



***iMerchants Limited***

***Second Quarterly Report 2006-2007***

*(Stock Code: 8009)*

***iMerchants***  
www.imerchants.com



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

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

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

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

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

## SUMMARY

The Group's unaudited consolidated loss for the six months ended 30 September 2006 was approximately HK\$3,316,000, compared to the unaudited consolidated profit of approximately HK\$5,956,000 of the Group for the corresponding six-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 1.70 million as of 30 September 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.

In April 2006, the Group invested through purchasing a convertible bond ("CB") issued by e.Energy Lighting Limited ("e.Energy"), an affiliate of the City University of Hong Kong. The principal business of e.Energy is to develop, market, promote and sell the centralized dimming control technology for lighting. The patent for this technology is owned by e.Energy. Before the due date of the CB on 3 April 2009, iMerchants has the right to convert the CB into fully paid shares of e.Energy in accordance with the mutually agreed terms set out in the CB Agreement.

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.

## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

iMerchants continues to be in a healthy financial position with current assets plus financial investments and deposits totaling approximately HK\$200 million (31 March 2006: approximately HK\$209 million) and there was no bank borrowing as at 30 September 2006. Because approximately 14% of this total comprised of bank balances, deposits and cash, and 85% of the total were financial investments, the management of iMerchants consider its financial resources to be highly liquid. iMerchants aims to minimize its financing costs by managing the maturity of its investments and deposits so as to provide sufficient funds to cover daily operating costs.

Save for the information mentioned in the section headed "Group Business Review" above, the management of iMerchants do not have any concrete plan to acquire or take any equity stakes in companies for expansion. Any future capital expenditures and the daily 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 six months ended on 30 September 2006.

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

As of 30 September 2006, approximately 13% of iMerchants' cash and bank balances and financial investments were denominated in Hong Kong dollars, approximately 76% in US dollars, approximately 10% in Australian dollars and a nominal amount is held in Renminbi. Given the liquid nature of these financial investments and the currency peg between the Hong Kong dollars and the US dollars, iMerchants does not hedge its exchange rate exposures.

iMerchants' gearing ratio at 30 September 2006 was 0% (31 March 2006: 0%), as calculated by taking the ratio of iMerchants' total interest-bearing borrowings, divided by its shareholders' funds. iMerchants has no borrowings and no contingent liabilities as at 30 September 2006 (31 March 2006: Nil). As at 30 September 2006, one of the Company's subsidiaries pledged financial investments of approximately HK\$54,981,000 to a financial institution in respect of the due and punctual payment of its obligations (31 March 2006: HK\$53,645,000). At the balance sheet date, the Group had no outstanding balance with that financial institution.

### **Share Consolidation**

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 were 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.

### **INVESTMENTS**

iMerchants made an equity investment of approximately HK\$10,500,000 in eBANK as a minority shareholder. eBANK is one of the leading internet-focused licensed banks in Japan. The company's revenues, profitability and customer base have grown quickly in recent years. The management of iMerchants believe that investment in eBANK will pave the way for future co-operation to explore the financial services market in Asia. iMerchants has no intention to sell the investment in eBANK in the foreseeable future and intends to hold the shares as a long term investment.

iMerchants retains its investment of approximately HK\$4 million in Net Alliance, a company that provides online banking service bureau operations to a number of banks in Hong Kong. iMerchants expects Net Alliance's revenues and profits to remain quite stable during the coming years.

On 3 April 2006, iMerchants purchased a convertible bond ("CB") issued by e.Energy Lighting Limited, an affiliate of the City University of Hong Kong. The CB has face value of HK\$4 million, is due on 3 April 2009 and non-interest bearing. Before the due date, iMerchants has the right to convert the CB into fully paid shares of e.Energy. e.Energy is principally engaged in the development, marketing, promotion and sale of the lighting management system using the centralized dimming control technology which is patented. The technology arose from a research project of the Department of Electronic Engineering of the City University and is commercialized by e.Energy. The Directors consider that the purchase of the CB would provide funds to e.Energy for the promotion and marketing of a good technology developed by a Hong Kong company and, on the other hand iMerchants can convert the CB into equity interest of e.Energy and benefit from its growth when its business is more mature.

As of 30 September 2006, iMerchants had financial investments with fair values of approximately HK\$171 million (31 March 2006: approximately HK\$187 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 continue to focus on the business expansion of its venture investments and the establishment of partnerships and evaluate potential strategic investments in businesses and assets. Should there exist any suitable opportunities, subject to the results of financial and operational reviews, iMerchants will consider investments with a view to expanding and diversifying its business.

