

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

Second Quarterly Report 2007-2008

Stock Code: 8009

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 six months ended 30 September 2007 was approximately HK\$14,065,000, compared to the unaudited consolidated loss of approximately HK\$3,316,000 of the Group for the corresponding six-month period in 2006. No interim dividend is recommended for the period.

GROUP BUSINESS REVIEW

The business operations of our investee companies were very stable in the past periods. We continue our objective of enhancing the value of the Company's shares. We make use of available funds on conservative treasury investments whose fair values increased in line with the global investment market for this half year. The investment strategy is reviewed and monitored frequently and we will take appropriate actions whenever necessary in response to changes in fundamental market situation.

With adequate funds on hand, we continue to identify and invest in suitable technology venture companies which are expected to have good growth potential and also possess the management ability to capture business opportunities.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

iMerchants continues to be in a healthy financial position and there was no bank borrowing as at 30 September 2007. Because approximately 22% of this total comprised of bank balances, deposits and cash, and 78% of the total were financial investments, the management of iMerchants consider its financial resources to be highly liquid. iMerchants aims to minimize its financing costs by managing the maturity of its investments and deposits so as to provide sufficient funds to cover daily operating costs.

The management of iMerchants do not have any concrete plan to acquire or take any equity stakes in companies for expansion. Any future capital expenditures and the daily operation expenses will be financed from iMerchants' existing financial resources. The Directors do not foresee the need for any material financing activities in order to execute iMerchants' plans. iMerchants did not undertake any material acquisitions and disposals of subsidiaries and affiliated companies in the course of the six months ended on 30 September 2007.

The Group has no trade receivables as at 30 September 2007. As of 30 September 2007, approximately 17% of iMerchants' cash and bank balances and financial investments were denominated in Hong Kong dollars, approximately 71% in US dollars and approximately 12% in Australian dollars. Given the liquid nature of these financial investments and the currency peg between the Hong Kong dollars and the US dollars, iMerchants does not hedge its exchange rate exposures.

iMerchants' gearing ratio at 30 September 2007 was 0% (31 March 2007: 0%), as calculated by taking the ratio of iMerchants' total interest-bearing borrowings, divided by its shareholders' funds. iMerchants has no borrowings and no contingent liabilities as at 30 September 2007 (31 March 2007: Nil). As at 30 September 2007, one of the Company's subsidiaries pledged financial investments of approximately HK\$49,837,000 to a financial institution in respect of the due and punctual payment of its obligations (31 March 2007: HK\$71,897,000). At the balance sheet date, the Group had no outstanding balance with that financial institution.

INVESTMENTS

iMerchants continues to identify suitable investments in technology ventures. In respect of treasury investments, the fair value of the financial investments 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.

iMerchants retains its investment of approximately HK\$4 million in NET Alliance Company Limited ("NET Alliance"), a company providing 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.

As of 30 September 2007, iMerchants had financial investments with fair values of approximately HK\$171 million (31 March 2007: approximately HK\$190 million). The management will continue its conservative approach. In general, the investment strategy will be reviewed frequently to take appropriate actions whenever necessary in response to changes in market situation.

REVENUE, GROSS PROFIT AND ADMINISTRATIVE EXPENSES

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 six months ended 30 September 2007, the Group's turnover was approximately HK\$78,623,000 which was comprised of revenue from investments, compared to a restated turnover of approximately HK\$51,027,000 for the corresponding six-month period in 2006.

Income in this half year includes net fair value gains on listed trading securities of approximately HK\$15,358,000 (2006: net losses of approximately HK\$826,000) 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. Along with the recent hot global equity market, the fair values of our investments rose substantially during the first half of the financial year. The management takes a conservative approach towards the treasury investments and is aiming at a balanced risk versus return from investing available funds.

The Group generated a net profit of HK\$14,065,000 for the six months ended 30 September 2007, compared to a net loss of HK\$3,316,000 for the corresponding period in 2006. The profit is mainly attributable to the increase in fair values of iMerchants' treasury investments during the last six months.

