

	2006	2005
	HK$'000	*HK$'000*
Ordinary shares:		
Final, proposed – HK0.2 cents per share (2005: nil)	**2,323**	–

The final dividend of HK0.2 cents (2005: nil) per share has been proposed by the Board of Directors and is subject to approval by the shareholders in general meeting.

13. TAXATION

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group incurred tax losses in Hong Kong for both years.

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

The taxation for the year can be reconciled to the profit (loss) before taxation per the consolidated income statement as follows:

	2006	2005
	HK$'000	*HK$'000*
Profit (loss) before taxation	**16,714**	(7,374)
Taxation at domestic income tax rate of 17.5%	**2,925**	(1,291)
Tax effect of estimated tax losses not recognised	**375**	2,012
Tax effect of expenses not deductible for tax purpose	**37**	82
Tax effect of income not taxable for tax purpose	**(2,512)**	(145)
Utilisation of deferred tax assets previously not recognised	**(959)**	(589)
Others	**134**	(69)
Taxation for the year	**–**	–

At 31 March 2006, the Group had unused estimated tax losses and other deductible temporary differences of approximately HK$110,845,000 (2005: HK$159,588,000) and HK$368,000 (2005: HK$123,000) respectively available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

14. EARNINGS (LOSS) PER SHARE

The calculation of the basic and diluted earnings (loss) per share attributable to the ordinary equity holders of the parent for the year is based on the following data:

	2006	2005
	HK$'000	*HK$'000*
Earnings (loss) for the purposes of basic and diluted earnings (loss) per share	**16,714**	(7,374)

	Number	Number
Number of ordinary shares for the purposes of basic and diluted earnings (loss) per share	**1,161,382,000**	1,161,382,000

The calculation 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 years.

The following table summarise the impact on both basic and diluted earnings per share for both years as a result of the application of New HKFRSs:

	Impact on basic and diluted earnings per share	
	2006	2005
	HK cents	*HK cents*
Reported figures before adjustments	**1.52**	(0.63)
Adjustments arising from changes in accounting policies *(see note 3)*	**(0.08)**	–
	1.44	(0.63)

15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements	Furniture, fixtures and office equipment	Computer equipment	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
THE GROUP				
COST				
At 1 April 2004	5,361	3,380	13,938	22,679
Additions	489	92	205	786
Disposals	(5,381)	(2,464)	(8,005)	(15,850)
At 31 March 2005 and 1 April 2005	469	1,008	6,138	7,615
Additions	27	16	67	110
Disposals	–	(5)	(16)	(21)
At 31 March 2006	**496**	**1,019**	**6,189**	**7,704**
DEPRECIATION				
At 1 April 2004	5,327	2,660	13,551	21,538
Provided for the year	95	589	382	1,066
Eliminated on disposals	(5,370)	(2,389)	(7,943)	(15,702)
At 31 March 2005 and 1 April 2005	52	860	5,990	6,902
Provided for the year	160	64	79	303
Eliminated on disposals	–	(1)	(16)	(17)
At 31 March 2006	**212**	**923**	**6,053**	**7,188**
NET BOOK VALUES				
At 31 March 2006	**284**	**96**	**136**	**516**
At 31 March 2005	417	148	148	713

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Leasehold improvements	Over the term of the lease
Furniture, fixtures and office equipment	20% per annum
Computer equipment	30% per annum

16. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2006	2005
	HK$'000	*HK$'000*
Unlisted shares, at cost	**33,164**	33,164

Details of the Company's subsidiaries at 31 March 2006 are as follows:

Name of subsidiary	Form of business structure	Place/ country of incorporation/ operations	Issued and fully paid share capital registered capital	Proportion of nominal value of issued share capital held by the Company		Principal activities
				Directly	Indirectly	
Beanstalk Limited	Incorporated	Hong Kong	Ordinary shares HK$2,624,253	100%	–	Inactive
iMerchants Asia Limited	Incorporated	BVI/ Hong Kong	Ordinary shares US$6,001,000	100%	–	Investment holdings, management services and technology investment
iMerchants Consulting Limited	Incorporated	Hong Kong	Ordinary shares HK$100	–	100%	Inactive
iMerchants Services Limited	Incorporated	BVI/ Hong Kong	Ordinary shares US$1,000	–	100%	Provision of information technology services
iMerchants Technologies (Beijing) Company Limited	Wholly-owned Foreign Enterprise	People's Republic of China	Paid-up registered capital US$150,000	100%	–	Inactive

None of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year.