As iMerchants may not hold majority interests in the venture investments, the business turnovers of such investee companies may not be consolidated into the group accounts of iMerchants as evidenced by the turnovers of past years. Our energy will focus on enhancing the overall value and return on investment for iMerchants in the future. For the six months ended 30 September 2006, the Group's turnover was HK\$88,000 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 loss of HK\$3,316,000 for the six months ended 30 September 2006, compared to a net profit of HK\$5,956,000 for the corresponding period in 2005. The loss is mainly attributable to the change in fair values of iMerchants' treasury investments during the last six months.

## **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.

## **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 30 September 2006, iMerchants on the group level employed 7 full time staff (31 March 2006: 8) excluding all employees under our portfolio companies in which we have a minority stake (including Net Alliance and eBANK).

Remuneration for iMerchants' employees is typically reviewed once a year, or as the management deems appropriate. For the six months ended 30 September 2006, iMerchants' total remuneration expenses, including contributions to the Mandatory Provident Fund, were approximately HK\$2.2 million (six months ended 30 September 2005: approximately HK\$2.4 million). The total was a little bit lower than that of the corresponding period in 2005, mainly due to the decrease in headcount.

iMerchants has introduced share option schemes to recognize the contributions of its employees to the development of iMerchants. As of 30 September 2006, a total of 594,000 share options remained outstanding (31 March 2006: 678,000 (adjusted for the Share Consolidation)). None had been exercised during this financial period.

## USE OF PROCEEDS

The net proceeds raised from the public listing on 31 March 2000 were approximately HK\$325 million. The proceeds were applied to achieve the business objectives as set out in the prospectus dated 27 March 2000 ("Prospectus") and detailed below:

	<b>As stated in the Prospectus (from 1 April 2000 to 31 March 2002) HK\$ million</b>	<b>Actual (from 1 April 2000 to 30 September 2006) HK\$ million</b>
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	39
For general working capital	46	129
	<hr/>	<hr/>
Total	325	279
	<hr/> <hr/>	<hr/> <hr/>

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 as it was considered to be in the best interests of the Group and its shareholders.

Due to the risks associated with regional expansion, the Group has limited its geographical expansion to date within the Greater China region. Correspondingly, corporate infrastructure requirements as well as expenditure for business development and marketing have been limited to that required to support operations in that region. The Group has, to date, also used less than originally planned for investment in or acquisition of ventures due to the Group's tight criteria for investment and the changed market environment.

## RESULTS

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

### Unaudited Consolidated Income Statement

For the three months and six months ended 30 September 2006

	Notes	Three months ended 30 September		Six months ended 30 September	
		2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Turnover	2	-	88	<b>88</b>	212
Other income		<b>1,169</b>	1,836	<b>3,754</b>	4,044
Net realized and unrealized gain (loss) on listed trading securities		<b>193</b>	5,570	<b>(1,791)</b>	7,101
Staff costs		<b>(1,031)</b>	(1,084)	<b>(2,212)</b>	(2,359)
Depreciation		<b>(81)</b>	(97)	<b>(168)</b>	(220)
Other operating expenses		<b>(1,175)</b>	(1,302)	<b>(2,987)</b>	(2,822)
(Loss) profit before taxation	4	<b>(925)</b>	5,011	<b>(3,316)</b>	5,956
Taxation	5	-	-	-	-
(Loss) profit for the period attributable to equity holders of the Company		<b>(925)</b>	5,011	<b>(3,316)</b>	5,956
(Loss) earnings per share - basic and diluted	6	<b>(0.86) cent</b>	4.32 cent	<b>(2.86) cent</b>	5.13 cent



