# iMerchants Limited

## Annual Report 2006-2007

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.*

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### 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

### AUDITOR

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.
Wing Hang Bank, Limited

## FINANCIAL HIGHLIGHTS

iMerchants Limited presents its audited financial results for the year ended 31 March 2007. For that year, the Group reported an audited consolidated profit of approximately HK$2,403,000 compared to the consolidated profit of approximately HK$16,714,000 in the previous year. The Board of Directors recommends the payment of a final dividend of HK 2 cents per share for the year ended 31 March 2007.

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$211 million without any bank borrowings.

## BUSINESS DEVELOPMENT

iMerchants continues to identify suitable investments in technology companies. Our current portfolio of venture investments encompasses companies in Hong Kong and Japan. Amongst our portfolio companies, eBANK Corporation in Japan ("eBANK") has just exceeded 2 million customers and remains to the be one of the top internet banks in Asia. e.Energy Lighting Limited ("e.Energy") is entering into a production partnership with Delta Electronics, Inc. which is a Taiwan-listed corporation and a global leader in power electronics. With this partnership, the quality of e.Energy's products is expected to improve significantly. NET Alliance and she.com continue to record steady results.

For the financial year ended 31 March 2007, iMerchants recorded a net profit of approximately HK$2,403,000. Net assets of the Group grew from approximately HK$223,403,000 as at 31 March 2006 to approximately HK$224,805,000 as at 31 March 2007, of which approximately 94% of the amount being current assets plus investments in financial investments and bank deposits.

## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

iMerchants continues to be in a healthy financial situation with current assets plus financial investments and deposits totaling approximately HK$211 million (31 March 2006: approximately HK$209 million) and no bank borrowings as at 31 March 2007. As 9.2% of this total consists of bank balances, deposits and cash, and financial investments account for a further 90.1% 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 about identifying investments in technology ventures, 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 2007.

The Group has no trade receivables as at 31 March 2007. As of 31 March 2007, approximately 10% of iMerchants' cash and bank balances and financial investments were denominated in Hong Kong dollars, approximately 78% in US dollars, approximately 11% 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 2007 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 31 March 2007 (31 March 2006: Nil). As at 31 March 2007, one of the Company's subsidiaries pledged financial investments of approximately HK$71,897,000 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*

On 13 June 2006, the Company proposed that every ten issued and unissued shares of HK$0.10 each in the capital of the Company be consolidated into one Consolidated Share of HK$1.00 each (the "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 did 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, 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 intends to hold the equity interest as a long term investment.

The Group invested in e.Energy on 3 April 2006 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. However, e.Energy's recent performance had not been hitting its financial targets and the company requires more time to research and enhance its technology and products. Based on e.Energy's management accounts as at 31 March 2007, we noted that e.Energy was at a net liability position. Having discussed with an independent professional valuer, the Group made a full allowance for the convertible bond. At the moment, e.Energy is entering into a production partnership with Delta Electronics Inc., which brings in significant in-house expertise in electrical and electronic engineering. With this partnership and support from the scholars of City University, it is believed that e.Energy would be able to improve its technology and products to the market and expand its business at a satisfactory pace.

iMerchants retains its investment of approximately HK$4,000,000 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 2007, iMerchants had financial investments with fair values of approximately HK$190 million (31 March 2006: approximately HK$188 million). The management will continue its conservative approach and intends to hold these financial investments on a long-term basis. In general, the investment portfolio 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 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.

During the year ended 31 March 2007, the Directors consider investments in securities as well as financial and investment products being principal activities of the Group. For the year ended 31 March 2007, the Group's turnover was approximately HK$93,776,000 which was comprised of income from contracts of information technology consultancy services and revenue from investments, compared to a restated turnover of approximately HK$119,671,000 for the year ended 31 March 2006. The turnover does not include the turnovers of iMerchants' other venture investments in which iMerchants holds minority interests.

Income in this financial year includes net fair value changes on listed trading securities of approximately HK$10,399,000 (2006: approximately HK$17,927,000) which are subject to short term volatility. As most of the financial investments in our portfolio are either blue-chip or big-cap stocks or well-managed funds and we intend to hold them for the long term, we believe the fair values of these investments will increase gradually in the long run. The decrease in this income category mainly arose from the short term volatility of the global investment market. The management takes a conservative approach towards the treasury investments and is aiming at a balanced risk versus return from investing.

The Group generated a net profit of approximately HK$2,403,000 for the year ended 31 March 2007, compared to a net profit of approximately HK$16,714,000 for the year ended 31 March 2006. The decrease in net profit is largely attributable to the performance of the treasury investments mentioned in the above paragraph, and a provision made for the Group's investment in a convertible bond issued by e.Energy. e.Energy's performance had not been hitting its financial targets and the company requires more time to enhance its technology and expand its sales channel. Our management has worked closely with them to assist in developing their business. The provision was made in accordance with the advice of an independent professional valuer.

## 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 2007, iMerchants on the group level employed 7 staff (31 March 2006: 8) 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 2007, iMerchants' total remuneration expenses, including contributions to the Mandatory Provident Fund, were approximately HK$4.4 million (2006: approximately HK$4.6 million).

iMerchants has introduced share option schemes to recognize the contributions of its employees to the development of iMerchants. As of 31 March 2007, a total of 594,000 share options remained outstanding (31 March 2006: 6,780,000 (before the Share Consolidation)). None had been exercised during the financial year.

## COMMENTARY ON SEGMENTAL INFORMATION

*Geographical segments*

The geographical location of the Group's financial and investment products can be categorized into (i) North America; (ii) Europe; (iii) Australia; (iv) Japan; (v) Asia Pacific (other than Japan); and (vi) other regions. Details of results by geographical segments are shown in note 3 to the section headed "Results" below.

*Business segments*

The Group principally engages in investments in financial and investment products. Neither assets nor revenue from provision of information technology services and technology venture investments contribute 10% or more to the Group's total assets and revenue respectively, accordingly no analysis by business is presented.

**Leroy Kung Lin Yuen**
*Chairman*

Hong Kong, 29 June 2007

## 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 applied the principles and complied with all the applicable code provisions of 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 for the year ended 31 March 2007, save as the deviation as disclosed in section 4 regarding Code Provision A.2.1.