17. INTEREST IN AN ASSOCIATE

	THE GROUP		THE COMPANY	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Unlisted shares, at cost	**4,000**	4,000	**4,000**	4,000
Unrealised gain for consultancy and software development services rendered	**(88)**	(439)	**–**	–
	3,912	3,561	**4,000**	4,000

Details of the Group's associate at 31 March 2006 are as follows:

Name of associate	Form of business structure	Place of incorporation and principal operations	Class of shares held	Proportion of nominal value of issued share capital directly held by the Company	Principal activity
Net Alliance Company Limited	Incorporated	Hong Kong	Ordinary	40%	Provision of internet banking and financial services

The financial year end date of the associate is 31 December and is not co-terminus with that of the Group. This was the financial reporting date established when Net Alliance Company Limited was incorporated. No change of reporting date of Net Alliance Company Limited as its shareholders have different financial year end date.

17. INTEREST IN AN ASSOCIATE *(continued)*

The summarised financial information in respect of the Group's associate is set out below:

	2006	2005
	HK$'000	*HK$'000*
Total assets	**12,521**	12,494
Total liabilities	**(2,401)**	(2,377)
Net assets	**10,120**	10,117
Revenue	**11,988**	11,948
Profit for the year	**3**	2

18. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments as at 31 March 2006 comprise:

	THE GROUP
	2006
	HK$'000
Unlisted securities:	
– Equity securities, at cost	**10,500**
– Debt securities with fixed interest of 6.5% and maturity date on 1 December 2006, at fair value	**19,652**
Total	**30,152**
Analysed for reporting purposes as:	
Non-current assets	**10,500**
Current assets	**19,652**
	30,152

As at the balance sheet date, the fair values of unlisted debt securities were determined by reference to the quoted prices provided by financial institutions at the balance sheet date.

The above unlisted equity securities were issued by a private entity incorporated in Japan. They are measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the Directors of the Company are of the opinion that their fair values cannot be measured reliably.

19. INVESTMENT IN SECURITIES

Investment securities as at 31 March 2005 are set out below. Upon the application of HKAS 39 on 1 April 2005, investment securities were reclassified to appropriate categories under HKAS 39 (see Notes 2 and 3 for details).

	THE GROUP		
	Trading securities	**Other securities**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Equity securities:			
Listed	90,594	–	90,594
Unlisted	–	10,500	10,500
	90,594	10,500	101,094
Debt securities:			
Unlisted	–	67,734	67,734
Total:			
Listed			
Hong Kong	31,475	–	31,475
Overseas	59,119	–	59,119
Unlisted	–	78,234	78,234
	90,594	78,234	168,828
Market value of listed securities	90,594	–	90,594
Carrying amount analysed for reporting purposes as:			
Non-current	–	69,016	69,016
Current	90,594	9,218	99,812
	90,594	78,234	168,828

20. DERIVATIVE FINANCIAL INSTRUMENTS

	THE GROUP
	Assets
	HK$'000
LIBOR range accrual notes	24,792
Equity linked notes	15,268
	40,060

Major terms of the LIBOR range accrual notes:

Notional amount	Maturity	Range of coupon rates
US$3,000,000 (HK$23,400,000)	27 January 2008	0% to 6%
US$500,000 (HK$3,900,000)	17 March 2008	0% to 8%

At the balance sheet date, the LIBOR range accrual notes were callable at par by the issuers with 5 business days' notice.