## Consolidated Balance Sheet

As at 30 September 2006

		<b>30 September 2006 (Unaudited) HK\$'000</b>	31 March 2006 (Audited) HK\$'000
	<i>Notes</i>		
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		<b>362</b>	516
Interests in associates		<b>4,000</b>	3,912
Available-for-sale investments		<b>10,500</b>	10,500
Long-term bank deposit		<b>7,800</b>	7,800
		<b>22,662</b>	22,728
<b>CURRENT ASSETS</b>			
Other receivables	8	<b>1,338</b>	1,909
Derivative financial instruments		<b>39,095</b>	40,060
Available-for-sale investments		<b>20,354</b>	19,652
Held-for-trading investments		<b>115,455</b>	127,901
Short-term bank deposits		<b>2,003</b>	1,004
Bank balances and cash		<b>17,620</b>	10,889
		<b>195,865</b>	201,415
<b>CURRENT LIABILITIES</b>			
Other payables	9	<b>477</b>	740
		<b>477</b>	740
<b>NET CURRENT ASSETS</b>			
		<b>195,388</b>	200,675
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			
		<b>218,050</b>	223,403
<b>CAPITAL AND RESERVES</b>			
Share capital	10	<b>115,720</b>	116,139
Reserves		<b>102,330</b>	107,264
		<b>218,050</b>	223,403

## Unaudited Condensed Consolidated Cash Flow Statement

For the six months ended 30 September 2006

	Six months ended	
	30 September	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Net cash (used in) from operating activities	<b>(3,348)</b>	2,871
Net cash from investing activities	<b>13,817</b>	2,501
Net cash used in financing activities	<b>(2,739)</b>	(18,026)
	<hr/>	<hr/>
Net increase (decrease) in cash and cash equivalents	<b>7,730</b>	(12,654)
Cash and cash equivalents at beginning of period	<b>11,893</b>	28,448
	<hr/>	<hr/>
Cash and cash equivalents at end of period	<b>19,623</b>	15,794
	<hr/> <hr/>	<hr/> <hr/>
Analysis of balances of cash and cash equivalents		
Short-term bank deposits	<b>2,003</b>	3,512
Less: Short-term bank deposits with original maturity more than three months	-	-
Bank balances and cash	<b>17,620</b>	12,282
	<hr/>	<hr/>
	<b>19,623</b>	15,794
	<hr/> <hr/>	<hr/> <hr/>

## Unaudited Consolidated Statement of Changes in Equity

For the six months ended 30 September 2006

	Share capital HK\$'000	Share premium HK\$'000	Negative goodwill HK\$'000	Capital redemption reserve HK\$'000	Merger reserve HK\$'000	Investment revaluation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 April 2005 as originally stated	116,139	207,130	1,884	409	45,918	(734)	(160,823)	209,923
Effect of changes in accounting policies	-	-	(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 recognized directly in equity	-	-	-	-	-	(1,313)	-	(1,313)
Profit for the period	-	-	-	-	-	-	5,956	5,956
At 30 September 2005	<u>116,139</u>	<u>207,130</u>	<u>-</u>	<u>409</u>	<u>45,918</u>	<u>(105)</u>	<u>(154,925)</u>	<u>214,566</u>

	Share capital HK\$'000	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	116,139	60,592	409	45,918	(2,026)	2,371	223,403
Gain on fair value changes of available-for-sale investments and net expenses recognized directly in equity	-	-	-	-	703	-	703
Final dividend for 2005/06	-	-	-	-	-	(2,321)	(2,321)
Share repurchases	(419)	-	420	-	-	(420)	(419)
Loss for the period	-	-	-	-	-	(3,316)	(3,316)
At 30 September 2006	<u>115,720</u>	<u>60,592</u>	<u>829</u>	<u>45,918</u>	<u>(1,323)</u>	<u>(3,686)</u>	<u>218,050</u>

## Notes to the condensed interim financial statements

### 1. Basis of preparation

The unaudited condensed interim financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the applicable disclosure requirements of the Companies Ordinance and of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited.

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

### 2. Turnover

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

### 3. Segment information

iMerchants principally 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.

### 4. (Loss) profit before taxation

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

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Operating lease charges in respect of rented premises	<b>584</b>	590
Staff costs		
Salaries and allowances	<b>2,025</b>	2,336
Long service payments	<b>148</b>	80
Net contributions (refund) resulted from forfeiture of contributions of retirement benefits schemes	<b>39</b>	(57)
	<b>2,212</b>	2,359
Unrealized loss on a held-for-trading investment	<b>511</b>	-
Interest income from bank deposits	<b>(368)</b>	(242)
Interest income from debt securities	<b>(1,648)</b>	(2,138)
Dividends from listed securities	<b>(1,435)</b>	(1,537)
Rental income	<b>(183)</b>	(127)
Sundries	<b>(120)</b>	-
	<b><u>          </u></b>	<b><u>          </u></b>

## 5. Taxation

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

## 6. (Loss) earnings per share

The calculation of the basic and diluted (loss) earnings per share for the three months and the six months ended 30 September 2006 is based on the loss of the Group of approximately HK\$925,000 (2005: profit of approximately HK\$5,011,000) and approximately HK\$3,316,000 (2005: profit of approximately HK\$5,956,000), respectively, and on the weighted average number of ordinary shares of 116,015,280 (2005: 116,138,200 (adjusted for the Share Consolidation)).