COMMENTARY ON SEGMENTAL INFORMATION

Geographical segments

The geographical location of the Group's financial and investment products can be categorised 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 of the section headed "Results" below.

Business segments

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

EMPLOYEES

As it is the intention of the management that operational and personnel expansion would mainly occur within the investee companies, it is expected that iMerchants can maintain a focused team at the group level. As of 30 September 2007, iMerchants on the group level employed 6 staff (31 March 2007: 7) excluding all employees under our portfolio companies in which we have a minority stake.

Remuneration for iMerchants' employees is typically reviewed once a year, or as the management deems appropriate. For the six months ended 30 September 2007, iMerchants' total remuneration expenses, including contributions to the Mandatory Provident Fund, were approximately HK\$1.9 million (2006: approximately HK\$2.2 million).

iMerchants has introduced share option schemes to recognize the contributions of its employees to the development of the Company. As of 30 September 2007, a total of 594,000 share options remained outstanding (31 March 2007: 594,000). None had been exercised during the six-month period.

USE OF PROCEEDS

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

	As stated in the Prospectus (from 1 April 2000 to 31 March 2002) <i>HK\$ million</i>	Actual (from 1 April 2000 to 30 September 2007) <i>HK\$ million</i>
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	50
For general working capital	46	138
	<hr/>	<hr/>
Total	325	299
	<hr/> <hr/>	<hr/> <hr/>

The remaining net proceeds have been partly placed in interest-bearing accounts with licensed banks in Hong Kong and partly invested in financial investments.

Due to the changing economic situation in Hong Kong and a very competitive market, the IT industry has developed and transformed into something quite different from the Group's forecast and the expected market situation at the time of listing. In response, the Group has taken a more conservative approach in rolling out its business objectives than originally planned as it was considered to be in the best interests of the Group and its shareholders.

Due to the risks associated with regional expansion, the Group has 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.

RESULTS

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

Unaudited Consolidated Income Statement

For the three months and six months ended 30 September 2007

		Three months ended 30 September		Six months ended 30 September	
		2007	2006	2007	2006
	Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	2	32,571	8,730	78,623	51,027
Investment income		766	796	1,736	2,117
Revenue from contracts of information technology consultancy services		-	-	-	88
Net loss on disposal of debt securities		(12)	-	(12)	-
Net fair value change on listed trading securities		420	315	15,358	(826)
(Decrease) increase in fair values of financial assets at fair value through profit or loss		(2,208)	(72)	(1)	1
Other income		492	323	878	671
Staff costs		(963)	(1,031)	(1,941)	(2,212)
Depreciation		(63)	(81)	(135)	(168)
Other operating expenses		(699)	(1,175)	(1,818)	(2,987)
Profit (loss) before taxation	4	(2,267)	(925)	14,065	(3,316)
Taxation	5	-	-	-	-
Profit (loss) for the period attributable to equity holders of the Company		(2,267)	(925)	14,065	(3,316)
Earnings (loss) per share - basic and diluted	6	(1.98) cent	(0.86) cent	12.41 cent	(2.86) cent

Consolidated Balance Sheet

As at 30 September 2007

		30 September 2007 (Unaudited) HK\$'000	31 March 2007 (Audited) HK\$'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment		145	220
Interests in associates		4,000	4,000
Available-for-sale investments		10,500	10,500
		14,645	14,720
CURRENT ASSETS			
Other receivables	8	2,491	1,422
Financial assets at fair value through profit or loss		39,072	39,988
Available-for-sale investments		26,588	23,215
Held-for-trading investments		105,273	126,983
Bank deposits		15,736	7,800
Bank balances and cash		34,304	11,712
		223,464	211,120
CURRENT LIABILITIES			
Other payables	9	471	1,035
NET CURRENT ASSETS			
		222,993	210,085
		237,638	224,805
CAPITAL AND RESERVES			
Share capital	10	113,251	114,237
Reserves		124,387	110,568
		237,638	224,805