Major terms of the equity linked notes:

Notional amount	Maturity	Range of coupon rates
US$500,000 (HK$3,900,000)	20 July 2015	0% to 9%
US$500,000 (HK$3,900,000)	24 September 2007	0% to 24.6%
US$1,000,000 (HK$7,800,000)	27 January 2008	0% to 27%

The equity linked notes will be redeemed either by cash or by delivering the relevant number of shares as set out in the relevant notes.

The derivative financial instruments are measured at fair value. Their fair values were determined based on the quoted prices provided by financial institutions at the balance sheet date.

21. HELD-FOR-TRADING INVESTMENTS

Held-for-trading investments as at 31 March 2006 include:

	THE GROUP
	2006
	HK$'000
Listed securities:	
– Equity securities listed in Hong Kong	28,919
– Equity securities listed elsewhere	82,889
	111,808
Hedged funds	16,093
	127,901

The fair values of the above held-for-trading investments are determined based on the quoted market bid prices available on the relevant exchanges.

22. OTHER FINANCIAL ASSETS AND LIABILITIES

Trade and other receivables

The Group allows a credit period of 30 - 45 days to its trade customers. The following is an aged analysis of trade receivables at the reporting date:

	THE GROUP	
	2006	2005
	HK$'000	*HK$'000*
0 - 60 days	**–**	28
Over 90 days	**–**	10
Trade receivables	**–**	38
Other receivables	**1,909**	1,957
	1,909	1,995

The fair value of the Group's other receivables at 31 March 2006 approximate to their corresponding carrying amount.

22. OTHER FINANCIAL ASSETS AND LIABILITIES *(continued)*

Bank deposits, bank balances and cash

Long-term bank deposit is fixed for a term of four years and matured in 2007 with a standard range floater. The Company receives 4.25% per annum that the LIBOR ranged between 0% to 5%, with the upper limit increasing annually after contract date. The coupon will be equal to zero percent that LIBOR is outside that range. The range floater is considered as closely related to the bank deposit and is therefore not separately accounted for.

The fair value of the Group's bank deposits, bank balances and cash at 31 March 2006 approximates to their corresponding carrying amount.

Other payables

The fair value of the Group's other payables at 31 March 2006 approximate to their corresponding carrying amount.

Amounts due from and to subsidiaries

The amounts are unsecured, non-interest bearing and repayable on demand. The Directors are of the opinion that the carrying amounts approximate their fair values.

23. SHARE CAPITAL OF THE COMPANY

	Number of ordinary shares	**Amount**
		HK$'000
Ordinary shares of HK$0.1 each		
Authorised:		
At 31 March 2005 and 31 March 2006	8,000,000,000	800,000
Issued and fully paid:		
At 31 March 2005 and 31 March 2006	1,161,382,000	116,139

There was no movement in the Company's authorised share capital and no movement in the Company's issued and fully paid share capital for both years.

24. RESERVES

	Share premium	Capital redemption reserve	Contributed surplus	Special capital reserve	Accumulated (losses) profit	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
THE COMPANY						
At 1 April 2004	207,130	409	31,104	–	(135,388)	103,255
Loss for the year	–	–	–	–	(11,150)	(11,150)
At 31 March 2005 and 1 April 2005	207,130	409	31,104	–	(146,538)	92,105
Elimination of accumulated losses as at 31 March 2005 against share premium account	(146,538)	–	–	–	146,538	–
Transfer to special capital reserve	(60,592)	–	–	60,592	–	–
Profit for the year	–	–	–	–	15,059	15,059
At 31 March 2006	**-**	**409**	**31,104**	**60,592**	**15,059**	**107,164**

The contributed surplus of the Company represents the difference between the net assets of the subsidiaries acquired by the Company and the nominal value of the Company's shares issued for the acquisition in March 2000 less the premium arising on repurchase of shares and amount transferred to the capital redemption reserve.