## 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 2007.

## 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

*Independent non-executive Directors:*
Mr. Kenneth Tseung Yuk Hei
Mr. Matthew P. Johnston
Mr. Ronny Chow Fan Chim

According to Article 120 of the Company's Articles of Association, one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest one-third, shall retire from office by rotation at every general meeting of the Company provided that every Director shall be subject to retirement by rotation at least once every three years. The Directors to retire in every year shall be those who have been longest in office since their last election but as between persons who became Directors on the same day those to retire shall (unless they otherwise agree between themselves) be determined by lot. The retiring Directors shall be eligible for re-election.

In accordance with Article 120, Mr. Leroy Kung Lin Yuen ("Mr. Kung") and Mr. Kenneth Tseung Yuk Hei shall retire from their office as Directors by rotation at the forthcoming annual general meeting. Being eligible, Mr. Kung will offer himself for re-election as executive Director, and Mr. Kenneth Tseung Yuk Hei will offer himself for re-election as independent non-executive Director.

**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 2007, 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. Kung | 4/4 | | 1/1 |
| Ms. Lena Foo | 4/4 | | |
| Mr. Kenneth Tseung Yuk Hei | 2/4 | 2/4 | 1/1 |
| Mr. Matthew P. Johnston | 4/4 | 4/4 | 1/1 |
| Mr. Ronny Chow Fan Chim | 4/4 | 4/4 | 1/1 |

**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 who 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 independent 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 auditor by reference to the work performed by the auditor, the fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of the external auditor.

The Audit Committee meets four times per annum to review with senior management and once a year with the Company's auditor 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 auditor.

The Company's annual audited results for the year ended 31 March 2007 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. Kung 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 2007.

## 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; and

- 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. INDEPENDENT NON-EXECUTIVE DIRECTORS

The Board currently has three independent non-executive Directors. One of them holds appropriate professional qualifications, or accounting or related financial management expertise under Rule 5.05(2) of the GEM Listing Rules. All the independent non-executive Directors of the Company have been appointed for a specific term and are subject to retirement by rotation and re-election in accordance with the Company's Articles of Association.

Each of the independent non-executive Directors has given the Company an annual confirmation of independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company considers that all the independent non-executive Directors are independent and meet the independent guidelines set out in Rule 5.09 of the GEM Listing Rules.

## 6. RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS AND AUDITOR'S 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 2007.

The statement of the external auditor of the Company about the reporting responsibilities on the financial statements is set out in the "Independent Auditor's Report" in this annual report.

The remuneration of the external auditor of the Company in respect of audit services for the year ended 31 March 2007 amounted to HK$500,000. In addition, the external auditor charged approximately HK$12,000 for services rendered in connection with the Company's Share Consolidation. The Tax Services Department of the Company's external auditor provided tax services to the Company and its subsidiaries for the year ended 31 March 2007 for fees totaling HK$23,000.

## 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 the senior management on the Group's corporate governance practices and also on the review by the Board on the effectiveness of the Group's internal control systems covering financial, operational and risk management controls, the Board is satisfied that during the financial year ended 31 March 2007:

- 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;

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

- The Group's internal control systems are adequate and effective and the Group has complied with the code provisions on internal control of the Code on Corporate Governance Practices.

## 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 2007)** ***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 | **134** |
| Total | 325 | **280** |

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 Asia Pacific 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 and Chief Executive Officer (CEO):** As founder and CEO of the Group, Mr. Kung, aged 40, 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 42, 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 20 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 38, 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 41, is the managing director of ABN AMRO's M&A/ECM ("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 and ABN AMRO in 2004, 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 35, 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 39, 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 2007.

## 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, technology venture investments, as well as investment in securities and various financial and investment products.

## SUBSIDIARIES AND ASSOCIATE

Details of the Company's subsidiaries and an associate as at 31 March 2007 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 2007 are set out in the consolidated income statement on page 26 of the annual report.

The Directors now recommend the payment of a final dividend of HK2 cent per ordinary share for the year ended 31 March 2007 to the shareholders on the register of members of the Company as at 3 August 2007, payable on about 27 August 2007.

## 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 movements in the share capital of the Company during the year are set out in note 22 to the financial statements. 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 ("Share Consolidation"). The authorised share capital of the Company will remain at HK$800,000,000 but divided into 800,000,000 consolidated share of HK$1.00 each. The Share Consolidation took effect on 28 July 2006.

During the year, the Company repurchased certain of its own shares through The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), details of which are set out in note 22 to the financial statements. The Directors considered that, as the Company's shares were trading at a discount to the net asset value per share, the repurchases would increase the net asset value per share of the Company.

## 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 2007, the reserves of the Company available for distribution to shareholders were approximately HK$108,257,000, comprising special capital reserve of HK$60,592,000, contributed surplus of HK$31,104,000 and accumulated profits of HK$16,561,000.

## FINANCIAL SUMMARY

A summary of the results of the Group for the past five financial years is set out on page 67 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

*Independent non-executive Directors:*
Mr. Kenneth Tseung Yuk Hei
Mr. Matthew P. Johnston
Mr. Ronny Chow Fan Chim

In accordance with Article 120 of the Company's Articles of Association, Mr. Leroy Kung Lin Yuen ("Mr. Kung") and Mr. Kenneth Tseung Yuk Hei retire from their office by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Mr. Kung 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 independent non-executive Director is up to 31 March 2008 subject to his retirement by rotation and re-election 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 2007, 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 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$1.00 each of the Company

| | Number of 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. Kung | – | 75,838,100 *(Note)* | 75,838,100 | 66.39% |
| 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, at 31 March 2007, 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 2007, 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$1.00 each of the Company

| Name | Capacity | Number of ordinary shares in the Company held | Percentage of issued share capital of the Company |
|---|---|---|---|
| GEM Global Yield Fund Ltd. | Beneficial owner | 5,812,500 | 5.09% |

### 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$1.00 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 2007, 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$1.00 each in the Company granted under the Company's share option schemes during the year are set out in note 24 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

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 less than 30% of the turnover of the Group.

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 7 to 13 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 24 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 27 to the financial statements.

## DONATIONS

During the year, the Group made charitable and other donations amounting to HK$63,000.

