# iMerchants Limited

## Annual Report 2007-2008

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 ("**Directors**") of iMerchants Limited ("**Company**") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange ("**GEM Listing Rules**") for the purpose of giving information with regard to the Company. The Directors having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, (i) the information contained in this circular is accurate and complete in all material aspects and not misleading; (ii) there are no other matters the omission of which would make any statement herein misleading; and (iii) all opinions expressed in this circular 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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# Corporation Information

## EXECUTIVE DIRECTORS

Mr. Yau Yan Ming Raymond *(Chairman)*
Mr. Yang Bin
Mr. Li Wen Jun

## INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chang Kin Man
Mr. Wu Tak Lung
Mr. Pan Chik

## COMPANY SECRETARY

Mr. Yau Yan Ming Raymond

## COMPLIANCE OFFICER

Mr. Yau Yan Ming Raymond

## QUALIFIED ACCOUNTANT

Mr. Yau Yan Ming Raymond
AICPA, HKICPA

## AUDIT COMMITTEE

Mr. Chang Kin Man
Mr. Wu Tak Lung
Mr. Pan Chik

## AUTHORISED REPRESENTATIVES

Mr. Yau Yan Ming Raymond
Mr. Yang Bin

## REGISTERED OFFICE, HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Room 1206A
12th Floor
West Tower, Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

## WEB-SITE ADDRESS

http://www.todayir.com/e/showcases_details.php?code=8009

## AUDITOR

SHINEWING (HK) CPA Limited

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Tricor 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
Chiyu Banking Corporation Ltd.

# Chairman's Statement

On behalf of the board of Directors, I am pleased to present the audited financial results for the year ended 31 March 2008.

## FINANCIAL HIGHLIGHTS

Despite U.S. subprime mortgage delinquencies and the credit squeeze, causing gloomy outlook in the economy and forecasting recession, the Group reported an audited consolidated profit of approximately HK$8.8 million as compare to HK$2.4 million in the previous year, increasing by 267%. This was contributed by the judicious management style of the Group to diversify its portfolio over a diversified range of financial instruments and quick decision in easing the business focus out of some unprofitable investments in the stock and equity markets. The Group was able to make disposal of various investment in equity and financial instruments at a sizeable profit.

The Company was also able to maintain a healthy financial position and ended the year with current assets plus financial investment and deposits at a comfortable level of approximately HK$231 million without any bank borrowings.

## BUSINESS REVIEW

During the year ended 31 March 2008, the Group's principal activity was engaged in investment in fix income investment products and equity financial vehicles. The turnover for the Group was approximately HK$139 million as compared to approximately HK$94 million last year.

The global stock market fluctuated vaguely in late 2007, especially in Hong Kong. As the group was able to capitalize on the upside of the market, we are able to record a profit of approximately HK$8.8 million as compare to approximately HK$2.4 million for year ended 31 March 2007.

On 14 February 2008, Bonus Raider Investments Limited ("Bonus Raider"), a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of China Water Industry Group Limited ("China Water"), completed the acquisition of 76,246,100 ordinary Shares of HK$1.00 each in the issued Share Capital of the Company (the "Shares") (representing approximately 67.32% of the entire issued Share capital of the Company) from iMerchants Group Limited. Accordingly, under Rule 26.1 of the Takeovers Code, Bonus Raider is required to make an unconditional mandatory general cash offer for all the issued Shares other than those Shares already owned by Bonus Raider and parties acting in concert with it (the "Share Offer") and for the cancellation of all outstanding options which were granted under the Share Option Schemes of the Company adopted on 15 March 2000 (the "Option Offer"). At the close of the Share Offer, Bonus Raider and parties acting in concert with it are interested in 102,694,700 Shares, representing approximately 90.68% of the entire issued Share capital of the Company. Upon the close of the Share Offer and Option Offer, approximately 9.32% of the entire issued capital of the Company remains in public hands. To restore to the minimum 15% public float requirement under Rule 11.23 of the GEM Listing Rules, Bonus Raider has entered into a placing agreement (the "Placing Agreement") on 11 April 2008. After the completion of the placing of the Shares pursuant to the Placing Agreement, Bonus Raider held approximately 84.98%, of the issued Share capital of the Company and the public float of the Company was restored to approximately 15.02% of the issued Share capital of the Company.

### Disclosable and Connected Disposals, Special Deal

On 3 December 2007 and 28 January 2008, the Company and iMerchants Hong Kong Limited entered into the disposal agreement and the supplemental agreement, respectively, collectively being the Disposal Agreement pursuant to which the Company conditionally agrees to sell and iMerchants Hong Kong Limited conditionally agreed to purchase, the Securities and assets to be disposed of pursuant to the terms of the Disposal Agreement (the "Disposal Assets") at a total cash consideration of approximately HK$39.4 million. Proceeds from the disposal of the Disposal Assets would be used as general working capital of the Company. Details of which are set out in the Company's circular on 4 February 2008.

## PROSPECTS

The year 2008 marked a significant era for the Company with our new management team took over the operation since mid March 2008. As the global market still shaded by the Subprime mortgage crisis, recession concerns in the US and record height in oil prices, foreseeable downturn of the global equity market will lingers for the next and coming years. Anxious about the negativity swirling around the markets, the Group holds a bearish view and speculated high volatility in the equity market. The Management also feels that the golden age of investing in equity market had been over as the market adjustment may take up to several years before investor regain confidence. Foreseeing a deep and prolonged downturn in US economy and the global market, the management strongly believes that the Group should take a conservative investment methodology and shifting its investing focus away from the highly volatile equity market. It is also an appropriate decision to continue to withdraw from of the existing weight on investing in the equity market while confining a decent profit and turn into other investment opportunities. The total investment in financial asset decreased from approximately HK$190 million on 31 March 2007 compare to approximately HK$80 million on 31 March 2008, cash position on the other hand increased by approximately HK$75 million compare with last year.

The management also believes that the momentum of the Chinese economy will sustain despite the possible downturn in global stock market. The demand for natural resources of commercial and industrial needs will stay sturdy to keep up with the needs. As the global prices on these commodities increasing and being a country which is rich in natural resource itself, the call for extraction domestically boost. Meanwhile the income level and living standard of population in PRC increasing steady over the years, which strengthen the countries domestic demand. As government policies shift to encourage consumer spending, inevitably create numerous business opportunity of an enormous, untapped consumer marketing frontier. Seeing China's strong domestic demand and sustained competitiveness in exports, investing in this economy inevitably becomes a perfect haven for the company to diversify its investment away from the volatile equity market which profoundly replied on previously. The company will focus on finding investment opportunities in natural resources including water sewage, coal and others commodity for inputs to infrastructural capital processes. The management will also donate much of their efforts in exploring investment opportunities which targets the domestic consumptions, from healthcare products to medical supplies as well as others daily consumables.

## LIQUIDITY AND FINANCIAL RESOURCES

The Group had cash and cash equivalents of approximately HK$95 million as at 31 March 2008 (2007: approximately HK$20 million) and maintain a sturdy financial situation with current assets plus financial investments and deposits totaling approximately HK$231 million for year ended 31 March 2008 (2007: approximately HK$211 million). The Group had no borrowing and had not obtained any credit facilities from financial institutions during the year.

Most of the Group's business transactions, assets and liabilities are denominated in Hong Kong dollars, United States dollars and Australian dollars. The Group's exposure to United States dollars currency risk is minimal as Hong Kong dollars is pegged to United States dollars.

The Company's gearing ratio as at 31 March 2008 was 0% (2007: 0%), as calculated by taking the ratio of the Group's total interest-bearing borrowings, divided by its shareholders' funds. The Group has no borrowings and no contingent liabilities as at 31 March 2008 (2007: Nil). As at 31 March 2008, none of the Company's subsidiaries pledged financial investments to a financial institution in respect of the due and punctual payment of its obligations (2007: HK$71,897,000). At the balance sheet date, the Group had no outstanding balance with that financial institution.

The shares of the Company were listed on GEM. There has been no change in the capital structure of the Company for the year under review except disclosed in note 27 to this financial statements.

## INVESTMENT

The Company 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 operation in the same month. The company's revenues, profitability and customer base have grown rapidly in recent years.

As at 31 March 2008, the Company had financial investment with fair value of approximately HK$80 million (2007: approximately HK$190 million). The new management will take a cautious and prudent approach and align with the new business principle in making investment in the future.

## REVENUE, GROSS PROFIT AND ADMINISTRATIVE EXPENSES

During the year ended 31 March 2008, 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 2008, the Group's turnover was approximately HK$139 million which was comprised of revenue from investments, compared to a turnover of approximately HK$94 million for the year ended 31 March 2007. The turnover does not include the turnovers of the Company's other venture investments in which the Company holds minority interests.

Income in this financial year includes net fair value changes on listed trading securities of approximately HK$7,423,000 (2007: approximately HK$10,399,000) 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. Nonetheless, as the global economic growth is expected to slow down, we do not believe the fair values of these investments will continue to give positive performances and we are in the position of disposing these investments during the year. The decrease in this income category also arose from the short term volatility of the global investment market.

The Group generated a net profit of approximately HK$8.8 million for the year ended 31 March 2008, compared to a net profit of approximately HK$2.4 million for the year ended 31 March 2007. The increase in net profit is largely attributable to the disposal of the financial investments mentioned in the above paragraph, and a recovery from provision made for the Group's investment in a convertible bond issued by e.Energy Lighting Ltd. and the gain on disposal of the investment in of KSDC Limited Partnership.