Under the Companies Ordinance, the contributed surplus of the Company is available for distribution if:

(1) at the time the distribution is made, the amount of its net assets is not less than the aggregate of its called up share capital and undistributable reserves; and

(2) the distribution does not reduce the amount of its net assets to less than the aggregate of its called up share capital and undistributable reserves.

In the opinion of the Directors, at 31 March 2006, the reserves available for distribution to shareholders pursuant to the Companies Ordinance amounted to HK$106,755,000 (2005: nil).

25. SHARE OPTION SCHEMES

(i) Share option scheme adopted on 15 March 2000 ("2000 Share Option Scheme")

Pursuant to the 2000 Share Option Scheme, the Company may grant share options to executive Directors and employees of the Company or its subsidiaries to subscribe for shares in the Company for a consideration of HK$1 for each lot of share options granted. The purpose of the 2000 Share Option Scheme was to provide incentives to the participants. Share options granted are exercisable at any time during a period to be notified by the Company. The exercisable period must not be less than three years and not more than ten years from the date of grant of the share options. The subscription price will not be less than the highest of the following:

(a) the nominal value of the Company's share;

(b) the closing price of the Company's shares as quoted on the date of the offer of the share options; and

(c) the average closing price of the Company's shares for the five trading days immediately preceding the date of the offer of the share option.

The maximum number of shares in respect of which share options may be granted under the 2000 Share Option Scheme and the share option plan adopted pursuant to a written resolution of the shareholders of the Company dated 15 March 2000 ("Pre-IPO Share Option Plan"), as described below, shall not, in aggregate, exceed 10% of the entire issued ordinary share capital of the Company at 31 March 2000, or 30% of the entire issued ordinary share capital of the Company on the date of shareholders' approval for refreshment as stated below (as the case may be). In determining the said 30% limit, the following shares shall be excluded:

(a) shares to be issued pursuant to the 2000 Share Option Scheme and any other share option schemes; and

(b) any pro rata entitlements to subscribe for further shares pursuant to the issue of shares mentioned in (a) above.

The Company may seek approval from shareholders in general meeting for refreshing the 10% limit or for granting further share options beyond the 10% limit, provided that the share options in excess of the 10% limit are granted to participants specifically identified by the Company before such approval is sought.

25. SHARE OPTION SCHEMES *(continued)*

(i) Share option scheme adopted on 15 March 2000 ("2000 Share Option Scheme") *(continued)*

The maximum number of shares in respect of which share options might be granted to a participant, when aggregated with shares issued and issuable under any share option granted to the same participant under the 2000 Share Option Scheme, must not exceed 25% of the maximum shares issuable under the 2000 Share Option Scheme from time to time.

The duration of the 2000 Share Option Scheme was originally effective for 10 years until 14 March 2010. On 2 August 2002, the shareholders of the Company had resolved to have the 2000 Share Option Scheme terminated thereon. However, the share options which have been granted under the 2000 Share Option Scheme shall continue to be exercisable in accordance with their respective terms of issue and in all other respects the provisions of the 2000 Share Option Scheme shall remain in full force and effect.

Share options granted under 2000 Share Option Scheme are exercisable in various stages during the exercisable period from 1 April 2001 to 23 August 2010 and in accordance with the terms as to:

(a) one quarter of the share options will be exercisable from 1 April 2001 ("First Exercise Date");

(b) an additional one eighth of the options will be exercisable after the expiry of each successive six month period from the First Exercise Date; and

(c) the balance of the share options will be exercisable after the expiry of a period of 48 months from 1 April 2001.

25. SHARE OPTION SCHEMES *(continued)*

(ii) Pre-IPO Share Option Plan

The Pre-IPO Share Option Plan has terms same as those under the 2000 Share Option Scheme except that:

(a) the subscription price is set at HK$1.48;

(b) employees include full-time employees of the Group, employees who are not in full time employment of the Group, consultants and advisers to the Group;

(c) no further share option will be offered or granted under the Pre-IPO Share Option Plan other than those already granted as mentioned in the prospectus issued by the Company dated 27 March 2000; and

(d) share options granted are exercisable in various stages during the exercisable period from 1 April 2001 to 14 March 2010.