## 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.

## AUDITOR

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

On behalf of the Board

**Leroy Kung Lin Yuen**
*CHAIRMAN*

Hong Kong, 29 June 2007

**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 (collectively referred to as the "Group") set out on pages 26 to 66 which comprise the consolidated and Company's balance sheet as at 31 March 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

**Directors' responsibility for the financial statements**

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**Auditor's responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong 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. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements give a true and fair view of the state of the affairs of the Company and of the Group as at 31 March 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong

29 June 2007

| | NOTES | **2007** HK$'000 | 2006 HK$'000 |
|---|---|---|---|
| Turnover | 5 | **93,776** | 119,671 |
| Investment income | | **3,436** | 5,179 |
| Revenue from contracts of information technology consultancy services | | **88** | 648 |
| Net (loss) gain on disposal of debt securities | | **(131)** | 1,515 |
| Net fair value change on listed trading securities | | **10,399** | 17,927 |
| Increase in fair values of financial assets at fair value through profit or loss | | **1,601** | 1,020 |
| Other income | 7 | **1,216** | 807 |
| Staff costs | 8 | **(4,456)** | (4,576) |
| Depreciation | | **(316)** | (303) |
| Allowance for a convertible bond | 9 | **(2,672)** | – |
| Other operating expenses | | **(6,762)** | (5,503) |
| Profit before taxation | 9 | **2,403** | 16,714 |
| Taxation | 13 | **–** | – |
| Profit for the year attributable to equity holders of the Company | | **2,403** | 16,714 |
| Earnings per share | 14 | | |
| – Basic and diluted | | **HK 2.1 cents** | HK 14.4 cents |
| Dividends | | | |
| – Proposed dividend | 12 | **2,265** | 2,323 |
| – Dividend paid | 12 | **2,320** | – |

| | NOTES | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | *15* | **220** | 516 |
| Interest in an associate | *17* | **4,000** | 3,912 |
| Available-for-sale investments | *18* | **10,500** | 10,500 |
| Bank deposit | *21* | **–** | 7,800 |
| | | **14,720** | 22,728 |
| CURRENT ASSETS | | | |
| Other receivables | *21* | **1,422** | 1,909 |
| Financial assets at fair value through profit or loss | *19* | **39,988** | 40,060 |
| Available-for-sale investments | *18* | **23,215** | 19,652 |
| Held-for-trading investments | *20* | **126,983** | 127,901 |
| Bank deposits | *21* | **7,800** | 1,004 |
| Bank balances and cash | *21* | **11,712** | 10,889 |
| | | **211,120** | 201,415 |
| CURRENT LIABILITIES | | | |
| Other payables | *21* | **1,035** | 740 |
| NET CURRENT ASSETS | | **210,085** | 200,675 |
| | | **224,805** | 223,403 |
| CAPITAL AND RESERVES | | | |
| Share capital | *22* | **114,237** | 116,139 |
| Reserves | | **110,568** | 107,264 |
| Equity attributable to equity holders of the Company | | **224,805** | 223,403 |

The financial statements on pages 26 to 66 were approved and authorised for issue by the Board of Directors on 29 June 2007 and are signed on its behalf by:

**Leroy Kung Lin Yuen**
*DIRECTOR*

**Lena Foo**
*DIRECTOR*

| | NOTES | **2007** HK$'000 | 2006 HK$'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Investments in subsidiaries | 16 | **33,164** | 33,164 |
| Interest in an associate | 17 | **4,000** | 4,000 |
| Bank deposit | 21 | **–** | 7,800 |
| | | **37,164** | 44,964 |
| CURRENT ASSETS | | | |
| Amounts due from subsidiaries | 16 | **182,087** | 181,949 |
| Other receivables | 21 | **132** | 134 |
| Bank deposit | 21 | **7,800** | – |
| Bank balances | 21 | **460** | 401 |
| | | **190,479** | 182,484 |
| CURRENT LIABILITIES | | | |
| Other payables | 21 | **–** | 29 |
| Amounts due to subsidiaries | 16 | **2,838** | 4,116 |
| | | **2,838** | 4,145 |
| NET CURRENT ASSETS | | **187,641** | 178,339 |
| | | **224,805** | 223,303 |
| CAPITAL AND RESERVES | | | |
| Share capital | 22 | **114,237** | 116,139 |
| Reserves | 23 | **110,568** | 107,164 |
| | | **224,805** | 223,303 |

**Leroy Kung Lin Yuen**
*DIRECTOR*

**Lena Foo**
*DIRECTOR*

| | Share capital HK$'000 | Share premium HK$'000 | Capital redemption reserve HK$'000 | Merger reserve HK$'000 (note b) | Investment revaluation reserve HK$'000 | Special capital reserve HK$'000 | Accumulated (losses) profits HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|
| | **Attributable to equity holders of the Company** | | | | | | | |
| At 1 April 2005 | 116,139 | 207,130 | 409 | 45,918 | 1,208 | – | (160,881) | 209,923 |
| Loss on fair value changes of available-for-sale investments recognised directly in equity | – | – | – | – | (1,561) | – | – | (1,561) |
| 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 |
| Gain on fair value changes of available-for-sale investments recognised directly in equity | – | – | – | – | 1,147 | – | – | 1,147 |
| Release of investment revaluation reserve upon disposals of available-for-sale investments | – | – | – | – | 2,026 | – | – | 2,026 |
| Profit for the year | – | – | – | – | – | – | 2,403 | 2,403 |
| | – | – | – | – | 2,026 | – | 2,403 | 4,429 |
| Total recognised income for the year | – | – | – | – | 3,173 | – | 2,403 | 5,576 |
| Dividends paid | – | – | – | – | – | – | (2,320) | (2,320) |
| Repurchase of shares | (1,902) | – | 1,902 | – | – | – | (1,854) | (1,854) |
| | (1,902) | – | 1,902 | – | – | – | (4,174) | (4,174) |
| **At 31 March 2007** | **114,237** | **–** | **2,311** | **45,918** | **1,147** | **60,592** | **600** | **224,805** |

*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.