## EMPLOYEE INFORMATION

As it is the intention of the management that operational and personnel expansion would mainly occur within the investee companies, it is expected that the Company can maintain a focused team at the group level. As of 31 March 2008, the Company on group level employed 6 staffs (2007: 7) excluding all employees under our portfolio companies in which we have a minority stake.

Remuneration for the employees of the Company is typically reviewed once a year, or as the management deems appropriate. For the year ended 31 March 2008 the total remuneration expenses, including contributions to Mandatory Provident Fund, were approximately HK$3.8 million (2007: approximately HK$4.5 million).

Upon the close of the Option Offer, the Company does not have any outstanding share options as at the year ended 31 March 2008 (2007: 594,000 Shares). None had been exercised during the financial year before the Option Offer.

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

During the year ended 31 March 2008, the Company has redeemed 986,000 Shares of an average price of 94 cents per Share for a total of HK$925,380.

## 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 8 to this financial statements.

### 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.

## APPRECIATION

On behalf of the Board, I would like to express our appreciation to the management and staff members for their continued dedication and contribution. I would like to express our gratitude to our shareholders for their support to the Group.

**Yau Yan Ming Raymond**
*Chairman*

Hong Kong, 25 June 2008

## CODE ON 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 on Corporate Governance Practices 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 2008, save as the deviation as disclosed below regarding Code Provision A.2.1.

## COMPLIANCE WITH THE REQUIRED STANDARD OF DEALINGS IN SECURITIES TRANSACTIONS BY DIRECTORS

During the year, the Group adopted the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding directors' securities transactions in securities of the Company. Upon the Group's specific enquiry, each Director confirmed that during the year ended 31 March 2008, he or she had fully complied with the required standard of dealings and there was no event of non-compliance.

## THE BOARD

### Composition

The Board currently comprises six directors in total, with three executive directors and three independent non-executive directors. The directors of the Company during the year and up to the date of this report were as follows:

*Executive Directors*

Mr. Yau Yan Ming Raymond (appointed on 13 March 2008 and appointed as Chairman on 2 June 2008)
Mr. Yang Bin (appointed on 13 March 2008)
Mr. Li Wen Jun (appointed on 13 March 2008)
Mr. Leroy Kung Lin Yuen (resigned on 13 March 2008)
Ms. Lena Foo (resigned on 13 March 2008)

*Independent non-executive Directors*

Mr. Chang Kin Man (appointed on 13 March 2008)
Mr. Wu Tak Lung (appointed on 13 March 2008)
Mr. Pan Chik (appointed on 13 March 2008)
Mr. Tony Lo Tung Sing (appointed on 17 September 2007 and resigned on 13 March 2008)
Mr. Ronny Chow Fan Chim (resigned on 13 March 2008)
Mr. Matthew P. Johnston (resigned on 13 March 2008)
Mr. Kenneth Tseung Yuk Hei (resigned on 17 September 2007)

The Board currently has three independent non-executive Directors, namely Mr. Chang Kin Man ("Mr. Chang"), Mr. Wu Tak Lung ("Mr. Wu") and Mr. Pan Chik ("Mr. Pan"). Mr. Chang and Mr. Wu hold appropriate professional qualifications, or accounting or related financial management expertise under Rule 5.05(2) of the GEM Listing Rules. All of them have not been appointed for a specific term. They will hold the office until the next annual general meeting of the Company and will retire at that general meeting, but will be eligible for re-election in accordance with the Articles.

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.

There is no family relationship between any of the Directors or executive officers. All of them are free to exercise their independent judgement. Prior to their respective appointment, each of the independent non-executive Directors submitted a written statement to the Stock Exchange confirming their independence and has undertaken to inform the Stock Exchange as soon as practicable if there is any subsequent change of circumstances which may affect their independence.

In accordance with the Articles, one-third of the Directors are subject to retirement by rotation or, if their number is not three or a multiple of three, then the number nearest to but not less than one-third shall retire from the office and being eligible offer themselves for re-election provided that every Director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years. The Directors to be retired by rotation shall be those who have been longest in office since their last appointment or re-appointment or those who were appointed by the Board during the year to fill any casual vacancy.

## 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 2008, thirteen board meetings, four audit committee meetings and two remuneration committee meetings 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** |
| *Executive Director* | | | |
| Yau Yan Ming Raymond | 1/13 | N/A | 1/2 |
| Yang Bin | 1/13 | N/A | N/A |
| Li Wen Jun | 1/13 | N/A | N/A |
| Leroy Kung Lin Yuen (resigned on 13 March 2008) | 12/13 | N/A | 1/2 |
| Lena Foo (resigned on 13 March 2008) | 11/13 | N/A | N/A |
| *Independent non-executive Director* | | | |
| Chang Kin Man | 1/13 | 1/5 | 1/2 |
| Wu Tak Lung | 1/13 | 1/5 | 1/2 |
| Pan Chik | 1/13 | 1/5 | 1/2 |
| Ronny Chow Fan Chim (resigned on 13 March 2008) | 4/13 | 2/5 | 1/2 |
| Matthew P. Johnson (resigned on 13 March 2008) | 7/13 | 3/5 | 1/2 |
| Tony Lo Tung Sing (resigned on 13 March 2008) | 7/13 | 2/5 | 0/2 |
| Kenneth Tseung Yuk Hei (resigned on 17 September 2007) | 2/13 | 2/5 | 1/2 |

## 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.

The executive Directors and senior management meet every week to review business matters of the Company and escalate the matters to the Board meeting for further discussion whenever necessary. 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 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 (the "Articles") 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 Audit Committee has three members comprising all the independent non-executive Directors, namely, Mr. Chang as the chairman of the Audit Committee, Mr. Wu and Mr. Pan. 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 2008 have been reviewed by the Audit Committee.

## Remuneration Committee

The Remuneration Committee has four members, the majority of which are independent non-executive Directors, namely Mr. Yau Yan Ming Raymond ("Mr. Yau") as the chairman of the Remuneration Committee, Mr. Chang, Mr. Wu and Mr. Pan.

The principal 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.

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

Mr. Yau 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. Yau 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.

## 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 2008.

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 2008 amounted to HK$350,000. 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 2008 for fees totaling HK$30,400.

## INTERNAL CONTROLS

The Board recognises 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 2008:

- 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.

## 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.

## SHAREHOLDERS' RIGHTS

The rights of shareholders and the procedures for demanding a poll on resolutions at general meetings are contained in the Articles. 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.

# Use of Proceeds

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 2008) *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** | 50 |
| For general working capital | **46** | 142 |
| Total | **325** | 303 |

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 sewage 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.

# Directors and Senior Management Profile

## EXECUTIVE DIRECTORS

**Mr. Yau Yan Ming Raymond**, aged 40, has over 12 years of work experience in auditing, accounting, taxation, company secretarial, corporate finance and financial management, in both private and listed companies. Mr. Yau is an associate member of both the Hong Kong Institute of Certified Public Accountants and American Institute of Certified Public Accountants. He is currently an independent non-executive director of Willie International Holdings Limited (stock code: 273) and Grandtop International Holdings Limited (stock code: 2309), both of which are listed on the main board of the Stock Exchange. Mr. Yau holds a master degree in Science majoring in Japanese business studies and bachelor degree in Business Administration majoring in accounting in the United States of America.

**Mr. Yang Bin**, aged 34, was graduated from the college of Jiu-jiang, Jiangxi Province, the People's Republic of China (the "PRC"). He has also completed his studies in Economy Administration in Distance Learning College of The Party School of the Central Committee of the Communist Party of China. Mr. Yang has over 10 years of experience in marketing and management of the water supply industry in the PRC.

**Mr. Li Wen Jun**, aged 49, was graduated from Department of Chemical Machinery of South China University of Technology. He has passed the national training and examination organised by the State Council of the PRC in respect of the overseas delegated engineer and he has also passed the national training and examination for managers and factory director. Mr. Li has more than 25 years of extensive experience in chemical engineering and management of the chemical industry in the PRC. Mr. Li has also conducted various research and development projects in relation to organic chemistry majoring in research on treatment of sewerage by BAF (Biological Aerated Filter).

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Chang Kin Man**, aged 44, is a certified public accountant in Hong Kong and a fellow member of The Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. Chang holds a bachelor degree in economics and a master degree in applied finance. Mr. Chang has extensive experience in corporate finance and in accounting field. He worked for an international accounting firm and a number of public listed companies for more than 15 years. He is currently an independent non-executive director of three companies listed on the main board of the Stock Exchange, namely China Energy Development Holdings Limited (formerly known as Hon Po Group (Lobster King) Limited) (stock code: 228), China Water Industry Group Limited (formerly known as Sky Hawk Computer Group Holdings Limited) (stock code: 1129) and Grandtop International Holdings Limited (stock code: 2309).

**Mr. Wu Tak Lung**, aged 43, is a fellow member of The Association of Chartered Certified Accountants, The Hong Kong Institute of Chartered Secretaries and The Taxation Institute of Hong Kong. Mr. Wu is also a full member of the Hong Kong Securities Institute and an associate member of The Hong Kong Institute of Certified Public Accountants. Mr. Wu received a bachelor degree in Business Administration from the Hong Kong Baptist University and a master degree in Business Administration from University of Manchester and University of Wale. Mr. Wu is a Vice-president of The Association of Chartered Certified Accountants and Vice-President of The Taxation Institute of Hong Kong. He is also a Council Member of Hong Kong – Guangdong Youth Exchange Promotion Association, Kiangsu and Chekiang Resident (HK) Association and an Honorary Associate of the School of Business of the Hong Kong Baptist University. Mr. Wu is currently the responsible officer of Masterlink Securities (Hong Kong) Corporation Limited, an investment bank licensed by the Securities and Futures Commission. He is also an independent non-executive director of (i) Neo-Neon Holdings Limited (stock code: 1868); (ii) Aupu Group Holding Company Limited (stock code: 477); (iii) China Water Industry Group Limited (stock code: 1129) and (iv) RBI Holdings Limited (stock code: 566), all of them are companies listed on the main board of the Stock Exchange; (v) Sinobest Technology Holdings Limited (symbol: T80. SI), a company listed on the main board of Singapore's stock exchange; (vi) Finet Group Limited (stock code: 8317), a company listed on GEM.

