



iMerchants Limited

Third 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.

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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 profit for the nine months ended 31 December 2006 was approximately HK\$6,353,000, compared to the unaudited consolidated profit of approximately HK\$7,737,000 of the Group for the corresponding nine-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 been very successful 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 1.85 million as of 31 December 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.

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 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 continues to be in a healthy financial position with current assets plus financial investments and deposits totaling approximately HK\$212 million (31 March 2006: approximately HK\$209 million) and there was no bank borrowing as at 31 December 2006.

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 due diligence reviews, iMerchants will consider to invest 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 cannot 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 nine months ended 31 December 2006, the Group's turnover was HK\$88,000 which 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 HK\$6,353,000 for the nine months ended 31 December 2006, compared to a net profit of HK\$7,737,000 for the corresponding period in 2005. The profit is mainly attributable to the increase in fair values of iMerchants' treasury investments during the last three quarters.

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 nine months ended 31 December 2006 together with the comparative unaudited figures for the corresponding periods in 2005 as follows:

| | Notes | Three months ended | | Nine months ended | |
|--|-------|--------------------|-----------|-------------------|-----------|
| | | 31 December | | 31 December | |
| | | 2006 | 2005 | 2006 | 2005 |
| | | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Turnover | 2 | - | 88 | 88 | 300 |
| Other income | | 1,385 | 1,764 | 5,139 | 5,784 |
| Net realized and unrealized gain on listed trading securities | | 10,916 | 1,957 | 9,125 | 9,082 |
| Staff costs | | (902) | (1,019) | (3,114) | (3,378) |
| Depreciation | | (76) | (47) | (244) | (267) |
| Other operating expenses | | (1,654) | (962) | (4,641) | (3,784) |
| Profit before taxation | 3 | 9,669 | 1,781 | 6,353 | 7,737 |
| Taxation | 4 | - | - | - | - |
| Profit for the period attributable to equity holders of the Company | | 9,669 | 1,781 | 6,353 | 7,737 |
| Earnings per share - basic and diluted | 5 | 8.34 cent | 1.53 cent | 5.48 cent | 6.67 cent |

Notes

1. Basis of preparation

The unaudited financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). In addition, the financial statements include 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. Profit before taxation

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

| | Nine months ended | |
|---|-------------------|----------|
| | 31 December | |
| | 2006 | 2005 |
| | HK\$'000 | HK\$'000 |
| Operating lease charges in respect of rented premises | 795 | 816 |
| Staff costs | | |
| Salaries and allowances | 3,003 | 3,403 |
| Long service payments | 148 | 80 |
| Net contributions (refund) resulted from forfeiture of contributions of retirement benefits schemes | (37) | (105) |
| | 3,114 | 3,378 |
| Unrealized loss on a held-for-trading investment | 467 | - |
| Interest income from bank deposits | (513) | (350) |
| Interest income from debt securities | (2,329) | (3,207) |
| Dividends from listed securities | (1,851) | (2,012) |
| Rental income | (266) | (215) |
| Sundries | (180) | - |

4. 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.

5. Earnings per share

The calculation of the basic and diluted earnings per share for the three months and the nine months ended 31 December 2006 is based on the profit of the Group of approximately HK\$9,669,000 (2005: profit of approximately HK\$1,781,000) and approximately HK\$6,353,000 (2005: profit of approximately HK\$7,737,000), respectively, and on the weighted average number of ordinary shares of 115,893,841 (2005: 116,138,200 (adjusted for the Share Consolidation)).

The computation of diluted 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 nine months ended 31 December 2005 and the nine months ended 31 December 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.

6. Interim dividend

The Directors do not recommend the payment of an interim dividend for the nine months ended 31 December 2006 (2005: Nil).

7. Movements of reserves

| | Special | Share | Capital | Investment | Investment | | Total | |
|---|----------------|-------------------|---------------|-------------------|--------------------|--------------------|----------------|---------------|
| | capital | premium | Negative | Merger | revaluation | Accumulated | | |
| | reserve | | goodwill | reserve | reserve | losses | | |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | 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 | - | - | - | - | - | (2,541) | - | (2,541) |
| 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 period | - | - | - | - | - | - | 7,737 | 7,737 |
| At 31 December 2005 | <u>60,592</u> | <u>-</u> | <u>-</u> | <u>409</u> | <u>45,918</u> | <u>(1,333)</u> | <u>(6,606)</u> | <u>98,980</u> |
| | Special | Capital | | Investment | | | | |
| | capital | redemption | | Merger | revaluation | Accumulated | | |
| | reserve | reserve | | reserve | reserve | profit | Total | |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | 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 | - | - | - | 2,380 | - | | 2,380 | |
| Release of investment revaluation reserve upon maturity of an available-for-sale investment | - | - | - | 131 | - | | 131 | |
| Final dividend for 2005/06 | - | - | - | - | (2,321) | | (2,321) | |
| Share repurchases | - | 606 | - | - | (603) | | 3 | |
| Profit for the period | - | - | - | - | 6,353 | | 6,353 | |
| At 31 December 2006 | <u>60,592</u> | <u>1,015</u> | <u>45,918</u> | <u>485</u> | <u>5,800</u> | | <u>113,810</u> | |

8. Pledge of assets

At 31 December 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:

| | 31 December 2006 HK\$'000 | 31 March 2006 HK\$'000 |
|----------------------------------|--|------------------------------|
| Available-for-sale investments | 22,818 | 19,652 |
| Derivative financial instruments | 14,612 | 15,268 |
| Held-for-trading investments | 36,469 | 18,725 |
| | 73,899 | 53,645 |

At 31 December 2006, the Group had no outstanding balance with any financial institution.

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

During the nine months ended 31 December 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 |
| | <u>1,306,000</u> | | | <u>130,600</u> |
| <i>After Share Consolidation</i> | | | | |
| 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 |
| November 2006 | 186,000 (HK\$1.00 each) | 0.98 | 0.98 | 182,280 |
| | <u>474,600</u> | | | <u>470,740</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.

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 31 December 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 <i>(Note)</i> | 75,838,100 | 65.64% |
| 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 31 December 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 31 December 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 | 5.03% |

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 31 December 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 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.

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 as set out in Appendix 15 of the GEM Listing Rules for the nine-month period ended 31 December 2006.

By order of the Board

Leroy Kung Lin Yuen

Chairman

Hong Kong, 14 February 2007

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