The purpose of the Pre-IPO Share Option Plan was to provide incentives to the participants.

(iii) Share option scheme adopted in a special general meeting of the Company dated 2 August 2002 ("2002 Share Option Scheme")

Under the 2002 Share Option Scheme, the Board of Directors of the Company may grant share options at a consideration of HK$1 for each lot of share option granted to:

(a) any director, employee, consultant, professional, customer, supplier, agent, partner or adviser of or contractor to the Group or a company in which the Group holds an interest (all of which to be referred as "Participants"); or

(b) the trustee of any trust the beneficiary of which or any discretionary trust the discretionary objects of which include any Participants; or

(c) a company beneficially owned by any Participants.

25. SHARE OPTION SCHEMES *(continued)*

(iii) Share option scheme adopted in a special general meeting of the Company dated 2 August 2002 ("2002 Share Option Scheme") *(continued)*

The purpose of the 2002 Share Option Scheme is to recognise and acknowledge the contributions that Participants had made or may make to the Group. Share options granted are exercisable at any time during a period to be determined by the Board of Directors and such period must not be more than 10 years from the date of grant of the options.

The subscription price will not be less than the highest of the following:

(a) the nominal value of the Company's share;

(b) the closing price of the Company's shares as quoted on the date of the offer of the share options; and

(c) the average closing price of the Company's shares for the five trading days immediately preceding the date of the offer of the share option.

The maximum number of shares in respect of which options may be granted under the 2002 Share Option Scheme and any other option schemes (excluding those share options that have already been granted by the Company prior to the date of approval of the 2002 Share Option Scheme) shall not, in aggregate, exceed 10% of the Company's shares in issue as at the date of approval of the 2002 Share Option Scheme or 30% of the entire issued ordinary share capital of the Company on the date of shareholders' approval for refreshment as stated below (as the case may be). The maximum number of shares which may be issued upon the exercise of all outstanding share options granted and yet to be exercised under the 2002 Share Option Scheme and any other share option schemes must not, in aggregate, exceed 30% of the Company's shares in issue from time to time.

25. SHARE OPTION SCHEMES *(continued)*

(iii) Share option scheme adopted in a special general meeting of the Company dated 2 August 2002 ("2002 Share Option Scheme") *(continued)*

The Company may seek approval from shareholders in general meeting for refreshing the 10% limit or for granting further share options beyond the 10% limit, provided that the share options in excess of the 10% limit are granted to those participants specified by the Company before such approval is sought.

The maximum number of shares in respect of which options might be granted to a grantee, when aggregated with shares issued and issuable under any share option granted to the same grantee under the 2002 Share Option Scheme in the 12-month period up to and including the date of such new grant must not exceed 1% of the Company's shares in issue as at the date of such new grant. The Company may seek approval of the shareholders of the Company at general meeting with such grantee and its associates abstaining from voting for granting further options above this limit. The number and terms of the share options to be granted to such grantee shall be fixed before the shareholders' approval and the exercise price for the shares in respect of the further share options proposed to be so granted, the date of board meeting for proposing such grant of further share options shall be taken as the date of offer of the share options.

The 2002 Share Option Scheme will expire on 1 August 2012.

At 31 March 2006, the total number of shares available for issue under the Company's share option schemes was 116,138,200 (2005: 116,138,200), representing 10.00% (2005: 10.00%) of the shares of the Company in issue at that date.

