

The background of the entire page is a dark, deep blue. It is filled with numerous bright, glowing blue light trails that appear to be streaks of light or motion blur. These trails vary in length and orientation, creating a sense of dynamic energy and movement. The overall effect is reminiscent of a starry night sky or a high-speed photograph of light sources.

iMerchants Limited

First Quarterly Report 2007-2008

Stock Code: 8009

iMerchants
www.imerchants.com

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

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

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

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

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

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

SUMMARY

The Group's unaudited consolidated profit for the three months ended 30 June 2007 was approximately HK\$16,332,000, compared to the unaudited consolidated loss of approximately HK\$2,391,000 of the Group for the corresponding three-month period in 2006. No interim dividend is recommended for the period.

The Group continues to be in a healthy financial position with current assets plus financial investments and deposits at a comfortable level of over HK\$227 million without any bank borrowings at the period end date.

GROUP BUSINESS REVIEW

iMerchants continues to identify suitable investments in technology ventures. Our portfolio of venture investments encompasses companies in Hong Kong and Japan. In Japan, eBANK Corporation has grown quickly with over 2.2 million customers and remains to be one of the top internet banks in Asia. In Hong Kong, e.Energy Lighting Limited has entered into a production partnership agreement with Delta Electronics, Inc. of Taiwan. The Delta partnership is expected to improve the quality of products of e.Energy significantly and increase its competitiveness in the market.

In respect of treasury investments, the Group invested in a Korean fund this quarter which focuses on technology businesses in South Korea. The performance of that fund has been outstanding and has contributed healthily to the financial results of this period. The fair value of the other financial investments also increased in line with the global market's performance. The management will continue to make use of the available funds to enhance the overall value of the Company's shares.

FINANCIAL REVIEW

iMerchants recorded a net profit of approximately HK\$16,332,000 for the three months ended 30 June 2007, compared to a net loss of approximately HK\$2,391,000 for the corresponding three-month period in 2006. The profit for the quarter in the current year is mainly due to the good performance of the Group's financial investment portfolio. A healthy portion of the fair value gain from the listed trading securities was derived from our technology investments in South Korea. iMerchants continues to be in a sound financial situation. As at 30 June 2007, iMerchants holds current assets plus financial investments and deposits totaling approximately HK\$227 million and has no bank borrowings. Starting from 2007, the Directors considered investments in securities as well as financial and investment products being part of the principal activities of the Group and restated the turnover. For the three months ended 30 June 2007, iMerchants' turnover was approximately HK\$46,052,000 compared to a restated turnover of approximately HK\$42,297,000 for the corresponding quarter in 2006. The turnover does not include the turnovers of iMerchants' other venture investments in which iMerchants holds minority interests.

RESULTS

The board of Directors (the "Board") of the Company presents the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the three months ended 30 June 2007 together with the comparative unaudited figures for the corresponding period in 2006 as follows:

		Three months ended	
		30 June	
	<i>Notes</i>	2007	2006
		HK\$'000	<i>HK\$'000</i>
Turnover	2	46,052	42,297
Investment income		970	2,237
Revenue from contracts of information technology consultancy services		-	88
Net fair value gain (loss) on listed trading securities		14,938	(2,057)
Increase in fair values of financial assets at fair value through profit or loss		2,207	73
Other income		386	348
Staff costs		(978)	(1,181)
Depreciation		(72)	(87)
Other operating expenses		(1,119)	(1,812)
Profit (loss) before taxation	3	16,332	(2,391)
Taxation	4	-	-
Profit (loss) for the period attributable to equity holders of the Company		16,332	(2,391)
Earnings (loss) per share – basic and diluted	5	HK14.4 cent	HK(2.0)cent

Notes

1. Basis of preparation

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

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

2. Turnover

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

	Three months ended 30 June	
	2007	2006
	HK\$'000	HK\$'000
Interest income from debt securities	274	341
Dividends from listed securities	696	980
Proceeds from held-for-trading investments	40,944	33,088
Proceeds from financial assets at fair value through profit or loss	4,138	7,800
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Revenue from investments	46,052	42,209
Revenue from contracts of information technology consultancy services	-	88
	<hr/>	<hr/>
	46,052	42,297
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In the financial year ended 31 March 2007, the Directors of the Company considered 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 period's presentation.