**Mr. Pan Chik**, aged 40, has over 16 years of experience in finance and investments. Currently Mr. Pan is a director of Astrum Capital Management Limited and Return Best Investments Limited. He is specializing in assets management in Hong Kong and the PRC. During the period from 1992 to 2007, Mr. Pan was the associate director of Lippo Securities Limited. Mr. Pan received a bachelor degree in Business Administration from University of Essex in the United Kingdom.

## SENIOR MANAGEMENT

**Mr. Wong Ka Chun Carson**, aged 29, the financial controller of the Group and is responsible for managing the Group's financial and accounting processes. Mr. Wong is a member of the American Institute of Certified Public Accountants. Mr. Wong graduated from Simon Fraser University with a Bachelor's degree in Economics and a Diploma in Financial Management from British Columbia Institution of Technology. Mr. Wong had substantial experience in auditing and financial analytical experience in a multi-national corporation.

# Report of the Directors

The Directors present their annual report and the audited financial statements for the year ended 31 March 2008.

## 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 2008 are set out in notes 18 and 19 to the financial statements, respectively.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 March 2008 are set out in the consolidated income statement on page 30 of this annual report.

The Directors do not recommend the payment of any dividend in respect of the year (2007: HK2 cents per ordinary share).

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 17 to the financial statements.

## SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 27 to the financial statements.

During the year, the Company repurchased certain of its own shares through the Stock Exchange, details of which are set out in note 27 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 on page 34 of this annual report.

As at 31 March 2008, the reserves of the Company available for distribution to shareholders were approximately HK$102,053,000, comprising special capital reserve of HK$60,592,000, contributed surplus of HK$31,104,000 and accumulated profits of HK$10,357,000.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year, the Company has repurchased Shares on the Stock Exchange as follows:

| Date | Number of Shares repurchased | Highest purchase price per Share | Lowest purchase price per Share | Total price |
|---|---|---|---|---|
| | | *HK$* | *HK$* | *HK$* |
| 13 April 2007 | 100,000 | 0.95 | 0.95 | 95,000 |
| 19 April 2007 | 192,000 | 0.94 | 0.94 | 180,480 |
| 20 April 2007 | 216,000 | 0.94 | 0.94 | 203,040 |
| 25 April 2007 | 478,000 | 0.94 | 0.92 | 446,860 |
| | 986,000 | – | – | 925,380 |

The repurchased Shares were subsequently cancelled by the Company. The issued share capital of the Company was reduced by the par values thereof.

The repurchase of Shares during the year was effected by the Directors pursuant to the general mandate approved by the shareholders at the annual general meeting of the Company held on 3 August 2007, with a view to benefit shareholders as a whole by enhancing the net asset value per Share and earnings per Share of the Group.

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Shares during the year ended 31 March 2008.

## FINANCIAL SUMMARY

A summary of the results of the Group for the past five financial years is set out on page 85 of this annual report.

## DIRECTORS AND DIRECTORS' SERVICE CONTRACT

The Directors of the Company during the year and up to the date of this report were:

*Executive Directors:*

Mr. Yau Yan Ming Raymond ("Mr. Yau") (appointed on 13 March 2008)
Mr. Yang Bin ("Mr. Yang") (appointed on 13 March 2008)
Mr. Li Wen Jun ("Mr. Li") (appointed on 13 March 2008)
Mr. Leroy Kung Lin Yuen (resigned on 13 March 2008)
Ms. Lena Foo (resigned on 13 March 2008)

*Independent non-executive Directors:*

Mr. Chang Kin Man ("Mr. Chang") (appointed on 13 March 2008)
Mr. Wu Tak Lung ("Mr. Wu") (appointed on 13 March 2008)
Mr. Pan Chik ("Mr. Pan") (appointed on 13 March 2008)
Mr. Ronny Chow Fan Chim (resigned on 13 March 2008)
Mr. Matthew P. Johnston (resigned on 13 March 2008)
Mr. Tony Lo Tung Sing (appointed on 17 September 2007 and resigned on 13 March 2008)

In accordance with article 100 of the Articles, Mr. Yau, Mr. Yang, Mr. Li, Mr. Chang, Mr. Wu and Mr. Pan will retire at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

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 obligations.

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

As at 31 March 2008, 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 the Shares

No long 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.

### 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 the Shares

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

### Short positions in underlying shares

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

### Short positions in debentures

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

Save as disclosed above, as at 31 March 2008, 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

As at 31 March 2008, 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 the Shares

| **Name of Substantial Shareholder** | **Capacity/ Nature of interest** | **Number of ordinary shares in the Company held** | **Percentage of issued share capital of the Company** |
|---|---|---|---|
| Bonus Raider Investments Limited ("Bonus Raider") | Beneficial owner | 102,694,700 | 90.86% |
| China Water Industry Group Limited *(Note 1)* | Interest of a controlled corporation | 102,694,700 | 90.86% |

*Note:* (1) These shares are registered in the name of China Water Industry Group Limited, which is a wholly-owned subsidiary of Bonus Raider.

(2) On 11 April 2008, Bonus Raider entered into a new placing agreement with Pacific Foundation Securities Limited (the "New Placing Agreement") for the placing of 6,450,000 Shares at a placing price of HK$2.60 per Share. The number of Shares of Bonus Raider held immediately upon completion of the Placing, i.e. 16 April 2008, was 96,244,700 Shares, representing 84.98% of issued share capital of the Company. Details which are set out in the announcement of the Company dated 11 April 2008.

### 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 the Shares

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

### Short positions in underlying shares

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

Save as disclosed above, as at 31 March 2008, 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.

## DIRECTOR'S RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the paragraph headed "Directors' interests and short positions in the Shares, underlying Shares and debentures" above and in the share option scheme disclosures in note 29 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors or their respective spouse or minor children to acquire such rights in any other body corporate.

## SHARE OPTION SCHEMES

Particulars of the Company's share option schemes and details of movements in the share options to subscribe for the Shares granted under the Company's share option schemes during the year are set out in note 29 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.

## CONNECTED TRANSACTIONS

Details of connected transactions for the year are set out in note 33 to the financial statements.

Save as disclosed therein, there were no other transactions to be disclosed as connected transactions in accordance with the requirements of the GEM Listing Rules and accounting principles generally accepted in Hong Kong.

## 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 9 to 15 of this annual report.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles, 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 29 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 32 to the financial statements.

## DONATIONS

During the year, the Group did not make any charitable or other donations amounts.

## 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.

## POST BALANCE SHEET EVENTS

### Placing of Shares

On 11 April 2008, Bonus Raider entered into a new placing agreement with Pacific Foundation Securities Limited (the "**New Placing Agreement**") for the placing of 6,450,000 Shares at a placing price of HK$2.60 per Share. The number of Shares of Bonus Raider held immediately upon completion of the Placing, i.e. 16 April 2008, was 96,244,700 Shares, representing 84.98% of issued share capital of the Company. Details which are set out in the announcement of the Company dated 11 April 2008.

### Subdivision and change in lot size

On 6 June 2008, the Company proposes that each of the issued and unissued Shares of HK$1.00 each in the share capital of the Company be subdivided (the "Share Subdivision") into 5 shares of HK$0.2 each (the "Subdivided Shares"). The authorized share capital of the Company remains at HK$800,000,000 but divided into 4,000,000,000 Subdivided Shares of HK$0.2 each. The Subdivided Shares rank pari passu in all respects with each other and save for the fractional entitlements; the Share Subdivision did not result in any change in the relative rights of the Shareholders. The Shares are currently traded on GEM in board lots of 2,000 Shares. Upon the Share Subdivision becoming effective, the Subdivided Shares will be traded on GEM in board lots of 5,000 Subdivided Shares. Details of which are set out in Company's circular on 6 June 2008.

## Purchase of a subsidiary

On 26 May 2008, Shine Gain Holdings Limited, a wholly-owned subsidiary of the Company entered into the Sales and Purchase Agreement with Da Luz, Sergio Augusto Josue Junior to acquire the entire issued share capital of Plenty One Limited which directly holds 80% interest in the registered and paid up capital of PRC Co. The Equity Transfer has not yet been completed pending approval by the relevant government authority in the PRC. Immediately after completion of the Equity Transfer, Plenty One will hold an 80% interest in the registered and paid up capital PRC Co. PRC Co. is principally engaged in manufacture of bio-hang membrane filtering materials and filters, sale of water treatment equipment and material, chemical packing, sale of acid-resistant ceramic and anti-corrosion lining equipment. The Board is of the opinion that the Acquisition provides a good opportunity for the Company to participate in natural resources and public utility industry such as water-related business in the PRC, which in turn will not only diversify the business and markets of the Group, but will also broaden the Group's revenue base which would have a positive impact on the Company's profitability.