25. SHARE OPTION SCHEMES *(continued)*

The following table discloses movements in the number of the Company's share options granted under the Company's share option schemes:

	Name of scheme	Date of grant	Exercise price HK$	Exercisable period	Outstanding at 1 April 2004	Lapsed during the year *(note)*	Outstanding at 31 March 2005 and 1 April 2005	Lapsed during the year *(note)*	Outstanding at 31 March 2006	Vesting Period
Former Director										
Mr. Un	2000 Share Option Scheme	23 August 2000	0.53	In various stages from 1 April 2001 to 23 August 2010	2,000,000	–	2,000,000	(2,000,000)	–	In various stages from 23 August 2000 to 1 April 2004
	2002 Share Option Scheme	27 September 2002	0.172	In various stages from 1 September 2003 to 28 August 2012	8,000,000	–	8,000,000	(8,000,000)	–	In various stages from 27 September 2002 to 30 September 2004
					10,000,000	–	10,000,000	(10,000,000)	–	
Employees	Pre-IPO Share Option Plan	15 March 2000	1.48	In various stages from 1 April 2001 to 14 March 2010	9,010,000	(4,460,000)	4,550,000	(1,160,000)	3,390,000	In various stages from 15 March 2000 to 30 March 2004
	2000 Share Option Scheme	23 August 2000	0.53	In various stages from 1 April 2001 to 23 August 2010	9,320,000	(4,770,000)	4,550,000	(1,160,000)	3,390,000	In various stages from 23 August 2000 to 1 April 2004
					18,330,000	(9,230,000)	9,100,000	(2,320,000)	6,780,000	
					28,330,000	(9,230,000)	19,100,000	(12,320,000)	6,780,000	

Note: The share options were lapsed upon cessation of employment.

The exercise in full of the outstanding 6,780,000 (2005: 19,100,000) share options at 31 March 2006 would, under the present capital structure of the Company, result in the issue of 6,780,000 (2005: 19,100,000) additional shares for a total cash consideration, before expenses, of approximately HK$6,814,000 (2005: HK$11,582,000).

26. PLEDGE OF ASSETS

At the balance sheet date, the Group had pledged the following assets to a financial institution in respect of the due and punctual payment of the Group's obligations:

	2006	2005
	HK$'000	HK$'000
Available-for-sale investments	19,652	–
Derivative financial instruments	15,268	–
Held-for-trading investments	18,725	–
	53,645	–

At the balance sheet date, the Company had no outstanding balance with any financial institution.

27. 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:

	THE GROUP	
	2006	2005
	HK$'000	HK$'000
Within one year	1,032	1,051
In the second to fifth years inclusive	709	1,539
	1,741	2,590

	THE COMPANY	
	2006	2005
	HK$'000	HK$'000
Within one year	1,014	1,014
In the second to fifth year inclusive	710	1,539
	1,724	2,553

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.

27. OPERATING LEASE COMMITMENTS *(continued)*

As lessor

At the balance sheet date, the Group had contracted with a tenant for future minimum lease payments for sub-lease its office premises as follows:

	2006	2005
	HK$'000	*HK$'000*
Within one year	**235**	248

28. RETIREMENT BENEFITS SCHEMES

The Group operates a Mandatory Provident Fund Scheme ("MPF Scheme") for all qualified employees. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of trustees. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at the rate specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the scheme. At the balance sheet date, no forfeited contribution was available to reduce the contribution payable of future years.

The employees of the Company's subsidiary in the People's Republic of China are members of the pension schemes operated by the government of the People's Republic of China. The Company's subsidiary in the People's Republic of China is required to contribute a certain percentage of the relevant portion of these employees' basic salaries to the pension to fund the benefits. The only obligations of the Company's subsidiary in the People's Republic of China with respect to the pension scheme is the required contributions under the pension scheme.

The retirement benefits costs charged to income statement and the forfeited voluntary contributions credited to the income statement amounted to approximately HK$86,000 (2005: HK$260,000) and HK$240,000 (2005: HK$398,000) respectively. The retirement benefits costs charged to income statements represents contributions payable to the schemes by the Group at rates specified in the rules of the schemes.