Unaudited Condensed Consolidated Cash Flow Statement

For the six months ended 30 September 2007

	Six months ended	
	30 September	
	2007	2006
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Net cash from (used in) operating activities	12,624	(3,348)
Net cash from investing activities	21,154	13,817
Net cash used in financing activities	(3,250)	(2,739)
	<hr/>	<hr/>
Net increase in cash and cash equivalents	30,528	7,730
Cash and cash equivalents at beginning of period	19,512	11,893
	<hr/>	<hr/>
Cash and cash equivalents at end of period	50,040	19,623
	<hr/> <hr/>	<hr/> <hr/>
Analysis of balances of cash and cash equivalents		
Bank deposits	15,736	2,003
Bank balances and cash	34,304	17,620
	<hr/>	<hr/>
	50,040	19,623
	<hr/> <hr/>	<hr/> <hr/>

Unaudited Consolidated Statement of Changes in Equity

For the six months ended 30 September 2007

	Share capital HK\$'000	Special capital reserve HK\$'000	Capital redemption reserve HK\$'000	Merger reserve HK\$'000	Investment revaluation reserve HK\$'000	Accumulated profit (losses) HK\$'000	Total HK\$'000
At 1 April 2006	116,139	60,592	409	45,918	(2,026)	2,371	223,403
Gain on fair value changes of available-for-sale investments and net expenses recognized directly in equity	-	-	-	-	703	-	703
Final dividend for 2005/06	-	-	-	-	-	(2,321)	(2,321)
Share repurchases	(419)	-	420	-	-	(420)	(419)
Loss for the period	-	-	-	-	-	(3,316)	(3,316)
At 30 September 2006	<u>115,720</u>	<u>60,592</u>	<u>829</u>	<u>45,918</u>	<u>(1,323)</u>	<u>(3,686)</u>	<u>218,050</u>
	Share capital HK\$'000	Special capital reserve HK\$'000	Capital redemption reserve HK\$'000	Merger reserve HK\$'000	Investment revaluation reserve HK\$'000	Accumulated profit HK\$'000	Total HK\$'000
At 1 April 2007	114,237	60,592	2,311	45,918	1,147	600	224,805
Gain on fair value changes of available-for-sale investments and net expenses recognized directly in equity	-	-	-	-	1,961	-	1,961
Final dividend for 2006/07	-	-	-	-	-	(2,265)	(2,265)
Share repurchases	(986)	-	986	-	-	(928)	(928)
Profit for the period	-	-	-	-	-	14,065	14,065
At 30 September 2007	<u>113,251</u>	<u>60,592</u>	<u>3,297</u>	<u>45,918</u>	<u>3,108</u>	<u>11,472</u>	<u>237,638</u>

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

1. Basis of preparation

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

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

The accounting policies adopted in the preparation of these financial statements are consistent with those adopted in the Group's audited financial statements for the year ended 31 March 2007 except as described below.

In the current interim period, the Group has applied, for the first time, a number of new standard, amendments and interpretations (the "New HKFRSs") issued by the HKICPA which are either effective for accounting periods beginning 1 April 2007. The adoption of the New HKFRSs has had no material effect on how the results for the current or prior accounting periods are prepared and presented. Accordingly, no prior period 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 may have impact on the presentation of operating segments but will have no material impact on the results and the financial position of the Group.

HKAS23 (Revised)	Borrowing Costs ¹
HKFRS 8	Operating Segments ¹
HK(IFRIC)-Int 12	Service Concession Arrangements ²

¹ Effective for annual periods beginning on or after 1 January 2009.

² Effective for annual periods beginning on or after 1 January 2008.

2. 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	611	683
Dividends from listed securities	1,125	1,434
Proceeds from debt securities	6,679	-
Proceeds from held-for-trading investments	61,832	41,022
Proceeds from financial assets at fair value through profit or loss	8,376	7,800
	<hr/>	<hr/>
Revenue from investments	78,623	50,939
Revenue from contracts of information technology consultancy services	-	88
	<hr/>	<hr/>
	78,623	51,027
	<hr/> <hr/>	<hr/> <hr/>

During the year ended 31 March 2007, the Directors of the Group consider investments in securities as well as financial and investment products being principal activities of the Group.