The computation of 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.

The weighted average number of ordinary shares for the six months ended 30 September 2005 and the six months ended 30 September 2006 for the purpose of basic and diluted earnings per share has been adjusted for the Share Consolidation which took effect on 28 July 2006.

## 7. Interim dividend

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

## 8. Other receivables

	<b>30 September 2006 HK\$'000</b>	31 March 2006 HK\$'000
Other receivables	<u><b>1,338</b></u>	<u>1,909</u>

There were no trade receivables as at 30 September 2006 and so no ageing analysis is presented.

## 9. Other payables

	<b>30 September 2006 HK\$'000</b>	31 March 2006 HK\$'000
Other payables	<u><b>477</b></u>	<u>740</u>

There were no trade payables as at 30 September 2006 and so no ageing analysis is presented.

## 10. Share capital

	Number of ordinary shares	Amount HK\$'000
<i>Authorized:</i>		
At 1 April 2006	8,000,000,000	800,000
Reduced due to Share Consolidation (Note a)	(7,200,000,000)	–
	<hr/>	<hr/>
At 30 September 2006	800,000,000	800,000
	<hr/> <hr/>	<hr/> <hr/>
<i>Issued and fully paid:</i>		
At 1 April 2006	1,161,382,000	116,139
Shares repurchased and cancelled (Note b)	(1,306,000)	(131)
Reduced due to Share Consolidation (Note a)	(1,044,068,400)	–
Shares repurchased and cancelled (Note b)	(288,600)	(288)
	<hr/>	<hr/>
At 30 September 2006	115,719,000	115,720
	<hr/> <hr/>	<hr/> <hr/>

(a) Pursuant to the special resolution passed on 27 July 2006, the Company consolidated every ten issued and unissued Shares of HK\$0.10 each in the capital of the Company into one Consolidated Share of HK\$1.00 each. The authorized share capital of the Company will remain at HK\$800,000,000 but divided into 800,000,000 Consolidated Shares of HK\$1.00 each. The Share Consolidation took effect on 28 July 2006.

(b) Share repurchases

During the period ended 30 September 2006, the Company repurchased certain of its own shares through The Stock Exchange of Hong Kong Limited (the "Stock Exchange") as follows:

Month of repurchase	Number of ordinary shares	Price per share		Aggregate consideration paid HK\$
		Highest	Lowest	
		HK\$	HK\$	
<i>Before Share Consolidation</i>				
June 2006	1,198,000 (HK\$0.10 each)	0.10	0.10	119,800
July 2006	108,000 (HK\$0.10 each)	0.10	0.10	10,800
	<hr/>			<hr/>
	1,306,000			130,600
	<hr/> <hr/>			<hr/> <hr/>

*After Share Consolidation*

August 2006	198,600 (HK\$1.00 each)	1.00	1.00	198,600
September 2006	90,000 (HK\$1.00 each)	1.00	0.99	89,860
	<u>288,600</u>			<u>288,460</u>

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.

- (c) There was no movement in the Company's authorised share capital and issued and fully paid share capital for the year ended 31 March 2006.

## 11. Operating lease commitments

*As lessee*

At the balance sheet date, the Group had commitments for future minimum lease payments under operating leases in respect of land and buildings which fall due as follows:

	<b>30 September 2006 HK\$'000</b>	31 March 2006 HK\$'000
Within one year	<b>1,010</b>	1,032
In the second to fifth year inclusive	<b>24</b>	709
	<u><b>1,034</b></u>	<u>1,741</u>

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

*As lessor*

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

	<b>30 September 2006 HK\$'000</b>	31 March 2006 HK\$'000
Within one year	<u><b>61</b></u>	<u>235</u>

## 12. Capital commitments

At 30 September and 31 March 2006, the Group had no capital commitment.