Following completion of the Acquisition, the Company will continue with its existing business. Apart from its existing business, if opportunities arise, the Group may also be involved in other investments including natural resource and other domestic consumptions commodities and not limited to sewage treatment in the PRC. Details of which are set out in the Company's circular dated 19 June 2008.

# AUDITORS

Messrs. Deloitte Touch Tohmatsu acted as auditors of the Company for the year ended 31 March 2007 and 31 March 2006. Subsequent to the resignation of Deloitte Touch Tohmatsu in 2007, Messrs. SHINEWING (HK) CPA Limited was appointed as auditors of the Company. A resolution will be submitted to the annual general meeting to re-appoint Messrs. SHINEWING (HK) CPA Limited as auditors of the Company.

By Order of the Board
**Yau Yan Ming Raymond**
*Chairman*

Hong Kong
25 June 2008

信永中和 ShineWing

**SHINEWING** (HK) CPA Limited
16/F., United Centre
95 Queensway, Hong Kong

**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 30 to 84, which comprise the consolidated and Company's balance sheets as at 31 March 2008, 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 judgment, 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 affairs of the Company and of the Group as at 31 March 2008 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.

**SHINEWING (HK) CPA Limited**
*Certified Public Accountants*
**Ip Yu Chak**
Practising Certificate Number: P04798

Hong Kong
25 June 2008

# Consolidated Income Statement

*For the year ended 31 March 2008*

| | Notes | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|---|
| Turnover | 7 | **138,985** | 93,776 |
| Investment income | | **2,767** | 3,436 |
| Revenue from contracts of information technology consultancy services | | **–** | 88 |
| Net gain (loss) on disposal of debt securities | | **1,132** | (131) |
| Net fair value change on listed trading securities | | **7,423** | 10,399 |
| Increase in fair values of financial assets at fair value through profit or loss | | **927** | 1,601 |
| Other income | 9 | **5,559** | 1,216 |
| Staff costs | 10 | **(3,763)** | (4,456) |
| Depreciation | | **(289)** | (316) |
| Reversal (allowance) for a convertible bond | 24 | **2,672** | (2,672) |
| Other operating expenses | | **(7,602)** | (6,762) |
| Profit before taxation | 11 | **8,826** | 2,403 |
| Taxation | 15 | **–** | – |
| Profit for the year attributable to equity holders of the Company | | **8,826** | 2,403 |
| Earnings per share | 16 | | |
| – Basic and diluted | | **HK7.8 cents** | HK2.1 cents |
| Dividends | | | |
| – Proposed dividend | 14 | **–** | 2,265 |
| – Dividend paid | 14 | **2,265** | 2,320 |

# Consolidated Balance Sheet

*As at 31 March 2008*

| | Notes | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|---|
| Non-current assets | | | |
| Property, plant and equipment | 17 | 120 | 220 |
| Investment in an associate | 19 | – | 4,000 |
| Available-for-sale investments | 20 | – | 10,500 |
| | | 120 | 14,720 |
| Current assets | | | |
| Other receivables | 23 | 31,142 | 1,422 |
| Convertible notes receivable | 24 | 2,672 | – |
| Amount due from a related company | 25 | 21,946 | – |
| Financial assets at fair value through profit or loss | 21 | 12,481 | 39,988 |
| Available-for-sale investments | 20 | 18,694 | 23,215 |
| Held-for-trading investments | 22 | 49,193 | 126,983 |
| Balances with non-bank financial institutions | 23 | 64,510 | 6,198 |
| Bank deposits | 23 | – | 7,800 |
| Bank balances and cash | 23 | 30,133 | 5,514 |
| | | 230,771 | 211,120 |
| Current liabilities | | | |
| Other payables | 23 | 653 | 1,035 |
| Amount due to a fellow subsidiary | 26 | 176 | – |
| | | 829 | 1,035 |
| Net current assets | | 229,942 | 210,085 |
| Net assets | | 230,062 | 224,805 |
| Capital and reserves | | | |
| Share capital | 27 | 113,251 | 114,237 |
| Reserves | | 116,811 | 110,568 |
| Equity attributable to equity holders of the Company | | 230,062 | 224,805 |

The consolidated financial statements on pages 30 to 84 were approved and authorised for issue by the Board of Directors on 25 June 2008 and are signed on its behalf by:

Director

Director

# Balance Sheet

*As at 31 March 2008*

| | Notes | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|---|
| Non-current assets | | | |
| Investments in subsidiaries | 18 | 32,002 | 33,164 |
| Investment in an associate | 19 | – | 4,000 |
| | | 32,002 | 37,164 |
| Current assets | | | |
| Other receivables | 23 | 132 | 132 |
| Amount due from a related company | 25 | 4,000 | – |
| Amounts due from subsidiaries | 18 | 183,504 | 182,087 |
| Bank deposit | 23 | – | 7,800 |
| Bank balances | 23 | 1,801 | 460 |
| | | 189,437 | 190,479 |
| Current liability | | | |
| Amounts due to subsidiaries | 18 | 2,838 | 2,838 |
| Net current assets | | 186,599 | 187,641 |
| Net assets | | 218,601 | 224,805 |
| Capital and reserves | | | |
| Share capital | 27 | 113,251 | 114,237 |
| Reserves | 28 | 105,350 | 110,568 |
| Equity attributable to equity holders of the Company | | 218,601 | 224,805 |

Director

Director

# Consolidated Statement of Changes in Equity

*For the year ended 31 March 2008*

| | Attributable to equity holders of the Company | | | | | | |
|---|---|---|---|---|---|---|---|
| | Share capital *HK$'000* | Capital redemption reserve *HK$'000* | Merger reserve *HK$'000* *(Note b)* | Investment revaluation reserve *HK$'000* | Special capital reserve *HK$'000* *(Note a)* | Accumulated profits *HK$'000* | Total *HK$'000* |
| At 1 April 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 |
| Total recognised income and expenses for the year | – | – | – | 2,026 | – | 2,403 | 4,429 |
| Dividends paid | – | – | – | – | – | (2,320) | (2,320) |
| Repurchase of shares | (1,902) | 1,902 | – | – | – | (1,854) | (1,854) |
| At 31 March 2007 | 114,237 | 2,311 | 45,918 | 1,147 | 60,592 | 600 | 224,805 |

# Consolidated Statement of Changes in Equity

*For the year ended 31 March 2008*

| | Attributable to equity holders of the Company | | | | | | |
|---|---|---|---|---|---|---|---|
| | Share capital *HK$'000* | Capital redemption reserve *HK$'000* | Merger reserve *HK$'000* *(Note b)* | Investment revaluation reserve *HK$'000* | Special capital reserve *HK$'000* *(Note a)* | Accumulated profits *HK$'000* | Total *HK$'000* |
| At 31 March 2007 | 114,237 | 2,311 | 45,918 | 1,147 | 60,592 | 600 | 224,805 |
| Gain on fair value changes of available-for-sale investments recognised directly in equity | – | – | – | 771 | – | – | 771 |
| Release of investment revaluation reserve upon disposals of available-for-sale investments | – | – | – | (1,147) | – | – | (1,147) |
| Profit for the year | – | – | – | – | – | 8,826 | 8,826 |
| Total recognised income and expenses for the year | – | – | – | (1,147) | – | 8,826 | 7,679 |
| Dividends paid | – | – | – | – | – | (2,265) | (2,265) |
| Repurchase of shares | (986) | 986 | – | – | – | (928) | (928) |
| **At 31 March 2008** | **113,251** | **3,297** | **45,918** | **771** | **60,592** | **6,233** | **230,062** |

*Note:* (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 accounts 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.

# Consolidated Cash Flow Statement

*For the year ended 31 March 2008*

| | 2008<br>*HK$'000* | 2007<br>*HK$'000* |
|---|---|---|
| OPERATING ACTIVITIES | | |
| Profit before taxation | **8,826** | 2,403 |
| Adjustments for: | | |
| Depreciation | **289** | 316 |
| Dividend from listed securities | **(1,736)** | (2,114) |
| Net (gain) loss on disposal of debt securities | **(1,132)** | 131 |
| (Gain) loss on disposal of property, plant and equipment | **(69)** | 1 |
| Increase in fair values of financial assets at fair value through profit or loss | **(927)** | (1,601) |
| Interest income | **(1,958)** | (603) |
| Interest income from debt securities | **(1,032)** | (1,322) |
| Recognition of unrealised gain eliminated on consolidation in prior years for consultancy and software development services rendered to an associate | **–** | (88) |
| Decrease in fair value of conversion option embedded in a convertible bond acquired | **–** | 1,328 |
| (Reversal) allowance for a convertible bond | **(2,672)** | 2,672 |
| Operating cash flows before movements in working capital | **(411)** | 1,123 |
| Decrease in held-for-trading investments | **60,153** | 918 |
| Decrease (increase) in available-for-sale investments | **15,777** | (521) |
| Decrease in financial assets at fair value through profit or loss | **27,298** | – |
| (Increase) decrease in other receivables | **(29,720)** | 487 |
| (Decrease) increase in other payables | **(382)** | 295 |
| Interest received from debt securities and equity linked deposits | **2,168** | 2,995 |
| Dividend received | **1,736** | 2,114 |
| Cash from operation | **76,619** | 7,411 |
| Interest received | **1,958** | 603 |
| Net cash from operating activities | **78,577** | 8,014 |
| INVESTING ACTIVITIES | | |
| Decrease in bank deposits | **7,800** | – |
| Purchases of property, plant and equipment | **(970)** | (21) |
| Purchases of a convertible bond | **–** | (4,000) |
| CASH FROM (USED IN) INVESTING ACTIVITIES | **6,830** | (4,021) |

# Consolidated Cash Flow Statement

*For the year ended 31 March 2008*

| | 2008 | 2007 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| FINANCING ACTIVITIES | | |
| Dividends paid | (2,265) | (2,320) |
| Repurchase of shares | (928) | (1,854) |
| Advance from a related company | 541 | – |
| Advance from a fellow subsidiary | 176 | – |
| NET CASH USED IN FINANCING ACTIVITIES | (2,476) | (4,174) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 82,931 | (181) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR | 11,712 | 11,893 |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by | | |
| Bank balances and cash and balances with non-bank financial institutions | 94,643 | 11,712 |

## 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 Bonus Raider Investments Limited, a company incorporated in the British Virgin Islands ("BVI") and its ultimate holding company is China Water Industry Group Limited, a company also incorporated in the BVI with its shares being listed on the Stock Exchange. The address of the registered office and principal place of business of the Company is disclosed in Corporate Information Section 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 stated in note 18.