3. Profit (loss) before taxation

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

	Three months ended 30 June	
	2007	2006
	HK\$'000	HK\$'000
Operating lease charges in respect of rented premises	316	286
Staff costs		
Salaries and allowances	949	1,011
Redundancy payments	11	148
Retirement benefit scheme contributions	18	22
	978	1,181
Interest income from bank deposits	(232)	(196)
Rental income	(92)	(92)
Sundries	(60)	(60)
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4. Taxation

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

No provision for taxation in other jurisdictions was made as the Group's subsidiary operated in the People's Republic of China had no assessable profits.

5. Earnings (loss) per share

The calculation of the basic and diluted earnings per share for the three months ended 30 June 2007 is based on the profit of the Group of approximately HK\$16,332,000 (2006: loss of approximately HK\$2,391,000) and on the weighted average number of ordinary shares of 113,473,330 (2006: 116,126,081).

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

6. Interim dividend

The Directors do not recommend the payment of an interim dividend for the three months ended 30 June 2007 (2006: Nil).

7. Movements of reserves

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

	Special capital reserve HK\$'000	Capital redemption reserve HK\$'000	Merger reserve HK\$'000	Investment revaluation reserve HK\$'000	Accumulated profit HK\$'000	Total HK\$'000
At 1 April 2007	60,592	2,311	45,918	1,147	600	110,568
Gain on fair value changes of available-for-sale investments recognized directly in equity	-	-	-	1,175	-	1,175
Final dividend for 2006/07 (note below)	-	-	-	-	(2,265)	(2,265)
Share repurchases	-	986	-	-	(928)	58
Profit for the period	-	-	-	-	16,332	16,332
At 30 June 2007	<u>60,592</u>	<u>3,297</u>	<u>45,918</u>	<u>2,322</u>	<u>13,739</u>	<u>125,868</u>

Note:

In the board meeting held on 29 June 2007, the final dividend for the year ended 31 March 2007 of HK 2 cents per share of HK\$1.00 each in the capital of the Company has been proposed by the Directors. The proposed resolution on the final dividend has been duly passed by the Company's Shareholders in the annual general meeting held on 3 August 2007.

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

During the period ended 30 June 2007, the Company repurchased certain of its own shares of HK\$1.00 each through The Stock Exchange of Hong Kong Limited (the "Stock Exchange") as follows:

Month of repurchase	Number of ordinary shares	Price per share		Aggregate consideration paid HK\$
		Highest	Lowest	
		HK\$	HK\$	
April 2007	986,000	0.95	0.92	925,380

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

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

COMPETING INTERESTS

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

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

At 30 June 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 GEM Listing Rules were as follows:

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

Name of Director	Number of ordinary shares in the Company held			Percentage of issued share capital of the Company
	Beneficial owner	Held by controlled corporation	Total	
Mr. Leroy Kung Lin Yuen ("Mr Kung")	–	76,194,100 <i>(Note)</i>	76,194,100	67.28%
Mr. Matthew P. Johnston	10,000	–	10,000	<1%

Note: The registered shareholder of 76,194,100 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 76,194,100 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 30 June 2007, none of the Directors had any interest in any shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

At 30 June 2007, the following person (other than the interests disclosed above in respect of certain Directors of the Company) had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

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

Name	Capacity	Number of ordinary shares	Percentage of issued share capital
GEM Global Yield Fund Ltd	Beneficial owner	5,812,500	5.13%

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 30 June 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.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

PLEDGE OF ASSETS

At 30 June 2007, the Group had pledged the following assets to a financial institution in respect of the due and punctual payment to the respective financial institution:

	30 June 2007 HK\$'000	31 March 2007 HK\$'000
Available-for-sale investments	24,390	23,215
Financial assets at fair value through profit or loss	11,641	14,075
Held-for-trading investments	32,558	34,607
	68,589	71,897

At 30 June 2007, the Group had no outstanding balance with any financial institution.

AUDIT COMMITTEE

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

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Board has reviewed the Company's corporate governance practices and is satisfied that the Company has full compliance with the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules for the three-month period ended 30 June 2007, except for the following deviation.

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

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

- The size of the Group is still relatively small and thus not justified in separating the roles of chairman and chief executive officer; 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.

By order of the Board
Leroy Kung Lin Yuen
Chairman

Hong Kong, 13 August 2007

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

Executive Directors:

Mr. Leroy Kung Lin Yuen

Ms. Lena Foo

Independent Non-executive Directors:

Mr. Ronny Chow Fan Chim

Mr. Kenneth Tseung Yuk Hei

Mr. Matthew P. Johnston