## 13. Pledge of assets

At 30 September 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 September 2006 HK\$'000</b>	31 March 2006 HK\$'000
Available-for-sale investments	<b>20,354</b>	19,652
Derivative financial instruments	<b>13,985</b>	15,268
Held-for-trading investments	<b>20,642</b>	18,725
	<u><b>54,981</b></u>	<u>53,645</u>

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

## 14. Related party disclosures

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

	<b>Six months ended</b>	
	<b>30 September 2006 HK\$'000</b>	2005 HK\$'000
Rental income from an associate	<b>183</b>	127
Consultancy income from an associate	<b>120</b>	–
	<u><b>120</b></u>	<u>–</u>

The above related party transactions were carried out in accordance with the relevant agreements governing these transactions.



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

Save as disclosed in Note 10 (b) above, at no time during the six months ended 30 September 2006 did the Company or its subsidiaries purchase, sell or redeem any of the Company's listed securities.

## COMPETING INTERESTS

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

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

At 30 September 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 GEM Listing Rules were as follows:

### Long positions in ordinary shares of HK\$1.00 each of the Company

Name of Director	Number of issued ordinary shares held			Total	Percentage of issued share capital of the Company
	Beneficial owner	Held by trust	Held by controlled corporation		
Mr. Leroy Kung Lin Yuen ("Mr Kung")	-	-	75,838,100 (Note)	75,838,100	65.54%
Mr. Matthew P. Johnston	10,000	-	-	10,000	<1%

Note:

The registered shareholder of 75,838,100 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 75,838,100 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\$1.00 each of the Company**

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

**Short positions in underlying shares**

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

**Short positions in debentures**

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

Save as disclosed above, as at 30 September 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.

**INTEREST DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS**

At 30 September 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\$1.00 each of the Company

Name	Capacity	Number of ordinary shares	Percentage of issued share capital
GEM Global Yield Fund Ltd	Beneficial owner	5,812,500	5.00%

### Long positions in underlying shares

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

### Short positions in shares

No short positions of other persons and substantial shareholders in the shares of the Company were recorded in the register.

### Short positions in underlying shares

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

Save as disclosed above, as at 30 September 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.

### OUTSTANDING SHARE OPTIONS

Pursuant to the Pre-IPO Share Option Plan and 2000 Share Option Scheme, there were 297,000 and 297,000 share options, respectively, granted to and held by the grantees as at 30 September 2006. Details of which are as follows:

**(a) Pre-IPO Share Option Plan**

As at 30 September 2006, options comprising an aggregate of 297,000 underlying shares to subscribe for shares in the Company at an exercise price of HK\$14.80 per share (granted on 15 March 2000) were outstanding. No options have been granted during the six months ended 30 September 2006 under the Pre-IPO Share Option Plan as the right to do so was terminated upon the listing of the Company on the GEM.

Details of the movements in the number of outstanding Pre-IPO share options during the six months ended 30 September 2006 are set out below:

<b>Type of grantees</b>	<b>As at 1 April 2006</b>	<b>Lapsed during the six months</b>	<b>Adjusted due to Share Consolidation</b>	<b>As at 30 September 2006</b>
Employees	<u>3,390,000</u>	<u>(420,000)</u> <i>(note 1)</i>	<u>(2,673,000)</u> <i>(note 2)</i>	<u>297,000</u>

Notes:

- 1 These options granted to a number of employees were lapsed when they ceased to be employed by the Company.
- 2 The number and exercise price of the outstanding options on 27 July 2006 have been adjusted due to the Share Consolidation of the Company for 10 shares into 1 share with effect from the close of business on 27 July 2006. The exercise price per share before the Share Consolidation was HK\$14.80.
- 3 The exercise period of the Pre-IPO options is from 31 March 2001 to 14 March 2010.
- 4 Options pursuant to the Pre-IPO Share Option Plan may be exercised in accordance with the terms of the scheme as to:
  - a. one quarter of the options (rounded down to the nearest board lot) will be exercisable from 1 April 2001 ("First Exercise Date");
  - b. an additional one eighth of the options (rounded down to the nearest board lot) will be exercisable after the expiry of each successive six-month period from the First Exercise Date; and
  - c. the balance of the options exercisable after the expiry of a period of 48 months from 1 April 2001.
- 5 Up to 30 September 2006, no options under the Pre-IPO Share Option Plan have been exercised or cancelled.

**(b) 2000 Share Option Scheme**

As at 30 September 2006, options comprising an aggregate of 297,000 underlying shares to subscribe for shares in the Company at an exercise price of HK\$5.30 per share (granted on 23 August 2000) were outstanding. No options have been granted during the six months ended 30 September 2006 under the 2000 Share Option Scheme.