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

In the current year, the Group has applied, for the first time, the following new standard, amendment and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning on 1 April 2007.

| | |
|---|---|
| Hong Kong Accounting Standard ("HKAS") 1 (Amendment) | Capital Disclosures |
| HKFRS 7 | Financial Instruments: Disclosures |
| HK(IFRIC)-Interpretation ("INT") 7 | Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies |
| HK(IFRIC)-INT 8 | Scope of HKFRS 2 |
| HK(IFRIC)-INT 9 | Reassessment of Embedded Derivatives |
| HK(IFRIC)-INT 10 | Interim Financial Reporting and Impairment |
| HK(IFRIC)-INT 11 | HKFRS 2: Group and Treasury Share Transactions |

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

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

The Group has not early applied the following new and revised standards, amendments and interpretations that have been issued but are not yet effective.

| | |
|---|---|
| HKAS 1 (Revised) | Presentation of Financial Statements[1] |
| HKAS 23 (Revised) | Borrowing Costs[1] |
| HKAS 27 (Revised) | Consolidated and Separate Financial Statements[2] |
| HKAS 32 & 1 (Amendment) | Puttable Financial Instruments and Obligations Arising on Liquidation[1] |
| HKFRS 2 (Amendment) | Share-based Payment – Vesting Conditions and Cancellations[1] |
| HKFRS 3 (Revised) | Business Combinations[2] |
| HKFRS 8 | Operating Segments[1] |
| HK(IFRIC)- INT 12 | Service Concession Arrangements[3] |
| HK(IFRIC)- INT 13 | Customer Loyalty Programmes[4] |
| HK(IFRIC)- INT 14 | HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[3] |

[1] Effective for annual periods beginning on or after 1 January 2009.
[2] Effective for annual periods beginning on or after 1 July 2009.
[3] Effective for annual periods beginning on or after 1 January 2008.
[4] Effective for annual periods beginning on or after 1 July 2008.

The directors of the Company anticipate that the application of these standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

## 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 of the Stock Exchange and by the Hong Kong Companies Ordinance.

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

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entity) 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.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other matters of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

### Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives, 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.

### 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.

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

### Investments in associates *(continued)*

The results and assets and liabilities of associates are incorporated in these consolidated 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, investments 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.

### Revenue recognition

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

Sale of available-for-sale investments and equity investments at fair value through profit or loss are recognised on a trade date basis.

Service income is recognised when services are provided.

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. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated 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 period when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

## 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.

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

### Financial assets

The Group's financial assets are mainly including financial assets at fair value through profit or loss ("FVTPL"), loans and receivables and available-for-sale investments. 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.

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective basis for debt instruments other than those financial assets designated as at FVTPL, of which interest income is included in net gains or losses.

*Financial assets at fair value through profit or loss*

Financial assets at FVTPL has two subcategories, including financial assets held for trading and those designated at FVTPL on initial recognition.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

# 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

## Financial assets *(continued)*

*Financial assets at fair value through profit or loss (continued)*

- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

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 FVTPL are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets.

*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, amount due from a related company, amounts due from subsidiaries, balances with non-bank financial institutions, bank deposits, bank balances and convertible notes receivable) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

*Available-for-sale investments*

Available-for-sale investments are non-derivatives that are either designated or not classified as financial assets at FVTPL and loans and receivables. At each balance sheet date subsequent to initial recognition, available-for-sale investments are measured at fair value. Changes in fair value are recognised in equity, until the investment 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 (see accounting policy on impairment loss on financial assets below).

For 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. (See accounting policy on impairment loss on financial assets below).

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

### Financial assets *(continued)*

*Impairment of financial assets*

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For an available-for sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as other receivables and amount due from a related company and amounts due from subsidiaries, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, 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.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount 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 loss will not be reversed in subsequent periods.

# 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

## Financial assets *(continued)*

*Impairment of financial assets (continued)*

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of other receivables, amount due from a related company and amounts due from subsidiaries, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When other receivables, amount due from a related company and amounts due from subsidiaries are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credit to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent 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.

Impairment losses on available-for-sales equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in equity. 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.

## 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.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are generally classified as other financial liabilities.

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

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

### Financial liabilities and equity *(continued)*

*Other financial liabilities*

Other financial liabilities including other payables, amount due to a fellow subsidiary and amount due to subsidiaries are subsequently measured at amortised cost, using the effective interest method.

*Equity instruments*

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 recognised 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.

*Derecognition*

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is 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 the exercise of share option, it is accounted for as equity instrument of the Company (see accounting policy above). Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

### Impairment losses

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, but so 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 the respective 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 ("HK$") 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, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. 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.

### Leasing

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.

*The Group as lessor*

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

*The Company as lessee*

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the relevant lease term. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

### 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

## Categories of financial instruments

| | The Group | |
|---|---|---|
| | **2008** | 2007 |
| | ***HK$'000*** | *HK$'000* |
| Financial assets at fair value through profit or loss | | |
| – designated as at FVTP&L | **12,481** | 39,988 |
| – held-for-trading investments | **49,193** | 126,893 |
| Available-for-sales investments | **18,694** | 33,715 |
| Loans and receivables (including cash and cash equivalents) | **150,403** | 20,934 |
| Financial liabilities at amortised cost | **829** | 1,035 |

| | The Company | |
|---|---|---|
| | **2008** | 2007 |
| | ***HK$'000*** | *HK$'000* |
| Loans and receivables (including cash and cash equivalents) | **189,437** | 190,479 |
| Financial liabilities at amortised cost | **2,838** | 2,838 |

# 5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through optimisation of the debt and equity balance.

The capital structure of the Group consists of cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital, reserves and accumulated profits. The directors of the Company review the capital structure on a regular basis. As part of this review, the directors of the Company consider the cost of capital and the associated risks, and take appropriate actions to adjust the Group's capital structure. The overall strategy of the Group remained unchanged during the two years ended 31 March 2008 and 2007.

## 6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include equity and debt investments, equity linked notes, other receivables, amount due from a related company, amounts due from subsidiaries, balances with non-bank financial institutions, bank deposits, bank balances, convertible notes receivable, other payables, amount due to a fellow subsidiary and amounts due to subsidiaries. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. 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.

### Credit risk

The credit risk on equity linked notes, non-bank financial institutions as well as bank balances and deposits is limited as the counterparties are banks or financial institutions 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.

Other than concentration of credit risk on liquid funds which are deposited with several banks or financial institutions with high credit rating, the Group does not have any other significant concentration of credit risk.

### Market risk

*Currency risk*

The Group has transactional currency exposure. Certain investments and bank balances 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.

The following table shows the Group's exposure at the balance sheet date to currency risk arising from transactions or recognised assets or liabilities denominated in a currency other than the function currency of the entity to which they relate.

## 6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

### Market risk *(continued)*

*Currency risk (continued)*

| | As at 31 March 2008 Australian Dollars ("AUD")'000 | As at 31 March 2007 Australian Dollars AUD'000 |
|---|---|---|
| Assets | 2,975 | 3,929 |
| Liabilities | – | – |

Sensitivity analysis

The Group is mainly exposed to the currency of AUD.

The following table details the Group's sensitivity to a 5% increase and decrease in HK$ against AUD. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. A negative number below indicates an decrease in profit and other equity where HK$ strengthen 5% against AUD. For a 5% weakening of HK$ against AUD, there would be an equal and opposite impact on the profit and other equity, and the balances below would be positive.

| | Currency AUD Impact | |
|---|---|---|
| | 2008 HK$'000 | 2007 HK$'000 |
| Profit or loss | (641) | (18) |
| Other equity | (416) | (1,161) |

*Other price risk*

The Group is exposed to equity price risk through its investments in listed equity securities. The managements manages this exposure by maintaining a portfolio of investments with different risks. The Group's equity price risk is mainly concentrated on equity instruments quoted in the overseas stock exchange and the Stock Exchange. In addition, the Group has a team to monitor the price risk and will consider hedging the risk exposure should the need arise.

## 6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

### Market risk *(continued)*

*Other price risk (continued)*

*Sensitivity analysis*

The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date.

If the prices of the respective equity instruments had been 5% higher/lower, the results for the year ended 31 March 2008 increase/decrease by HK$1,487,000 (2007: increase/decrease by HK$5,171,000) as a result of the changes in fair value of held-for-trading investments.

In management's opinion, the sensitivity analysis is not representative of the other price risk for the investments in listed equity securities as the year and exposure does not reflects the exposure during the year.

*Interest rate risk*

The Group's exposed to fair value interest rate risk relates to equity linked notes as well as debt securities. The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider other necessary options when significant interest rate exposure is anticipated.