3. Segment information

Geographical segments

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

Income statement for the six months ended 30 September 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
Turnover	40,587	4,125	7,363	2,598	22,355	1,595	78,623
Segment results	2,521	1,722	1,695	(1,490)	12,345	288	17,081
Other income							878
Depreciation							(135)
Unallocated corporate expenses							(3,759)
Profit before taxation							14,065
Taxation							-
Profit for the period							14,065

Income statement for the six months ended 30 September 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
Turnover	15,695	1,849	2,210	903	29,676	694	51,027
Segment results	(1,697)	704	108	(1,013)	3,258	20	1,380
Other income							671
Depreciation							(168)
Unallocated corporate expenses							(5,199)
Loss before taxation							(3,316)
Taxation							-
Loss for the period							(3,316)

No analysis of capital expenditure and depreciation by location is disclosed for both periods 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 technology venture investments contribute 10% or more to the Group's total assets and revenue respectively, accordingly no analysis by business is presented.

4. Profit (loss) before taxation

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

	Six months ended 30 September	
	2007	2006
	HK\$'000	HK\$'000
Operating lease charges in respect of rented premises	596	584
Staff costs		
Salaries and allowances	1,894	2,025
Redundancy payments	11	148
Net contributions to retirement benefits schemes	36	39
	1,941	2,212
Interest income from bank deposits	(575)	(368)
Rental income	(183)	(183)
Sundries	(120)	(120)
	<u> </u>	<u> </u>

5. Taxation

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

6. Earnings (loss) per share

The calculation of the basic and diluted earnings (loss) per share for the three months and the six months ended 30 September 2007 is based on the loss of the Group of approximately HK\$2,267,000 (2006: loss of approximately HK\$925,000) and profit of approximately HK\$14,065,000 (2006: loss of approximately HK\$3,316,000), respectively, and on the weighted average number of ordinary shares of 113,361,557 (2006: 116,015,280).

The computation of 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.

7. Interim dividend

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

8. Other receivables

	30 September	31 March
	2007	2007
	HK\$'000	HK\$'000
Other receivables	2,491	1,422
	<u> </u>	<u> </u>

There was no trade receivable as at 30 September 2007 and so no ageing analysis is presented.

9. Other payables

	30 September 2007 HK\$'000	31 March 2007 HK\$'000
Other payables	<u>471</u>	<u>1,035</u>

There was no trade payable as at 30 September 2007 and so no ageing analysis is presented.

10. Share capital

	Number of ordinary shares	Amount HK\$'000
<i>Authorized:</i>		
Ordinary shares of HK\$0.10 each at 1 April 2006	8,000,000,000	800,000
Reduced due to Share Consolidation (<i>Note a</i>)	(7,200,000,000)	-
	<u>800,000,000</u>	<u>800,000</u>
Ordinary shares of HK\$1.00 each at 30 September 2006	<u>800,000,000</u>	<u>800,000</u>
Ordinary shares of HK\$1.00 each at 1 April and 30 September 2007	<u>800,000,000</u>	<u>800,000</u>
<i>Issued and fully paid:</i>		
Ordinary shares of HK\$0.10 each at 1 April 2006	1,161,382,000	116,139
Shares repurchased and cancelled before Share Consolidation	(1,306,000)	(131)
Reduced due to Share Consolidation (<i>Note a</i>)	(1,044,068,400)	-
Shares repurchased and cancelled after Share Consolidation	(288,600)	(288)
	<u>115,719,000</u>	<u>115,720</u>
Ordinary shares of HK\$1.00 each at 30 September 2006	<u>115,719,000</u>	<u>115,720</u>
Ordinary shares of HK\$1.00 each at 1 April 2007	114,237,000	114,237
Shares repurchased and cancelled (<i>Note b</i>)	(986,000)	(986)
	<u>113,251,000</u>	<u>113,251</u>
Ordinary shares of HK\$1.00 each at 30 September 2007	<u>113,251,000</u>	<u>113,251</u>

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

(b) Share repurchases

During the period ended 30 September 2007, the Company repurchased certain of its own shares through The Stock Exchange of Hong Kong Limited (the "Stock Exchange") as follows:

Month of repurchase	Number of ordinary shares	Price per share		Aggregate consideration
		Highest	Lowest	paid
		HK\$	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.