| | 2007 | 2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Operating activities | | |
| Profit before taxation | **2,403** | 16,714 |
| Adjustments for: | | |
| Depreciation | **316** | 303 |
| Dividends from listed securities | **(2,114)** | (2,507) |
| Loss on disposal of property, plant and equipment | **1** | 1 |
| Net loss (gain) on disposal of debt securities | **131** | (1,515) |
| Increase in fair values of financial assets at fair value through profit or loss | **(1,601)** | (1,020) |
| Interest income from bank deposits | **(603)** | (442) |
| Interest income from debt securities | **(1,322)** | (2,672) |
| Recognition of unrealised gain eliminated on consolidation in prior years for consultancy and software development services rendered to an associate | **(88)** | (351) |
| Decrease in fair value of conversion option embedded in a convertible bond acquired | **1,328** | – |
| Allowance for a convertible bond | **2,672** | – |
| Operating cash flows before movements in working capital | **1,123** | 8,511 |
| Decrease (increase) in held-for-trading investments | **918** | (37,307) |
| Increase in financial assets at fair value through profit or loss | **–** | (15,600) |
| (Increase) decrease in available-for-sale investments | **(521)** | 21,005 |
| Decrease in equity securities sold, but not yet purchased | **–** | (337) |
| Decrease in other receivables | **487** | 86 |
| Increase (decrease) in other payables | **295** | (345) |
| Interest received from debt securities and equity linked deposits | **2,995** | 4,590 |
| Dividends received | **2,114** | 2,507 |
| Cash from (used in) operation | **7,411** | (16,890) |
| Interest received from bank deposits | **603** | 442 |
| Net cash from (used in) operating activities | **8,014** | (16,448) |

| | **2007** | 2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Investing activities | | |
| Purchases of a convertible bond | **(4,000)** | – |
| Purchases of property, plant and equipment | **(21)** | (110) |
| Proceeds from disposal of property, plant and equipment | **–** | 3 |
| Net cash used in investing activities | **(4,021)** | (107) |
| Financing activities | | |
| Dividend paid | **(2,320)** | – |
| Repurchase of shares | **(1,854)** | – |
| Cash used in financing activities | **(4,174)** | – |
| Net decrease in cash and cash equivalents | **(181)** | (16,555) |
| Cash and cash equivalents at beginning of the year | **11,893** | 28,448 |
| Cash and cash equivalents at end of the year | **11,712** | 11,893 |
| Being: | | |
| Short-term bank deposits | **–** | 1,004 |
| Bank balances and cash | **11,712** | 10,889 |
| | **11,712** | 11,893 |

## 1. GENERAL

The Company is a public limited company incorporated in Hong Kong with its shares being listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its immediate holding company 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 functional currency of the Company is United States Dollars ("US$"), the currency of the primary economic environment in which the Group operates. For the purpose the financial statements and conveniences of financial statements users, the results and financial position of the Group are presented in Hong Kong Dollars.

The Company is an investment holding company. The principal activities of its subsidiaries are the provision of information technology services, technology venture investments, as well as investment in securities and various financial and investment products.

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied, for the first time, a number of new standard, amendments and interpretations (the "New HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are either effective for accounting periods beginning on or after 1 December 2005, 1 January 2006 or 1 March 2006. The adoption of the New HKFRSs has had no material effect on how the results and financial position for the current or prior accounting years are prepared and presented. Accordingly, no prior year adjustment has been required.

The Group has not early applied the following new standards, amendment or interpretations that have been issued but are not yet effective. The Directors of the Company anticipate that the application of these new standards, amendment or interpretations will have impact on the presentation of operating segments but will have no material impact on the results and the financial position of the Group.

| | |
|---|---|
| HKAS 1 (Amendment) | Capital Disclosures[1] |
| HKAS 23 (Revised) | Borrowing Costs[2] |
| HKFRS 7 | Financial Instruments: Disclosures[1] |
| HKFRS 8 | Operating Segments[2] |
| HK(IFRIC)-Int 8 | Scope of HKFRS 2[3] |
| HK(IFRIC)-Int 9 | Reassessment of Embedded Derivatives[4] |
| HK(IFRIC)-Int 10 | Interim Financial Reporting and Impairment[5] |
| HK(IFRIC)-Int 11 | HKFRS 2 - Group and Treasury Share Transactions[6] |
| HK(IFRIC)-Int 12 | Service Concession Arrangements[7] |

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

[1] Effective for annual periods beginning on or after 1 January 2007.
[2] Effective for annual periods beginning on or after 1 January 2009.
[3] Effective for annual periods beginning on or after 1 May 2006.
[4] Effective for annual periods beginning on or after 1 June 2006.
[5] Effective for annual periods beginning on or after 1 November 2006.
[6] Effective for annual periods beginning on or after 1 March 2007.
[7] Effective for annual periods beginning on or after 1 January 2008.

## 3. 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 HKICPA. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the GEM and by the Hong Kong Companies Ordinance.

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company ("its subsidiaries") made up to 31 March each year. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

Revenue is measured at the fair value of the consideration received and receivable.

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.

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

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 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 consolidated 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 taxable profit nor the accounting profit.

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.

### Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated 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 consolidated 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. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivables during the year.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Investments in associates**

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

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 net assets 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.

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

**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.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Financial assets** *(continued)*

*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.

LIBOR range accrual notes and equity linked notes have been designated at fair value through profit or loss upon initial recognition as they contained embedded derivatives which are not closely related to the host contracts.

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.

*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 other receivables, amounts due from subsidiaries, bank deposits, bank balances and convertible bond) 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Financial assets** *(continued)*

*Available-for-sale financial assets (continued)*

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 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.

**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.

*Financial liabilities*

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

*Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities.

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

**Derivative financial instruments**

Derivative financial instruments are initially measured at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date.

*Embedded derivatives*

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**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 each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognised in profit or loss, with a corresponding adjustment to share options reserve.

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.

With respect to the share options granted on or after 7 November 2002 and vested before 1 January 2005, the Group did not recognise the financial effect of these share options until they are exercised. Upon exercise of share option, it is accounted for as equity instrument of the Company (see accounting policy above).

**Impairment**

At each balance sheet date, the Group reviews the carrying amounts of its 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.

**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.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Foreign currencies** *(continued)*

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.

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease.

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 when employees have rendered service entitling them to the contributions.

## 4. FINANCIAL INSTRUMENTS

### FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's financial instruments include equity and debt investments, LIBOR range accrual notes and equity linked notes, other receivables, bank deposits, bank balances 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.

## 4. FINANCIAL INSTRUMENTS *(continued)*

### Credit risk

The credit risk on LIBOR range accrual notes and equity linked notes 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.

### Market risk

*Price risk*

The Group's held-for-trading investments are measured at fair value at each balance sheet date. Therefore, the Group is exposed to price risk on equity securities. 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.

*Fair value interest rate risk*

The Group's fair value interest rate risk relates to the bank deposit with a fixed term of four years, LIBOR range accrual notes, equity linked notes as well as debt securities.

The Group manages its interest rate exposure based on the interest rate level and outlook as well as potential impact on the Group's financial position arising from volatility. The management will consider hedging significant interest rate exposure should the need arise.