The Group was also exposured to 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.

*Liquidity risk*

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The following table details the Group's remaining contractual maturity for its financial liabilities. For non-derivatives financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

## 6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

### Market risk *(continued)*

*Liquidity risk tables*

| | The Group | | |
|---|---|---|---|
| | Less than 1 year | Total undiscounted cash flows | Carrying amount at 31 March |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| **2008** | | | |
| **Non-derivative financial liabilities** | | | |
| Other payables | **653** | **653** | **653** |
| Amount due to a fellow subsidiary | **176** | **176** | **176** |
| | **829** | **829** | **829** |
| 2007 | | | |
| **Non-derivative financial liabilities** | | | |
| Other payables | 1,035 | 1,035 | 1,035 |

| | The Company | | |
|---|---|---|---|
| | Less than 1 year | Total undiscounted cash flows | Carrying amount at 31 March |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| **2008** | | | |
| **Non-derivative financial liabilities** | | | |
| Amounts due to subsidiaries | **2,838** | **2,838** | **2,838** |
| 2007 | | | |
| **Non-derivative financial liabilities** | | | |
| Amounts due to subsidiaries | 2,838 | 2,838 | 2,838 |

## 7. TURNOVER

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

| | **2008** | 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Interest income from debt securities | **1,031** | 1,322 |
| Dividends from listed securities | **1,736** | 2,114 |
| Proceeds from debt securities | **25,307** | 21,000 |
| Proceeds from held-for-trading investments | **102,535** | 61,452 |
| Proceeds from financial assets at fair value through profit or loss | **8,376** | 7,800 |
| Revenue from investments | **138,985** | 93,688 |
| Revenue from contracts of information technology consultancy services | **–** | 88 |
| | **138,985** | 93,776 |

## 8. SEGMENT INFORMATION

### Geographical segments

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

**Consolidated income statement for the year ended 31 March 2008**

| | **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 | **44,524** | **5,884** | **12,175** | **3,638** | **70,317** | **2,447** | **138,985** |
| Segment results | **2,876** | **2,315** | **1,915** | **(1,191)** | **8,925** | **81** | **14,921** |
| Other income | | | | | | | **5,559** |
| Depreciation | | | | | | | **(289)** |
| Unallocated corporate expenses | | | | | | | **(11,365)** |
| Profit before taxation | | | | | | | **8,826** |
| Taxation | | | | | | | **–** |
| Profit for the year | | | | | | | **8,826** |

## 8. SEGMENT INFORMATION *(continued)*

### Geographical segments *(continued)*

Consolidated income statement for the year ended 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 |
|---|---|---|---|---|---|---|---|
| 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 |

**Consolidated balance sheet as at 31 March 2008**

| | 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 | 31,969 | 23,323 | 1,614 | 21,982 | 1,234 | 2,918 | 83,040 |
| Unallocated corporate assets | | | | | | | 147,851 |
| Consolidated total assets | | | | | | | 230,891 |
| Segment liabilities | 8 | – | – | – | – | – | 8 |
| Unallocated corporate liabilities | | | | | | | 821 |
| Consolidated total liabilities | | | | | | | 829 |

## 8. SEGMENT INFORMATION *(continued)*

### Geographical segments *(continued)*

Consolidated balance sheet as at 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* |
| 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 |

*Other information:*

For the year ended 31 March 2007, the allowance for a convertible bond of approximately HK$2,672,000 was fully attributable to the receivable in Asia Pacific (other than Japan), the allowance was fully reversed during the year ended 31 March 2008 *(Note (24))*.

No analysis of capital expenditure and depreciation by location is disclosed for both years as in the opinion of the directors of the Company, 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, according no analysis by business is presented.

## 9. OTHER INCOME

| | 2008<br>*HK$'000* | 2007<br>*HK$'000* |
|---|---|---|
| Interest income | **1,958** | 603 |
| Rental income | **535** | 357 |
| Consultancy fee | **240** | 240 |
| Gain on disposal of property, plant and equipment | **69** | – |
| Net exchange gain | **2,757** | – |
| Sundries | **–** | 16 |
| | **5,559** | 1,216 |

## 10. STAFF COSTS

| | 2008<br>*HK$'000* | 2007<br>*HK$'000* |
|---|---|---|
| Salaries and allowances | **3,696** | 4,325 |
| Redundancy payments | **–** | 148 |
| Net contribution (refund) resulted from forfeiture of contributions of retirement benefits schemes | **67** | (17) |
| | **3,763** | 4,456 |

## 11. PROFIT BEFORE TAXATION

| | 2008 | 2007 |
|---|---|---|
| Profit before taxation has been arrived at after charging: | ***HK$'000*** | *HK$'000* |
| Auditor's remuneration | **350** | 503 |
| Loss on disposal of property, plant and equipment | **–** | 1 |
| Operating lease charges in respect of rented premises | **1,447** | 1,078 |
| Net foreign exchange loss | **–** | 477 |
| Decrease in fair value of conversion option embedded in a convertible bond acquired *(Note 24)* | **–** | 1,328 |

## 12. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the twelve (2007: five) directors, which was included in staff cost as set out in Note 10 above, were as follows:

For the year ended 31 March 2008

| Name of Director | Fees<br>*HK$'000* | Salaries and other benefits<br>*HK$'000* | Performance related incentive payments<br>*HK$'000*<br>*(Note)* | Retirement benefits scheme contributions<br>*HK$'000* | Total<br>*HK$'000* |
|---|---|---|---|---|---|
| *Executive directors:* | | | | | |
| Mr. Yau Yan Ming Raymond *(Note 1)* | – | 35 | – | – | 35 |
| Mr. Yang Bin *(Note 1)* | – | 25 | – | – | 25 |
| Mr. Li Wen Jun *(Note 1)* | – | 20 | – | – | 20 |
| Mr. Leroy Kung Lin Yuen *(Note 2)* | – | 1,176 | – | 12 | 1,188 |
| Ms. Lena Foo *(Note 2)* | – | 918 | – | 12 | 930 |
| *Independent non-executive directors:* | | | | | |
| Mr. Wu Tak Lung *(Note 1)* | – | – | – | – | – |
| Mr. Chang Kin Man *(Note 1)* | – | – | – | – | – |
| Mr. Pan Chik *(Note 1)* | – | – | – | – | – |
| Mr. Tong Lo Tung Sing *(Note 4)* | 15 | – | – | – | 15 |
| Mr. Ronny Chow Fan Chim *(Note 2)* | 29 | – | – | – | 29 |
| Mr. Kenneth Tseung Yuk Hei *(Note 3)* | 14 | – | – | – | 14 |
| Mr. Matthew P. Johnston *(Note 2)* | 29 | – | – | – | 29 |
| | 87 | 2,174 | – | 24 | 2,285 |

*Notes:*

1. Appointed on 13 March 2008.
2. Resigned on 13 March 2008.
3. Resigned on 17 September 2007.
4. Appointed on 17 September 2007 and resigned on 13 March 2008.

## 12. DIRECTORS' EMOLUMENTS *(continued)*

For the year ended 31 March 2007

| 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* |
| *Executive directors:* | | | | | |
| Mr. Leroy Kung Lin Yuen | – | 1,209 | 100 | 12 | 1,321 |
| Ms. Lena Foo | – | 883 | 73 | 12 | 968 |
| *Independent non-executive directors:* | | | | | |
| Mr. Kenneth Tseung Yuk Hei | 30 | – | – | – | 30 |
| Mr. Matthew P. Johnston | 30 | – | – | – | 30 |
| Mr. Ronny Chow Fan Chim | 30 | – | – | – | 30 |
| | 90 | 2,092 | 173 | 24 | 2,379 |

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

None of the directors has waived or agreed to waived emoluments during the two years ended 31 March 2008 and 2007.

## 13. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, two (2007: two) were directors of the Company whose emoluments are included in the disclosures in Note 12 above. The emoluments of the remaining three (2007: three) individuals were as follows:

| | **2008** | 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Salaries and allowances | **1,342** | 1,427 |
| Performance related incentive payments | **–** | 188 |
| Retirement benefits scheme contributions | **33** | 36 |
| | **1,375** | 1,651 |

The emoluments were within the following bands:

| | **Number of employees** | |
|---|---|---|
| | **2008** | 2007 |
| HK$1,000,000 or below | **3** | 3 |

No emoluments have been paid by the Group to the directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office during the two years ended 31 March 2008 and 2007.

## 14. DIVIDENDS

| | **2008** | 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Dividends recognised as distributions during the year: | | |
| Final dividend paid in respect of the year ended 31 March 2007 | | |
| – HK2 cents (year ended 31 March 2006: | | |
| HK0.2 cents) per share | **2,265** | 2,320 |
| Proposed: | | |
| Final dividend in respect of the year ended 31 March 2007 | | |
| – HK2 cents per share (2008: Nil) | **–** | 2,265 |

The directors of the Company do not propose any final dividend for the year ended 31 March 2008.

## 15. TAXATION

No provision for Hong Kong Profits Tax has been made in the consolidated 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 ("PRC") had no assessable profits for both years.