29. RELATED PARTY DISCLOSURES

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

	2006	2005
	HK$'000	*HK$'000*
Revenue generated from contracts for consultancy and software development performed for an associate	**–**	110
Maintenance service income from an associate	**–**	302
Rental income from an associate	**285**	148
Consultancy income from an associate	**80**	–

Compensation of key management personnel

The emoluments of directors are disclosed in note 10 above. The emoluments of the key management other than directors were as follows:

	2006	2005
	HK$'000	*HK$'000*
Salaries and allowance	**738**	738
Performance related incentive payments	**62**	–
Retirement benefits scheme contributions	**12**	12
	812	750

30. POST BALANCE SHEET EVENTS

(a) On 3 April 2006, iMerchants Asia Limited, a wholly owned subsidiary of the Company, has entered into the Convertible Bond Sale and Purchase Agreement (the "CB Agreement") with e.Energy Lighting Limited ("e.Energy"), an affiliate of the City University of Hong Kong, to purchase the Convertible Bond ("CB") issued by e.Energy. The CB has face value of HK$4,000,000, is due on 3 April 2009 and non-interest bearing. Before the due date, iMerchants Asia Limited has the right to convert the CB into fully paid shares of e.Energy in accordance with the mutually agreed formula set out in the CB Agreement.

The principal business of e.Energy is to develop, market, promote and sell the centralized dimming control technology under the marketing brand of T&K Lighting Management System. The patent for this technology is owned by e.Energy. This technology arose from one of the research and development projects of the Department of Electronic Engineering of the City University of Hong Kong and is now commercialized and operated by e.Energy. e.Energy has already have businesses in Hong Kong and Southern China and is now promoting the business in South East Asia and Australia.

The management of the Group has performed thorough due diligence on the business of e.Energy. The consideration of the CB, the conversion formula and the terms of the CB Agreement was determined after arm's length negotiation between iMerchants and e.Energy. The Directors consider that the purchase of the CB would provide funds to e.Energy for promotion and marketing of a good technology developed by a Hong Kong company and, when the business of e.Energy is more mature, iMerchants can convert the CB into equity shares of e.Energy and benefit from its business growth. The Directors consider that the subject transaction is fair and reasonable and is in the interests of the shareholders of the Company as a whole. This transaction does not constitute a discloseable transaction of the Company under Rule 19.06 of the GEM Listing Rules.

(b) On 13 June 2006, the Company proposed that every ten issued and unissued shares of HK$0.1 each in the capital of the Company be consolidated into one consolidated share of HK$1 each. The proposed share consolidation is subject to the approval by the shareholders in the annual general meeting which is expected to be convened in July 2006.

RESULTS

	Year ended 31 March				
	2002	2003	2004	2005	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
Turnover	20,866	8,200	4,592	2,695	**648**
Other income	9,640	7,630	7,797	7,058	**9,419**
Net realised and unrealised gain on listed trading securities	–	–	7,253	5,098	**17,927**
Staff costs	(29,729)	(34,304)	(17,452)	(10,815)	**(4,576)**
Depreciation and amortization	(8,119)	(5,601)	(2,447)	(1,066)	**(303)**
Other operating expenses	(30,309)	(12,256)	(9,670)	(10,344)	**(6,401)**
Impairment losses	(40,115)	(157)	–	–	**–**
Finance costs	(9)	–	–	–	**–**
Share of results of associates	(1,924)	–	–	–	**–**
(Loss) profit before taxation	(79,699)	(36,488)	(9,927)	(7,374)	**16,714**
Taxation credit (charge)	27	(2)	–	–	**–**
(Loss) profit for the year attributable to equity holders of the parent	(79,672)	(36,490)	(9,927)	(7,374)	**16,714**

ASSETS AND LIABILITIES

	As at 31 March				
	2002	2003	2004	2005	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
Total assets	267,121	229,951	221,331	211,345	**224,143**
Total liabilities	(2,673)	(1,993)	(1,842)	(1,422)	**(740)**
Equity attributable to equity holders of the parent	264,448	227,958	219,489	209,923	**223,403**