*Cash flow interest rate risk*

The Group's cash flow interest rate risk relates to bank balances carried at prevailing market rate. However, such exposure is minimal to the Group as the bank balances are all short-term in nature.

## 5. TURNOVER

Turnover represents revenue generated from contracts of information technology consultancy services as well as revenue from investments, and is analysed as follows:

| | **2007** | 2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Interest income from debt securities | **1,322** | 2,672 |
| Dividends from listed securities | **2,114** | 2,507 |
| Proceeds from debt securities | **21,000** | 30,847 |
| Proceeds from held-for-trading investments | **61,452** | 79,097 |
| Proceeds from financial assets at fair value through profit or loss | **7,800** | 3,900 |
| Revenue from investments | **93,688** | 119,023 |
| Revenue from contracts of information technology consultancy services | **88** | 648 |
| | **93,776** | 119,671 |

During the year ended 31 March 2007, the Directors of the Company consider investments in securities as well as financial and investment products being principal activities of the Group. Comparative figures have been restated to conform with the current year's presentation.

## 6. SEGMENT INFORMATION

### Geographical segments

The following table provides analysis of the Group's turnover by the geographical area:

**Income statement for the year ended 31 March 2007**

| | North America | Europe | Australia | Japan | Asia Pacific (other than Japan) | Other | Total |
|---|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Turnover | **47,447** | **3,557** | **2,537** | **1,613** | **37,275** | **1,347** | **93,776** |
| Segment results | **1,856** | **3,551** | **915** | **(3)** | **4,629** | **445** | **11,393** |
| Other income | | | | | | | **1,216** |
| Depreciation | | | | | | | **(316)** |
| Unallocated corporate expenses | | | | | | | **(9,890)** |
| Profit before taxation | | | | | | | **2,403** |
| Taxation | | | | | | | **–** |
| Profit for the year | | | | | | | **2,403** |

**Income statement for the year ended 31 March 2006**

| | North America | Europe | Australia | Japan | Asia Pacific (other than Japan) | Other | Total |
|---|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Turnover | 79,074 | 5,289 | 425 | 3,622 | 29,286 | 1,975 | 119,671 |
| Segment results | 6,403 | 3,090 | 1,209 | 2,683 | 11,748 | 736 | 25,869 |
| Other income | | | | | | | 807 |
| Depreciation | | | | | | | (303) |
| Unallocated corporate expenses | | | | | | | (9,659) |
| Profit before taxation | | | | | | | 16,714 |
| Taxation | | | | | | | – |
| Profit for the year | | | | | | | 16,714 |

## 6. SEGMENT INFORMATION *(continued)*

### Geographical segments *(continued)*

**Balance sheet as at 31 March 2007**

| | North America HK$'000 | Europe HK$'000 | Australia HK$'000 | Japan HK$'000 | Asia Pacific (other than Japan) HK$'000 | Other HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| Segment assets | **62,728** | **60,866** | **8,819** | **24,187** | **39,755** | **4,331** | **200,686** |
| Unallocated corporate assets | | | | | | | **25,154** |
| Consolidated total assets | | | | | | | **225,840** |
| Segment liabilities | **174** | **-** | **-** | **-** | **-** | **-** | **174** |
| Unallocated corporate liabilities | | | | | | | **861** |
| Consolidated total liabilities | | | | | | | **1,035** |

**Balance sheet as at 31 March 2006**

| | North America HK$'000 | Europe HK$'000 | Australia HK$'000 | Japan HK$'000 | Asia Pacific (other than Japan) HK$'000 | Other HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| Segment assets | 68,715 | 43,936 | 5,210 | 25,196 | 51,375 | 3,787 | 198,219 |
| Unallocated corporate assets | | | | | | | 25,924 |
| Consolidated total assets | | | | | | | 224,143 |
| Segment liabilities | – | – | – | – | – | – | – |
| Unallocated corporate liabilities | | | | | | | 740 |
| Consolidated total liabilities | | | | | | | 740 |

## 6. SEGMENT INFORMATION *(continued)*

**Geographical segments** *(continued)*

*Other information:*

Allowance for a convertible bond of HK$2,672,000 (2006: nil) is attributable to the receivable located in Asia Pacific (other than Japan).

No analysis of capital expenditure and depreciation by location is disclosed for both years as in the opinion of the Directors, there is no appropriate basis in such allocation.

**Business segments**

The Group principally engages in investments in financial and investment products. Neither assets nor revenue from provision of information technology services and technology venture investments contribute 10% or more to the Group's total assets and revenue respectively, accordingly no analysis by business is presented.

## 7. OTHER INCOME

| | **2007** | 2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Interest income from bank deposits | **603** | 442 |
| Rental income | **357** | 285 |
| Sundries | **256** | 80 |
| | **1,216** | 807 |

## 8. STAFF COSTS

| | **2007** | 2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Salaries and allowances | **4,325** | 4,650 |
| Redundancy payments | **148** | 80 |
| Net refund resulted from forfeiture of contributions of retirement benefits schemes | **(17)** | (154) |
| | **4,456** | 4,576 |

## 9. PROFIT BEFORE TAXATION

| | 2007 | 2006 |
|---|---|---|
| | HK$'000 | HK$'000 |
| Profit before taxation has been arrived at after charging: | | |
| Auditor's remuneration | **503** | 418 |
| Loss on disposal of property, plant and equipment | **1** | 1 |
| Operating lease charges in respect of rented premises | **1,078** | 1,083 |
| Net foreign exchange loss | **477** | 312 |
| Decrease in fair value of conversion option embedded in a convertible bond acquired | **1,328** | – |

During the year, the Group entered into the Convertible Bond Sale and Purchase Agreement ("CB Agreement") with e.Energy Lighting Limited ("e.Energy") 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. The Group 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.

At the date of initial recognition, the embedded derivative for the conversion option of the CB amounted to HK$1,328,000, which was determined using Binomial model. The effective interest rate for the loan to e.Energy is 9.38% and the fair value at the inception date was HK$2,672,000. Subsequent to the initial recognition of the CB, e.Energy's performance had not been hitting its financial targets and was at a net liability position at 31 March 2007. In response to the financial difficulty faced by e.Energy and having discussed with an independent professional valuer, the Directors have considered the recoverability of the loan to e.Energy and made an allowance of HK$2,672,000.