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

| | **2008** | 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Profit before taxation | **8,826** | 2,403 |
| Taxation at domestic income tax rate of 17.5% | **1,545** | 421 |
| Tax effect of estimated deductible temporary difference not recognised | **–** | 684 |
| Tax effect of expenses not deductible for tax purpose | **1,470** | 1,101 |
| Tax effect of income not taxable for tax purpose | **(3,149)** | (2,224) |
| Tax effect of tax loss not recognised | **232** | – |
| Utilisation of deductible temporary differences previously not recognised | **(98)** | – |
| Others | **–** | 18 |
| Taxation for the year | **–** | – |

At 31 March 2008, the Group had unused estimated tax losses and other deductible temporary differences of approximately HK$123,907,000 (2007: approximately HK$122,582,000) and nil (2007: approximately HK$559,000) 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.

## 16. 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:

| | 2008 | 2007 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Earnings for the purposes of basic and diluted earnings per share | 8,826 | 2,403 |
| | *Number* | *Number* |
| Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share | 113,306,279 | 115,699,288 |

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.

## 17. PROPERTY, PLANT AND EQUIPMENT

### The Group

| | Leasehold improvements HK$'000 | Furniture, fixtures and office equipment HK$'000 | Computer equipment HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| COST | | | | |
| At 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 |
| Additions | 725 | 126 | 119 | 970 |
| Disposals | (1,221) | (1,156) | (6,207) | (8,584) |
| **At 31 March 2008** | **–** | **7** | **113** | **120** |
| ACCUMULATED DEPRECIATION | | | | |
| At 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 |
| Provided for the year | 220 | 24 | 45 | 289 |
| Eliminated on disposals | (603) | (993) | (6,207) | (7,803) |
| **At 31 March 2008** | **–** | **–** | **–** | **–** |
| CARRYING VALUES | | | | |
| **At 31 March 2008** | **–** | **7** | **113** | **120** |
| At 31 March 2007 | 113 | 68 | 39 | 220 |

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 |

## 18. INVESTMENTS IN SUBSIDIARIES

| | The Company | |
|---|---|---|
| | **2008** | 2007 |
| | ***HK$'000*** | *HK$'000* |
| Unlisted shares, at cost | **32,002** | 31,994 |
| Registered capital, at cost | **–** | 1,170 |
| | **32,002** | 33,164 |

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

Details of the Company's subsidiaries at 31 March 2008 are as follows:

| Name of subsidiary | Form of business structure | Place/ country of incorporation/ operations | Issued and fully paid share capital | Proportion of nominal value of issued share capital directly held by the Company | 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 |
| Top Deluxe Limited | Incorporated | Hong Kong | Ordinary shares HK$10 | 100% | Inactive |

None of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year.

## 19. INVESTMENT IN AN ASSOCIATE

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Unlisted shares at cost | **–** | 4,000 | **–** | 4,000 |

Details of the Group's associate at 31 March 2007 were 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 associate was disposed by the Group on 13 March 2008 to iMerchants Hong Kong Limited ("IHK"), a wholly owned subsidiary of the then shareholders of the Company, iMerchants Group Limited at a consideration of HK$4,000,000.

## 20. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments comprise:

| | The Group | |
|---|---|---|
| | **2008** | 2007 |
| | ***HK$'000*** | *HK$'000* |
| Unlisted securities: | | |
| – Equity securities, at cost | **10,500** | 10,500 |
| – Debt securities with fixed interest of 5.4% and maturity date on 20 June 2008, at fair value | **8,194** | – |
| – 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 |
| Total | **18,694** | 33,715 |
| Analysed for reporting purposes as: | | |
| Non-current assets | **–** | 10,500 |
| Current assets | **18,694** | 23,215 |
| | **18,694** | 33,715 |

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.

## 21. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | The Group | |
|---|---|---|
| | **2008** | 2007 |
| | ***HK$'000*** | *HK$'000* |
| LIBOR range accrual notes | **–** | 25,913 |
| Equity linked notes | **2,975** | 14,075 |
| Currency linked notes | **9,506** | – |
| | **12,481** | 39,988 |

Major terms of the equity linked notes outstanding at 31 March 2008:

| Notional amount | Maturity | Range of coupon rates |
|---|---|---|
| US$1,000,000 (HK$7,800,000) | 12 May 2008 | 0% to 31% |

Major terms of the currency linked notes outstanding at 31 March 2008:

| Notional amount | Maturity | Range of coupon rates |
|---|---|---|
| US$1,000,000 (HK$7,800,000) | 21 July 2008 | 0% |

The equity linked notes will be redeemed either by delivering the relevant number of shares or equivalent amount of cash 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.

## 22. HELD-FOR-TRADING INVESTMENTS

Held-for-trading investments include:

| | The Group | |
|---|---|---|
| | **2008** | 2007 |
| | ***HK$'000*** | *HK$'000* |
| Listed securities: | | |
| – Equity securities listed in Hong Kong | **–** | 16,114 |
| – Equity securities listed elsewhere | **29,725** | 87,312 |
| | **29,725** | 103,426 |
| Hedged funds | **7,622** | 22,578 |
| Mutual funds | **11,846** | 979 |
| | **49,193** | 126,983 |

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.

## 23. OTHER FINANCIAL ASSETS AND LIABILITIES

### Other receivables

The carrying amounts of the Group's other receivables at balance sheet date approximate to their fair values due to their short-term maturities.

### Balances with non-bank financial institutions

Balances with non-bank financial institutions comprise short-term deposits with an original maturity of three months or less, carrying interest at approximately 3% (2007: 5%) per annum.

The carrying amounts of the Group's non-bank financial institutions at balance sheet date approximate to their fair values due to their short-term maturities.

## 23. OTHER FINANCIAL ASSETS AND LIABILITIES *(continued)*

### Bank deposits, bank balances and cash

At 31 March 2007, the bank deposit of HK$7,800,000 was fixed for a term of four years and matured in July 2007 with a standard range floater. The Company received 4.25% per annum that the LIBOR ranged between 0% to 5%, with the upper limit increasing annually after contract date. The Group received 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 was 4.25% per annum.

At 31 March 2008 bank balances carry interest at market rates which range from 0.05% to 4% (2007: 1.80% to 4.68%) per annum.

At 31 March 2008, the bank balances that are denominated in AUD other than the functional currencies of the Group entities amounting to approximately HK$12,628,000 (2007: HK$2,146,000).

The carrying amounts of the Group's bank deposits and bank balances at balance sheet date approximate to their fair values due to their short-term maturities.

### Other payables

The carrying amounts of the Group's other payables at balance sheet date approximate to their fair values due to their short-term maturities.

## 24. CONVERTIBLE NOTES RECEIVABLE

For the year ended 31 March 2007, 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.

The Group has measured the CB in accordance with HKAS 39. At the date of the initial recognition of the CB, the embedded derivative for the conversion option of the CB amounted to HK$1,328,000, which was determined using Binomial model. During the year ended 31 March 2007, a decrease in fair value of the HK$1,328,000 for the embedded derivative for the conversion option were recognised in the consolidated income statement. As at 31 March 2008, the fair value of the embedded derivate for the conversion option is remain zero, which is determined by reference to the valuation report carried by RHL Appraisal Limited, an independent qualified professional valuer not connected to the Group.

## 24. CONVERTIBLE NOTES RECEIVABLE *(continued)*

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 of the Company had considered the recoverability of the loan to e.Energy and made an allowance of HK$2,672,000.

The Group and IHK entered into a disposal agreement (the "Disposal Agreement") and a supplementary agreement (the "Supplementary Agreement") on 3 December 2007 and 28 January 2008, respectively. Pursuant to which, the Group had conditionally agreed to sell, and IHK had conditionally agree to purchase, certain assets of the Group including the CB (the "Disposal Assets") at a total cash consideration of approximately HK$39,400,000 and the consideration of the CB is amounted to approximately HK$4,000,000. Details of this transaction had been set out in the Company's circular dated 1 February 2008.

The Disposal Assets comprises the following assets of the Group :

i) an unlisted equity securities issued by a private entity incorporated in Japan

ii) the CB

iii) certain investment in Mutual funds

iv) the investment in an associate, Net Alliance

v) the fixtures and fittings at the head office of the Group

vi) certain investment in equity securities listed in overseas

Among the Disposal Assets listed above, items (iv) to (vi) were disposed to IHK during the year ended 31 March 2008 at a consideration of approximately HK$22,487,000 resulting a gain on disposal of approximately HK$2,500,000.

The CB was transferred to IHK on 5 May 2008.

In view of the consideration of the CB, the directors of the Company had re-consider the recoverability of the loan to e.Energy and made a reversal of the allowance of HK$2,672,000.

## 25. AMOUNT DUE FROM A RELATED COMPANY

Particulars of amount due from a related company are as follows:

| | The Group IHK HK$'000 | The Company IHK HK$'000 |
|---|---|---|
| Balance as at 31 March 2008 | 21,946 | 4,000 |
| Balance as at 31 March 2007 | – | – |
| Maximum amount owed outstanding during the year | 22,487 | 4,000 |

The amount due from IHK relates to the acquisition of Disposal Assets as stated in Note 24 above is unsecured, interest-free and repayable on demand.

In the opinion of directors of the Company, the amount due from a related company at the balance sheet date approximated to its fair value due to its short-term maturity.

## 26. AMOUNT DUE TO A FELLOW SUBSIDIARY

The amount due to a fellow subsidiary is unsecured, interest-free and repayable on demand.

In the opinion of directors of the Company, the amount due to a fellow subsidiary at the balance sheet date approximated to its fair value due to its short-term maturity.

