



***iMerchants Limited***

*First Quarterly Report 2006-2007*

*(Stock Code: 8009)*

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

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

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

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

**The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.**

*The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.*

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

## SUMMARY

The Group's unaudited consolidated loss for the three months ended 30 June 2006 was approximately HK\$2,391,000, compared to the unaudited consolidated profit of approximately HK\$945,000 of the Group for the corresponding three-month period in 2005. No interim dividend is recommended for the period.

### GROUP BUSINESS REVIEW

The business operations of iMerchants' investee companies continue to make satisfactory progress. eBANK Corporation has made great strides in developing its business in the internet banking arena in the past years. The number of customers grew quickly from about 1.01 million as of 31 March 2005 to over 1.59 million as of 30 June 2006 and eBANK has continuously been ranked by Yahoo!Japan as the No.1 internet-only bank in Japan surpassing Japan Net Bank and SONY Bank. With the full support from its strategic investors which are large Japanese corporations, we believe eBANK will continue to take a leading role in internet banking and further strengthen its market position.

iMerchants will continue to identify market trends that are likely to lead to significant growth and invest in companies in such markets that can best capture the business opportunities.

### SHARE CONSOLIDATION

The Board is pleased to announce that at the annual general meeting ("AGM") held on 27 July 2006, all resolutions proposed, including the resolution on the Share Consolidation, have been duly passed by the Shareholders present and voting in person or by proxy, on a show of hands. The Listing Committee of the Stock Exchange had granted the listing of and permission to deal in the Consolidated Shares and thus, the Share Consolidation has become unconditional and has been effective from 28 July 2006.

As at the date of the AGM, there were 1,160,076,000 Shares of HK\$0.10 each in issue which are fully paid or credited as fully paid. Following the coming into effect of the Share Consolidation on 28 July 2006, there are 116,007,600 Consolidated Shares of HK\$1.00 each in issue which are fully paid or credited as fully paid. The authorised share capital of the Company remains at HK\$800,000,000 but divided into 800,000,000 Consolidated Shares of HK\$1.00 each. The Consolidated Shares rank *pari passu* in all respects with each other and save for the fractional entitlements, the Share Consolidation will not result in any change in the relative rights of the Shareholders.

### FINANCIAL REVIEW

iMerchants recorded a net loss of approximately HK\$2,391,000 for the three months ended 30 June 2006, compared to net profit of approximately HK\$945,000 for the corresponding three-month period in 2005. The loss for the quarter is mainly due to a reduction in the market value of iMerchants' treasury investments caused by a correction in global equity markets during the time period. iMerchants continues to be in a healthy financial situation. As at 30 June 2006, iMerchants holds current assets plus financial investments and deposits totaling approximately HK\$204 million and has no bank borrowings. For the three months ended 30 June 2006, iMerchants' turnover was approximately HK\$88,000 which does not include the turnovers of iMerchants' venture investments in which iMerchants does not hold majority interests.

## RESULTS

The board of Directors (the "Board") of the Company presents the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the three months ended 30 June 2006 together with the comparative unaudited figures for the corresponding periods in 2005 as follows:

		<b>Three months ended</b>	
		<b>30 June</b>	
	<i>Notes</i>	<b>2006</b>	2005
		<b>HK\$'000</b>	<i>HK\$'000</i>
Turnover	2	<b>88</b>	124
Other income		<b>2,585</b>	2,208
Net realized and unrealized (loss) gain on listed trading securities		<b>(1,984)</b>	1,531
Staff costs		<b>(1,181)</b>	(1,253)
Depreciation		<b>(87)</b>	(123)
Other operating expenses		<b>(1,812)</b>	(1,542)
		<hr/>	<hr/>
(Loss) profit before taxation	3	<b>(2,391)</b>	945
Taxation	4	<b>-</b>	-
		<hr/>	<hr/>
(Loss) profit for the period attributable to equity holders of the Company		<b>(2,391)</b>	945
		<hr/>	<hr/>
(Loss) earnings per share			
– basic and diluted	5	<b>HK(0.20) cent</b>	HK0.08 cent

*Notes:*

### 1. Basis of preparation

The financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values.

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards 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.

### 2. Turnover

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 period.

### 3. (Loss) profit before taxation

(Loss) profit before taxation is arrived at after charging (crediting):

	Three months ended	
	30 June	
	2006	2005
	HK\$'000	HK\$'000
Operating lease charges in respect of rented premises	286	303
Staff costs		
Salaries and allowances	1,011	1,250
Long service payments	148	80
Net contribution (refund) resulted from forfeiture of contributions of retirement benefits schemes	22	(77)
	1,181	1,253
Unrealized loss on a held-for-trading investment	554	-
Interest income from bank deposits	(196)	(133)
Interest income from debt securities	(1,257)	(1,018)
Dividends from listed securities	(980)	(993)
Rental income	(92)	(64)
Sundries	(60)	-
	<u>          </u>	<u>          </u>

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

### 5. (Loss) earnings per share

The calculation of the basic and diluted (loss) earnings per share for the three months ended 30 June 2006 is based on the loss of the Group of approximately HK\$2,391,000 (2005: profit of approximately HK\$945,000) and on the weighted average number of ordinary shares of 1,161,260,813 (2005: 1,161,382,000).

The calculation of the diluted (loss) earnings per share did not assume the exercise of the Company's outstanding share options as their exercise prices were higher than the average market price of the Company's shares for both periods.

### 6. Interim dividend

The Directors do not recommend the payment of an interim dividend for the three months ended 30 June 2006 (2005: Nil).