Details of the movements in the number of outstanding options under the 2000 Share Option Scheme during the six months ended 30 September 2006 are set out below:

Type of grantees	As at 1 April 2006	Lapsed during the six months	Adjusted due to Share Consolidation	As at 30 September 2006
Employees	<u>3,390,000</u>	<u>(420,000)</u> <i>(note 1)</i>	<u>(2,673,000)</u> <i>(note 2)</i>	<u>297,000</u>

Notes:

1. These options granted to a number of employees were lapsed when they ceased to be employed by the Company.
2. The number and exercise price of the outstanding options on 27 July 2006 have been adjusted due to the Share Consolidation of the Company for 10 shares into 1 share with effect from the close of business on 27 July 2006. The exercise price per share before the Share Consolidation was HK\$0.53.
3. The exercise period of the share options under the 2000 Share Option Scheme is from 31 March 2001 to 23 August 2010.
4. Options pursuant to the 2000 Share Option Scheme may be exercised in accordance with the terms of the relevant scheme which are the same as those of the Pre-IPO Share Option Plan set out in Note 4 of the subsection headed "Pre-IPO Share Option Plan" above.
5. Up to 30 September 2006, no options under the 2000 Share Option Scheme have been exercised or cancelled.

During the six months ended 30 September 2006, none of the Directors and employees of the Company or its subsidiaries was granted options to subscribe for shares in the Company.

*Valuation of share options*

No share option had been granted during the six months ended 30 September 2006 and thus the valuation of share options as set out in Rule 23.08 is not applicable to the Company for the period.

## **DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE**

No contracts of significance to which the Company, any of its holding companies, fellow subsidiaries or subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the period or at any time during the period.

## **CORPORATE GOVERNANCE REPORT**

### **Corporate Governance Practices**

- (i) The Company is committed to achieving high standards of Corporate Governance and follows the principles set out in the Code on Corporate Governance Practices for GEM listed companies as set out in Appendix 15 of the GEM Listing Rules (the "Code") which came into effect in January 2005, and replaced the "Board Practices and Procedures" as set out in Rules 5.34 to 5.45 of the GEM Listing Rules.
- (ii) The Company meets the code provisions set out in the Code.
- (iii) The Company has not had any deviations from the code provisions as set out in the Code, except for not splitting the roles of chairman and chief executive officer as detailed below.

### **Directors' Securities Transactions**

The Group has adopted stringent procedures governing directors' securities transactions in compliance with Rules 5.48 to 5.67 of the GEM Listing Rules. Relevant employees who are likely to be in possession of unpublished price-sensitive information of the Group are also subject to compliance with guidelines on no less exacting terms than those set out in the Rules. No incidence of non-compliance was noted for the six-month period ended 30 September 2006.

### **Board Composition**

- (i) The Board currently comprises two executive Directors and three non-executive Directors. The non-executive Directors are with a wide range of experience and calibre, bringing valuable judgment on issues of strategy, performance and resources.
- (ii) The principal roles of the Board are to oversee the Company's strategic development, to approve the Company's objectives, strategies, policies, business plans and to monitor the operating and financial performance of the Group. The Board also reviews and approves the quarterly and annual reports of the Company.

- (iii) The Company has complied with Rules 5.05(1) and (2) of the GEM Listing Rules relating to the appointment of sufficient number of independent non-executive Directors and one of them has appropriate professional qualifications or accounting or related financial management expertise.
- (iv) The Company considers that each of the independent non-executive Directors are independent in accordance with the guidelines for assessing independence set out in Rule 5.09 of the GEM Listing Rules.
- (v) The Company considers that there is no relationship (including financial, business, family or other material/relevant relationship) among the members of the Board.

#### **Chairman and Chief Executive Officer**

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

#### **Non-executive Directors**

The non-executive Directors are appointed for a specific term. All Directors appointed to fill a casual vacancy are subject to election by shareholders at the first general meeting after their appointment and every Director is subject to retirement by rotation at least once every three years.

#### **Board Process**

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

### **Audit Committee**

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

### **Remuneration Committee**

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



### **Compliance with the Code**

The Board has reviewed the Company's corporate governance practices and is satisfied that the Company has full compliance with the Code as set out in Appendix 15 of the GEM Listing Rules for the six-month period ended 30 September 2006.

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

Hong Kong, 10 November 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