11. Operating lease commitments

As lessee

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

	30 September 2007 HK\$'000	31 March 2007 HK\$'000
Within one year	1,550	744
In the second to fifth year inclusive	2,772	-
	<u>4,322</u>	<u>744</u>

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

As lessor

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

	30 September 2007 HK\$'000	31 March 2007 HK\$'000
Within one year	<u>61</u>	<u>235</u>

12. Capital commitments

At 30 September and 31 March 2007, the Group had no capital commitment.

13. Pledge of assets

At 30 September 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 September 2007 HK\$'000	31 March 2007 HK\$'000
Available-for-sale investments	26,588	23,215
Financial assets at fair value through profit or loss	4,952	14,075
Held-for-trading investments	18,297	34,607
	49,837	71,897

At 30 September 2007, the Group had no outstanding balance due to that financial institution.

14. Related party disclosures

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

	Six months ended 30 September	
	2007 HK\$'000	2006 HK\$'000
Rental income from an associate	183	183
Consultancy income from an associate	120	120

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

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

Save as disclosed in Note 10(b) above, at no time during the six months ended 30 September 2007 did the Company or its subsidiaries purchase, sell or redeem any of the Company's listed securities.

COMPETING INTERESTS

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

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

At 30 September 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 of Hong Kong Limited (the "Stock Exchange") pursuant to Rule 5.46 of the GEM Listing Rules were as follows:

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

Name of Director	Number of issued ordinary shares held			Percentage of issued share capital of the Company	
	Beneficial owner	Held by trust	Held by controlled corporation	Total	
Mr. Leroy Kung Lin Yuen ("Mr Kung")	–	–	76,246,100 (Note)	76,246,100	67.32%
Mr. Matthew P. Johnston	10,000	–	–	10,000	<1%

Note:

The registered shareholder of 76,246,100 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 76,246,100 shares owned by iMerchants Group as he owns the entire interest in Galaface and is entitled to exercise more than one-third of the voting power at general meetings of both Asian Gold and Galaface.

Long positions in underlying shares – share options granted by the Company

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

Long positions in debentures

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

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

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

Short positions in underlying shares

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

Short positions in debentures

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

Save as disclosed above, as at 30 September 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.

INTEREST DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

At 30 September 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 shares

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

Short positions in underlying shares

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

Save as disclosed above, as at 30 September 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.

OUTSTANDING SHARE OPTIONS

Pursuant to the Pre-IPO Share Option Plan and 2000 Share Option Scheme, there were 297,000 and 297,000 share options, respectively, granted to and held by the grantees as at 30 September 2007. Details of which are as follows:

(a) Pre-IPO Share Option Plan

As at 30 September 2007, options comprising an aggregate of 297,000 underlying shares to subscribe for shares in the Company at an exercise price of HK\$14.80 per share (granted on 15 March 2000) were outstanding. No options have been granted during the six months ended 30 September 2007 under the Pre-IPO Share Option Plan as the right to do so was terminated upon the listing of the Company on the GEM.

There was no movement in the number of outstanding Pre-IPO share options during the six months ended 30 September 2007:

	Type of grantees	Number of outstanding options
As at 1 April and 30 September 2007	Employee	297,000

Notes:

- 1 The exercise period of the Pre-IPO options is from 31 March 2001 to 14 March 2010.
- 2 Options pursuant to the Pre-IPO Share Option Plan may be exercised in accordance with the terms of the scheme as to:
 - a. one quarter of the options (rounded down to the nearest board lot) will be exercisable from 1 April 2001 ("First Exercise Date");
 - b. an additional one eighth of the options (rounded down to the nearest board lot) will be exercisable after the expiry of each successive six-month period from the First Exercise Date; and
 - c. the balance of the options exercisable after the expiry of a period of 48 months from 1 April 2001.
- 3 Up to 30 September 2007, no options under the Pre-IPO Share Option Plan have been exercised or cancelled.