## 7. Movements of reserves

	Share premium HK\$'000	Negative goodwill HK\$'000	Capital redemption reserve HK\$'000	Merger reserve HK\$'000	Investment revaluation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 April 2005 as originally stated	207,130	1,884	409	45,918	(734)	(160,823)	93,784
Effect of changes in accounting policies	-	(1,884)	-	-	1,942	(58)	-
At 1 April 2005 as restated	207,130	-	409	45,918	1,208	(160,881)	93,784
Loss on fair value changes of available-for-sale investments and net expenses recognized directly in equity	-	-	-	-	(181)	-	(181)
Profit for the period	-	-	-	-	-	945	945
At 30 June 2005	<u>207,130</u>	<u>-</u>	<u>409</u>	<u>45,918</u>	<u>1,027</u>	<u>(159,936)</u>	<u>94,548</u>

  

	Special capital reserve HK\$'000	Capital redemption reserve HK\$'000	Merger reserve HK\$'000	Investment revaluation reserve HK\$'000	Accumulated profit (losses) HK\$'000	Total HK\$'000
At 1 April 2006	60,592	409	45,918	(2,026)	2,371	107,264
Gain on fair value changes of available-for-sale investments and net expenses recognized directly in equity	-	-	-	666	-	666
Final dividend for 2005/06 (note below)	-	-	-	-	(2,323)	(2,323)
Share repurchases	-	120	-	-	(120)	-
Loss for the period	-	-	-	-	(2,391)	(2,391)
At 30 June 2006	<u>60,592</u>	<u>529</u>	<u>45,918</u>	<u>(1,360)</u>	<u>(2,463)</u>	<u>103,216</u>

### Note:

In the board meeting held on 20 June 2006, the final dividend for the year ended 31 March 2006 of HK0.2 cents per share of HK\$0.10 each in the capital of the Company has been proposed by the Directors. The proposed resolution on the final dividend has been duly passed by the Company's Shareholders in the annual general meeting held on 27 July 2006.

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

During the period ended 30 June 2006, the Company repurchased certain of its own shares of HK\$0.10 each through The Stock Exchange of Hong Kong Limited (the "Stock Exchange") as follows:

Month of repurchase	Number of ordinary shares of HK\$0.10 each	Price per share		Aggregate consideration paid HK\$
		Highest	Lowest	
		HK\$	HK\$	
June 2006	1,198,000	0.10	0.10	119,800

The Directors of the Company considered that the above repurchases were made with a view to enhancing the net asset value per share of the Company. These shares were cancelled upon repurchase and the issued share capital of the Company was reduced correspondingly.

Save as disclosed above, at no time during the period did the Company or its subsidiaries purchase, sell or redeem any of the Company's listed securities.

## COMPETING INTERESTS

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

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

At 30 June 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 pursuant to Rule 5.46 of the GEM Listing Rules were as follows:

### Long positions in ordinary shares of HK\$0.10 each of the Company

Name of Director	Number of issued ordinary shares held			Percentage of issued share capital of the Company
	Beneficial owner	Held by controlled corporation	Total	
Mr. Leroy Kung Lin Yuen ("Mr Kung")	–	758,381,000 (Note)	758,381,000	65.37%
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\$0.10 each of the Company

No short positions of Directors in the shares of the Company and its associated corporations were recorded in the register or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

### Short positions in underlying shares

No short positions of Directors in the underlying shares of the equity derivatives of the Company and its associated corporations were recorded in the register or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.



### Short positions in debentures

No short positions of Directors in the debentures of the Company and its associated corporations were recorded in the register or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

Save as disclosed above, at 30 June 2006, none of the Directors had any interest in any shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

### INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

At 30 June 2006, the following person (other than the interests disclosed above in respect of certain Directors of the Company) had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

#### Long positions in ordinary shares of HK\$0.10 each of the Company

Name	Capacity	Number of ordinary shares	Percentage of issued share capital
GEM Global Yield Fund Ltd	Beneficial owner	58,125,000	5.00%

#### Long positions in underlying shares

No long positions of other persons and substantial shareholders in the underlying shares of equity derivatives of the Company were recorded in the register.

#### Short positions in ordinary shares of HK\$0.10 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 30 June 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.

## ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the period was the Company, its holding companies, fellow subsidiaries or subsidiaries a party to any arrangement to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No 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 period or at any time during the period.

## PLEDGE OF ASSETS

At 30 June 2006, the Group had pledged the following assets to a financial institution in respect of the due and punctual payment of the Group's obligations:

	<b>30 June 2006</b>	<b>31 March 2006</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Available-for-sale investments	20,317	19,652
Derivative financial instruments	15,332	15,268
Held-for-trading investments	35,323	18,725
	<u>70,972</u>	<u>53,645</u>

At 30 June 2006, the Group had no outstanding balance with any financial institution.

## AUDIT COMMITTEE

- (i) The Company's audit committee was formed on 15 March 2000 with written terms of reference in compliance with the GEM Listing Rules.
- (ii) The audit committee has three members comprising the independent non-executive directors, namely, Messrs. Ronny Chow Fan Chim, Kenneth Tseung Yuk Hei and Matthew P. Johnston. All committee members possess appropriate industry and financial experience to advise on the Company's strategy and other matters.
- (iii) The composition of the audit committee meets the requirements of Rule 5.28 of the GEM Listing Rules.
- (iv) The primary duties of the audit committee are to review the financial information of the Group and supervise the financial reporting process and internal control procedures of the Group.
- (v) The audit committee has reviewed the draft of this report and has provided advice and comments thereon.

## COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Board has reviewed the Company's corporate governance practices and is satisfied that the Company has full compliance with the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules for the three-month period ended 30 June 2006, except for the following deviation.

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.

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

Hong Kong, 11 August 2006

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

*Executive Directors:*

Mr. Leroy Kung Lin Yuen  
Ms. Lena Foo

*Independent Non-executive Directors:*

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