## 27. SHARE CAPITAL

| | Number of ordinary shares | Amount |
|---|---|---|
| | | *HK$'000* |
| Authorised: | | |
| Ordinary shares of HK$0.10 each | | |
| At 1 April 2006 | 8,000,000,000 | 800,000 |
| Reduced due to share consolidation *(Note a)* | (7,200,000,000) | – |
| **Ordinary share of HK$1.00 each** | | |
| **At 31 March 2007 and 31 March 2008** | **800,000,000** | **800,000** |
| Issued and fully paid: | | |
| Ordinary shares of HK$0.10 each | | |
| At 1 April 2006 | 1,161,382,000 | 116,139 |
| Share repurchased and cancelled before share consolidation *(Note b)* | (1,306,000) | (131) |
| Reduced due to share consolidation *(Note a)* | (1,044,068,400) | – |
| Share repurchased and cancelled after share consolidation *(Note b)* | (1,770,600) | (1,771) |
| At 1 April 2007 | 114,237,000 | 114,237 |
| Shares repurchased and cancelled *(Note b)* | (986,000) | (986) |
| **At 31 March 2008** | **113,251,000** | **113,251** |

*Notes:*

**(a) Share consolidation**

Pursuant to the special resolution passed on 27 July 2006, the Company consolidated every ten issued and unissued shares of HK0.10 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 shares of HK$1.00 each. The Share Consolidation took effect on 28 July 2006.

The consolidated shares rank pari passu in all respects with each other and save for the financial entitlements, the Share Consolidation will not result in any change in the relative rights of the shareholders.

## 27. SHARE CAPITAL *(continued)*

*Notes: (continued)*

**(b) Share repurchases**

During the year ended 31 March 2008, 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$* |
| April 2007 | 986,000 | 0.95 | 0.92 | 925,380 |

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 two years ended 31 March 2008 and 2007 did the Company or its subsidiaries purchase, sell or redeem any of the Company's listed securities.

## 28. RESERVES

### The Company

| | Capital redemption reserve | Contributed surplus | Special capital reserve | Accumulated profits | Total |
|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| At 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 |
| Dividends paid | – | – | – | (2,265) | (2,265) |
| Repurchase of shares | 986 | – | – | (928) | 58 |
| Loss for the year | – | – | – | (3,011) | (3,011) |
| **At 31 March 2008** | **3,297** | **31,104** | **60,592** | **10,357** | **105,350** |

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 of the Company, at 31 March 2008, the reserves available for distribution to shareholders pursuant to the Hong Kong Companies Ordinance amounted to HK$102,053,000 (2007: HK$108,257,000).

## 29. 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.

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

### (i) Share option scheme adopted on 15 March 2000 ("2000 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 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.

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.

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

### (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.

### (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.

## 29. 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 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.

## 29. 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 2008.

At 31 March 2007, the total number of shares available for issue under the Company's share option schemes was 11,423,700 (2008: Nil), representing 10.00% (2008: Nil) of the shares of the Company in issue at that date.

## 29. 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 *(Note 1)* | Exercisable period | Outstanding at 1 April 2006 | Lapsed during the year *(Note 2)* | Adjusted due to Share Consolidation *(Note 1)* | Outstanding at 31 March 2007 | Cancellation during the year *(Note 5)* | Outstanding at 31 March 2008 | Vesting Period |
|---|---|---|---|---|---|---|---|---|---|---|
| Pre-IPO Share Option Plan | 15 March 2000 | 14.80 | In various stages from 1 April 2001 to 14 March 2010 | 3,390,000 | (420,000) | (2,673,000) | 297,000 | (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 2001 to 23 August 2010 | 3,390,000 | (420,000) | (2,673,000) | 297,000 | (297,000) | – | In various stages from 23 August 2000 to 1 April 2004 |
| | | | | 6,780,000 | (840,000) | (5,346,000) | 594,000 | (594,000) | – | |

*Notes:*

(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 at 31 March 2007 were granted to any directors of the Company.

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

(5) The share options were cancelled upon the close of unconditional mandatory general cash offer by Bonus Raider Investments Limited as detailed in the Company's announcement dated 13 March 2008.

## 30. 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:

| | 2008<br>*HK$'000* | 2007<br>*HK$'000* |
|---|---|---|
| Available-for-sale investments | – | 23,215 |
| Financial assets at fair value through profit or loss | – | 14,075 |
| Held-for-trading investments | – | 34,607 |
| | – | 71,897 |

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

## 31. OPERATING LEASE COMMITMENTS

### As lessee

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of office premises which fall due as follows:

| | The Group | |
|---|---|---|
| | 2008<br>*HK$'000* | 2007<br>*HK$'000* |
| Within one year | 556 | 744 |
| In the second to fifth years inclusive | 46 | – |
| | 602 | 744 |

## 31. OPERATING LEASE COMMITMENTS *(continued)*

### As lessee *(continued)*

| | The Company | |
|---|---|---|
| | **2008** | 2007 |
| | ***HK$'000*** | *HK$'000* |
| Within one year | **–** | 710 |
| In the second to fifth years inclusive | **–** | – |
| | **–** | 710 |

Operating lease payments represent rentals payable by the Group for its office premises. Leases are negotiated for an average term of two years and rental are fixed for an average of two years.

### As lessor

Property rental income earned during the year was HK$535,000 (2007: HK$357,000).

At the balance sheet date, the Group and the Company had contracted with a tenant for future minimum lease payments for sublease its office premises as follows:

| | The Group and the Company | |
|---|---|---|
| | **2008** | 2007 |
| | ***HK$'000*** | *HK$'000* |
| Within one year | **–** | 235 |

## 32. 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 PRC are members of the pension schemes operated by the government of the PRC. The Company's subsidiary in the PRC 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 PRC with respect to the pension scheme is the required contributions under the pension scheme.

The retirement benefits costs charged to consolidated income statement and the forfeited voluntary contributions credited to the consolidated income statement amounted to approximately HK$67,000 (2007: HK$77,000) and Nil (2007: HK$94,000), respectively. The retirement benefits costs charged to consolidated income statements represents contributions payable to the schemes by the Group at rates specified in the rules of the schemes.

## 33. RELATED PARTY DISCLOSURES

(a) Except as disclosed elsewhere in the financial statements, during the year, the Group had the following transactions with related parties:

| | **2008** | 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Rental income from an associate | **535** | 357 |
| Consultancy income from an associate | **240** | 240 |

(b) On 3 December 2007, the Group and IHK entered into a trademarks assignment agreement (the "Trademarks Assignment Agreement") whereby the Group had conditionally agree to assign a trademarks (the "Trademarks") at a nominal consideration of HK$1. On 28 January 2008, the Group and IHK entered into a deed of termination to terminate the Trademarks Assignment Agreement.

## 33. RELATED PARTY DISCLOSURES *(continued)*

### (c) Compensation of key management personnel

The emoluments of directors of the Company are disclosed in Note 12 above. The emoluments of the key management other than directors were as follows:

| | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|
| Salaries and allowance | 661 | 743 |
| Performance related incentive payments | – | 132 |
| Retirement benefits scheme contributions | 9 | 12 |
| | 670 | 887 |

The emoluments of key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

## 34. POST BALANCE SHEET EVENTS

(a) On 26 May 2008, the Group entered into a conditional sales and purchase agreement with an independent third party to acquire the entire issued share capital of Plenty One Limited, a company incorporated in the BVI, which in turn holds a 80% interest in the registered and paid-up capital of a PRC company at a consideration of approximately HK$55,000,000. The PRC company is principally engaged in manufacture of bio-hans membrane filtering materials and filters, sale of water treatment equipment and material, chemical packing, sale of acid-resistant ceramic and anti-corrosion lining equipment.

(b) On 19 May 2008, the Group proposed that each of the existing issued and unissued shares of HK$1 each in the share capital of the Company be subdivided into 5 shares of HK$0.2 each.

# Financial Summary

## RESULTS

| | Year ended 31 March | | | | |
|---|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2007 | **2008** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | ***HK$'000*** |
| | *(note)* | *(note)* | | | *(note)* |
| Turnover | 4,592 | 2,695 | 119,671 | 93,776 | **138,985** |
| Investment income | – | – | 5,179 | 3,436 | **2,767** |
| Revenue from contracts of information technology consultancy services | 4,592 | 2,695 | 648 | 88 | |
| Net gain (loss) on disposal of debt securities | – | – | 1,515 | (131) | **1,132** |
| Net fair value change on listed trading securities | 7,253 | 5,098 | 17,927 | 10,399 | **7,423** |
| Increase in fair values of financial assets at fair value through profit or loss | – | – | 1,020 | 1,601 | **927** |
| Other income | 7,797 | 7,058 | 807 | 1,216 | **5,559** |
| Staff costs | (17,452) | (10,815) | (4,576) | (4,456) | **(3,763)** |
| Depreciation | (2,447) | (1,066) | (303) | (316) | **(289)** |
| Allowance for a convertible bond | – | – | – | (2,672) | **2,672** |
| Other operating expenses | (9,670) | (10,344) | (5,503) | (6,762) | **(7,602)** |
| (Loss) profit before taxation | (9,927) | (7,374) | 16,714 | 2,403 | **8,826** |
| Taxation | – | – | – | – | **–** |
| (Loss) profit for the year attributable to equity holders of the Company | (9,927) | (7,374) | 16,714 | 2,403 | **8,826** |

## ASSETS AND LIABILITIES

| | As at 31 March | | | | |
|---|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2007 | **2008** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | ***HK$'000*** |
| Total assets | 221,331 | 211,345 | 224,143 | 225,840 | **230,891** |
| Total liabilities | (1,842) | (1,422) | (740) | (1,035) | **829** |
| Equity attributable to equity holders of the Company | 219,489 | 209,923 | 223,403 | 224,805 | **230,062** |

*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.