(b) 2000 Share Option Scheme

As at 30 September 2007, options comprising an aggregate of 297,000 underlying shares to subscribe for shares in the Company at an exercise price of HK\$5.30 per share (granted on 23 August 2000) were outstanding. No options have been granted during the six months ended 30 September 2007 under the 2000 Share Option Scheme.

There was no movement in the number of outstanding options under the 2000 Share Option Scheme during the six months ended 30 September 2007:

	Type of grantees	Number of outstanding options
As at 1 April and 30 September 2007	Employee	297,000

Notes:

- 1 The exercise period of the share options under the 2000 Share Option Scheme is from 31 March 2001 to 23 August 2010.
- 2 Options pursuant to the 2000 Share Option Scheme may be exercised in accordance with the terms of the relevant scheme which are the same as those of the Pre-IPO Share Option Plan set out in Note 2 of the subsection headed "Pre-IPO Share Option Plan" above.
- 3 Up to 30 September 2007, no options under the 2000 Share Option Scheme have been exercised or cancelled.

During the six months ended 30 September 2007, none of the Directors and employees of the Company or its subsidiaries was granted options to subscribe for shares in the Company.

Valuation of share options

No share option had been granted during the six months ended 30 September 2007 and thus the valuation of share options as set out in Rule 23.08 is not applicable to the Company for the period.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

CORPORATE GOVERNANCE REPORT

Corporate Governance Practices

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

Directors' Securities Transactions

The Group has adopted stringent procedures governing directors' securities transactions in compliance with Rules 5.48 to 5.67 of the GEM Listing Rules. Relevant employees who are likely to be in possession of unpublished price-sensitive information of the Group are also subject to compliance with guidelines on no less exacting terms than those set out in the Rules. No incidence of non-compliance was noted for the six-month period ended 30 September 2007.

Board Composition

- (i) The Board currently comprises two executive Directors and three non-executive Directors. The non-executive Directors are with a wide range of experience and calibre, bringing valuable judgment on issues of strategy, performance and resources.
- (ii) The principal roles of the Board are to oversee the Company's strategic development, to approve the Company's objectives, strategies, policies, business plans and to monitor the operating and financial performance of the Group. The Board also reviews and approves the quarterly and annual reports of the Company.
- (iii) The Company has complied with Rules 5.05(1) and (2) of the GEM Listing Rules relating to the appointment of sufficient number of independent non-executive Directors and one of them has appropriate professional qualifications or accounting or related financial management expertise.
- (iv) The Company considers that each of the independent non-executive Directors are independent in accordance with the guidelines for assessing independence set out in Rule 5.09 of the GEM Listing Rules.
- (v) The Company considers that there is no relationship (including financial, business, family or other material/relevant relationship) among the members of the Board.

Chairman and Chief Executive Officer

Mr Leroy Kung Lin Yuen serves as the Chairman and the Chief Executive Officer. The reason for not splitting the roles of Chairman and Chief Executive Officer at this moment are as follow:

- The size of the Company is still relatively small and thus not justified in separating the roles of Chairman and Chief Executive Officer; 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. Executive responsibilities lie with another executive director and senior management of the Company.

Non-executive Directors

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

Board Process

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

Audit Committee

- (i) The Company's audit committee was formed on 15 March 2000 with written terms of reference in compliance with the GEM Listing Rules.
- (ii) The audit committee has three members comprising the independent non-executive Directors, namely, Messrs. Ronny Chow Fan Chim, Matthew P. Johnston and Tony Lo Tung Sing. 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.

Remuneration Committee

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

Compliance with the Code

The Board has reviewed the Company's corporate governance practices and is satisfied that the Company has full compliance with the Code as set out in Appendix 15 of the GEM Listing Rules for the six-month period ended 30 September 2007.

By order of the Board
Leroy Kung Lin Yuen
Chairman

Hong Kong, 14 November 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. Matthew P. Johnston

Mr. Tony Lo Tung Sing