## 10. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the five (2006: seven) Directors, which was included in staff cost as set out in note 8 above, were as follows:

| **Name of Director** | **Fees** | **Salaries and other benefits** | **Performance related incentive payments** | **Retirement benefits scheme contributions** | **Total** |
|---|---|---|---|---|---|
| | ***HK$'000*** | ***HK$'000*** | ***HK$'000 (note)*** | ***HK$'000*** | ***HK$'000*** |
| **Mr. Leroy Kung Lin Yuen** | **–** | **1,209** | **100** | **12** | **1,321** |
| **Ms. Lena Foo** | **–** | **883** | **73** | **12** | **968** |
| **Mr. Kenneth Tseung Yuk Hei** | **30** | **–** | **–** | **–** | **30** |
| **Mr. Matthew P. Johnston** | **30** | **–** | **–** | **–** | **30** |
| **Mr. Ronny Chow Fan Chim** | **30** | **–** | **–** | **–** | **30** |
| **Total for 2007** | **90** | **2,092** | **173** | **24** | **2,379** |

| **Name of Director** | **Fees** | **Salaries and other benefits** | **Performance related incentive payments** | **Retirement benefits 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 |

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

**10. DIRECTORS' EMOLUMENTS** *(continued)*

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.

**11. EMPLOYEES' EMOLUMENTS**

Of the five individuals with the highest emoluments in the Group, two (2006: three) were Directors of the Company whose emoluments are included in the disclosures in note 10 above. The emoluments of the remaining three (2006: two) individuals were as follows:

| | **2007** | 2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Salaries and allowances | **1,427** | 1,098 |
| Performance related incentive payments | **188** | 92 |
| Retirement benefit scheme contributions | **36** | 24 |
| | **1,651** | 1,214 |

The emoluments were within the following bands:

| | **Number of employees** | |
|---|---|---|
| | **2007** | 2006 |
| HK$1,000,000 or below | **3** | 2 |

## 12. DIVIDENDS

| | **2007** | 2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Dividends recognised as distributions during the year: | | |
| Final dividend paid in respect of the year ended 31 March 2006 | | |
| – HK 0.2 cents (year ended 31 March 2005: nil) per share | **2,320** | – |
| Proposed: | | |
| Final dividend in respect of the year ended 31 March 2007 | | |
| – HK 2 cents (year ended 31 March 2006: HK0.2 cents) | | |
| per share | **2,265** | 2,323 |

The final dividend of HK 2 cents (2006: HK 0.2 cents) per share has been proposed by the Board of Directors and is subject to approval by the shareholders in the forthcoming 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 subsidiary operated in the People's Republic of China had no assessable profits.

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

| | **2007** | 2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Profit before taxation | **2,403** | 16,714 |
| Taxation at domestic income tax rate of 17.5% | **421** | 2,925 |
| Tax effect of estimated deferred tax assets not recognised | **684** | 375 |
| Tax effect of expenses not deductible for tax purpose | **1,101** | 37 |
| Tax effect of income not taxable for tax purpose | **(2,224)** | (2,512) |
| Tax effect of utilisation of deferred tax assets previously | | |
| not recognised | **–** | (959) |
| Others | **18** | 134 |
| Taxation for the year | **–** | – |

## 13. TAXATION *(continued)*

At 31 March 2007, the Group had unused estimated tax losses and other deductible temporary differences of approximately HK$121,845,000 (2006: HK$118,127,000) and HK$559,000 (2006: HK$368,000) respectively available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. The estimated tax losses may be carried forward indefinitely.

## 14. EARNINGS PER SHARE

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

| | **2007** | 2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Earnings for the purposes of basic and diluted earnings per share | **2,403** | 16,714 |
| | **Number** | Number |
| Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share | **115,699,288** | 116,138,200 |

The calculation of the 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 years.

The weighted average number of ordinary shares for the year ended 31 March 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. The details of the share consolidation are set out in note 22 to the financial statements.

## 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 2005 | 469 | 1,008 | 6,138 | 7,615 |
| Additions | 27 | 16 | 67 | 110 |
| Disposals | – | (5) | (16) | (21) |
| At 31 March 2006 and 1 April 2006 | 496 | 1,019 | 6,189 | 7,704 |
| Exchange adjustments | – | 2 | 10 | 12 |
| Additions | – | 17 | 4 | 21 |
| Disposals | – | (1) | (2) | (3) |
| **At 31 March 2007** | **496** | **1,037** | **6,201** | **7,734** |
| DEPRECIATION | | | | |
| At 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 and 1 April 2006 | 212 | 923 | 6,053 | 7,188 |
| Exchange adjustments | – | 2 | 10 | 12 |
| Provided for the year | 171 | 44 | 101 | 316 |
| Eliminated on disposals | – | – | (2) | (2) |
| **At 31 March 2007** | **383** | **969** | **6,162** | **7,514** |
| CARRYING AMOUNTS | | | | |
| **At 31 March 2007** | **113** | **68** | **39** | **220** |
| At 31 March 2006 | 284 | 96 | 136 | 516 |

## 15. PROPERTY, PLANT AND EQUIPMENT *(continued)*

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 | |
|---|---|---|
| | **2007** | 2006 |
| | ***HK$'000*** | *HK$'000* |
| Unlisted shares, at cost | **31,994** | 31,994 |
| Registered capital, at cost | **1,170** | 1,170 |
| | **33,164** | 33,164 |

Amounts due from and to subsidiaries are unsecured, interest-free and are repayable on demand. In the opinion of the Directors, the carrying amounts approximate to their fair values.

Details of the Company's subsidiaries at 31 March 2007 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 Directly | Indirectly | Principal activities |
|---|---|---|---|---|---|---|
| iMerchants Asia Limited | Incorporated | BVI/ Hong Kong | Ordinary shares US$6,001,000 | 100% | – | Investment holdings, investments in financial and investment products 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% | Inactive |
| 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 | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | ***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) | **–** | – |
| | **4,000** | 3,912 | **4,000** | 4,000 |

Details of the Group's associate at 31 March 2007 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 | 47% | 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.

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

| | **2007** | 2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Total assets | **11,192** | 12,521 |
| Total liabilities | **(2,589)** | (2,401) |
| Net assets | **8,603** | 10,120 |
| Revenue | **9,960** | 11,988 |
| Profit for the year | **3** | 3 |

## 18. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments comprise:

| | THE GROUP | |
|---|---|---|
| | **2007** | 2006 |
| | ***HK$'000*** | *HK$'000* |
| Unlisted securities: | | |
| – Equity securities, at cost | **10,500** | 10,500 |
| – Debt securities with fixed interest of 6.4% and maturity date on 15 August 2007, at fair value | **6,306** | – |
| – Debt securities with fixed interest of 5.8% and maturity date on 15 October 2007, at fair value | **4,396** | – |
| – Debt securities with fixed interest of 5.1% and maturity date on 25 October 2007, at fair value | **6,272** | – |
| – Debt securities with fixed interest of 5.1% and maturity date on 20 December 2007, at fair value | **6,241** | – |
| – Debt securities with fixed interest of 6.5% and maturity date on 1 December 2006, at fair value | **–** | 19,652 |
| Total | **33,715** | 30,152 |
| Analysed for reporting purposes as: | | |
| Non-current assets | **10,500** | 10,500 |
| Current assets | **23,215** | 19,652 |
| | **33,715** | 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 the financial institutions.

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. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | THE GROUP | |
|---|---|---|
| | **2007** | 2006 |
| | ***HK$'000*** | *HK$'000* |
| LIBOR range accrual notes | **25,913** | 24,792 |
| Equity linked notes | **14,075** | 15,268 |
| | **39,988** | 40,060 |

Major terms of the LIBOR range accrual notes outstanding at 31 March 2007:

| **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 outstanding at 31 March 2007:

| **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) | 12 May 2008 | 0% to 31% |

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 LIBOR range accrual notes and equity linked notes are measured at fair value. Their fair values were determined based on the quoted prices provided by the financial institutions at the balance sheet date.

## 20. HELD-FOR-TRADING INVESTMENTS

Held-for-trading investments include:

| | THE GROUP | |
|---|---|---|
| | **2007** | 2006 |
| | ***HK$'000*** | *HK$'000* |
| Listed securities: | | |
| – Equity securities listed in Hong Kong | **16,114** | 28,919 |
| – Equity securities listed elsewhere | **87,312** | 82,889 |
| | **103,426** | 111,808 |
| Hedged funds | **22,578** | 16,093 |
| Mutual funds | **979** | – |
| | **126,983** | 127,901 |

The fair values of the above listed securities and funds are determined based on the quoted market bid prices available on the relevant exchanges and quoted prices provided by the financial institutions, respectively.

## 21. OTHER FINANCIAL ASSETS AND LIABILITIES

### Other receivables

The carrying amounts of the Group's other receivables at 31 March 2007 approximate to their fair values.

### Bank deposits, bank balances and cash

The bank deposit of HK$7,800,000 is fixed for a term of four years and matured in July 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 Company will receive zero percent per annum when 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 effective interest rate is 4.25% per annum.

Bank balances carry interest at market rates which range from 1.80% to 4.68% (2006: 1.71% to 3.68%) per annum. The bank balances that are denominated in Australian Dollars other than the functional currencies of the Group entities amounting to approximately HK$2,146,000 (2006: HK$1,772,000).

The carrying amounts of the Group's bank deposits, bank balances and cash at 31 March 2007 approximate to their fair values.

### Other payables

The carrying amounts of the Group's other payables at 31 March 2007 approximate to their fair values.

## 22. SHARE CAPITAL

| | Number of ordinary shares | Amount |
|---|---|---|
| | | *HK$'000* |
| Authorised: | | |
| Ordinary shares of HK$0.10 each at 1 April 2005 and 1 April 2006 | 8,000,000,000 | 800,000 |
| Reduced due to share consolidation *(Note a)* | (7,200,000,000) | – |
| **Ordinary shares of HK$1.00 each at 31 March 2007** | **800,000,000** | **800,000** |
| Issued and fully paid: | | |
| Ordinary shares of HK$0.10 each at 1 April 2005 and 1 April 2006 | 1,161,382,000 | 116,139 |
| Reduced due to share consolidation *(Note a)* | (1,044,068,400) | – |
| Share repurchased and cancelled *(Note b)* | (3,076,600) | (1,902) |
| **Ordinary shares of HK$1.00 each at 31 March 2007** | **114,237,000** | **114,237** |

*Notes:*

**(a) Share consolidation**

At the annual general meeting ("AGM") held on 27 July 2006, all resolutions proposed, including the resolution on the consolidation of shares of HK$0.10 each into consolidated shares of HK$1.00 each ("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.

## 22. SHARE CAPITAL *(continued)*

**(b) Share repurchases**

During the year ended 31 March 2007, the Company repurchased certain of its own shares through the Stock Exchange as follows:

| Month of repurchase | Number of ordinary shares | Price per share Highest | Price per share Lowest | Aggregate consideration paid |
|---|---|---|---|---|
| | | *HK$* | *HK$* | *HK$* |
| *Before Share Consolidation – ordinary shares of HK$0.10 each* | | | | |
| June 2006 | 1,198,000 | 0.10 | 0.10 | 119,800 |
| July 2006 | 108,000 | 0.10 | 0.10 | 10,800 |
| | 1,306,000 | | | 130,600 |
| *After Share Consolidation – ordinary shares of HK$1.00 each* | | | | |
| August 2006 | 198,600 | 1.00 | 1.00 | 198,600 |
| September 2006 | 90,000 | 1.00 | 0.99 | 89,860 |
| November 2006 | 186,000 | 0.98 | 0.98 | 182,280 |
| January 2007 | 272,000 | 1.00 | 0.98 | 271,720 |
| March 2007 | 1,024,000 | 1.00 | 0.92 | 973,800 |
| | 1,770,600 | | | 1,716,260 |

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 year 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.

## 23. RESERVES

| | Share premium | Capital redemption reserve | Contributed surplus | Special capital reserve | Accumulated (losses) profits | Total |
|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| THE COMPANY | | | | | | |
| At 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 and 1 April 2006 | – | 409 | 31,104 | 60,592 | 15,059 | 107,164 |
| Dividends paid | – | – | – | – | (2,320) | (2,320) |
| Repurchase of shares | – | 1,902 | – | – | (1,854) | 48 |
| Profit for the year | – | – | – | – | 5,676 | 5,676 |
| **At 31 March 2007** | **–** | **2,311** | **31,104** | **60,592** | **16,561** | **110,568** |

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 Hong Kong 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 2007, the reserves available for distribution to shareholders pursuant to the Hong Kong Companies Ordinance amounted to HK$108,257,000 (2006: HK$106,755,000).

## 24. 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.

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.

## 24. SHARE OPTION SCHEMES *(continued)*

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

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.

### (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$14.80 (adjusted due to Share Consolidation);

(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.

**24. 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")**

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.

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.

## 24. 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.

There has been no option outstanding under 2002 Share Option Scheme as at 31 March 2007.

At 31 March 2007, the total number of shares available for issue under the Company's share option schemes was 11,423,700 (2006: 116,138,200), representing 10.00% (2006: 10.00%) of the shares of the Company in issue at that date.

## 24. 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 to the employees:

| Name of scheme | Date of grant | Exercise price HK$ *(note 1)* | Exercisable period | Outstanding at 1 April 2005 | Lapsed during the year *(note 2)* | Outstanding at 31 March 2006 and 1 April 2006 | Lapsed during the year *(note 2)* | Adjusted due to Share Consolidation *(note 1)* | Outstanding at 31 March 2007 | Vesting Period |
|---|---|---|---|---|---|---|---|---|---|---|
| Pre-IPO Share Option Plan | 15 March 2000 | 14.80 | In various stages from 1 April 2001 to 14 March 2010 | 6,550,000 | (3,160,000) | 3,390,000 | (420,000) | (2,673,000) | 297,000 | In various stages from 15 March 2000 to 30 March 2004 |
| 2000 Share Option Scheme | 23 August 2000 | 5.30 | In various stages from 1 April 2001to 23 August 2010 | 12,550,000 | (9,160,000) | 3,390,000 | (420,000) | (2,673,000) | 297,000 | In various stages from 23 August 2000 to 1 April 2004 |
| | | | | 19,100,000 | (12,320,000) | 6,780,000 | (840,000) | (5,346,000) | 594,000 | |

*Note:*

1. The number and exercise price of the outstanding options on 27 July 2006 have been adjusted due to the Share Consolidation with effect from 28 July 2006. The exercise price per share before the Share Consolidation was HK$1.48 and HK$0.53, for the Pre-IPO Share Option Plan and 2000 Share Option Scheme, respectively.

2. The share options were lapsed upon cessation of employment of a staff whose departure was before the Share Consolidation.

3. None of the outstanding share options were granted to any Directors of the Company.

4. The exercise in full of the outstanding 594,000 (2006: 6,780,000) share options at 31 March 2007 would, under the present capital structure of the Company, result in the issue of 594,000 (2006: 6,780,000) additional shares for a total cash consideration, before expenses, of approximately HK$5,970,000 (2006: HK$6,814,000).

## 25. 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 to the respective financial institution:

| | **2007** | 2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Available-for-sale investments | **23,215** | 19,652 |
| Financial assets at fair value through profit or loss | **14,075** | 15,268 |
| Held-for-trading investments | **34,607** | 18,725 |
| | **71,897** | 53,645 |

At the balance sheet date, the Group had no outstanding balance due to that financial institution.

## 26. 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 office premises which fall due as follows:

| | **THE GROUP** | |
|---|---|---|
| | **2007** | 2006 |
| | ***HK$'000*** | *HK$'000* |
| Within one year | **744** | 1,032 |
| In the second to fifth years inclusive | **–** | 709 |
| | **744** | 1,741 |

| | **THE COMPANY** | |
|---|---|---|
| | **2007** | 2006 |
| | ***HK$'000*** | *HK$'000* |
| Within one year | **710** | 1,014 |
| In the second to fifth year inclusive | **–** | 710 |
| | **710** | 1,724 |

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

## 26. 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:

| | THE GROUP | |
|---|---|---|
| | **2007** | 2006 |
| | ***HK$'000*** | *HK$'000* |
| Within one year | **235** | 235 |

## 27. 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 obligation 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$77,000 (2006: HK$86,000) and HK$94,000 (2006: HK$240,000) 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.

## 28. RELATED PARTY DISCLOSURES

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

| | **2007** | 2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Rental income from an associate | **357** | 285 |
| Consultancy income from an associate | **240** | 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:

| | **2007** | 2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Salaries and allowance | **743** | 738 |
| Performance related incentive payments | **132** | 62 |
| Retirement benefits scheme contributions | **12** | 12 |
| | **887** | 812 |

**RESULTS**

| | Year ended 31 March | | | | |
|---|---|---|---|---|---|
| | 2003 | 2004 | 2005 | 2006 | **2007** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | ***HK$'000*** |
| | *(note)* | *(note)* | *(note)* | | |
| Turnover | 8,200 | 4,592 | 2,695 | 119,671 | **93,776** |
| Investment income | – | – | – | 5,179 | **3,436** |
| Revenue from contracts of information technology consultancy services | 8,200 | 4,592 | 2,695 | 648 | **88** |
| Net gain (loss) on disposal of debt securities | – | – | – | 1,515 | **(131)** |
| Net fair value change on listed trading securities | – | 7,253 | 5,098 | 17,927 | **10,399** |
| Increase in fair values of financial assets at fair value through profit or loss | – | – | – | 1,020 | **1,601** |
| Other income | 7,630 | 7,797 | 7,058 | 807 | **1,216** |
| Staff costs | (34,304) | (17,452) | (10,815) | (4,576) | **(4,456)** |
| Depreciation | (5,601) | (2,447) | (1,066) | (303) | **(316)** |
| Allowance for a convertible bond | – | – | – | – | **(2,672)** |
| Other operating expenses | (12,413) | (9,670) | (10,344) | (5,503) | **(6,762)** |
| (Loss) profit before taxation | (36,488) | (9,927) | (7,374) | 16,714 | **2,403** |
| Taxation | (2) | – | – | – | **–** |
| (Loss) profit for the year attributable to equity holders of the Company | (36,490) | (9,927) | (7,374) | 16,714 | **2,403** |

**ASSETS AND LIABILITIES**

| | As at 31 March | | | | |
|---|---|---|---|---|---|
| | 2003 | 2004 | 2005 | 2006 | **2007** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | ***HK$'000*** |
| Total assets | 229,951 | 221,331 | 211,345 | 224,143 | **225,840** |
| Total liabilities | (1,993) | (1,842) | (1,422) | (740) | **(1,035)** |
| Equity attributable to equity holders of the Company | 227,958 | 219,489 | 209,923 | 223,403 | **224,805** |

*Note:* The financial information for the year ended 31 March 2006 has been restated to reflect the effect of changes in presentation of income from investments in securities as well as financial and investment products as the Group's turnover. The financial information for the three years ended 31 March 2003, 2004 and 2005 have not been adjusted, and therefore are not strictly comparable.