

The background of the entire page is a dark blue gradient with several bright, glowing blue light trails or streaks that appear to be moving or radiating from the right side towards the left. These streaks vary in length and intensity, creating a sense of motion and energy.

# iMerchants Limited

Third Quarterly Report 2007-2008

Stock Code: 8009

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

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

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

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

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

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

## SUMMARY

The Group's unaudited consolidated profit for the nine months ended 31 December 2007 was approximately HK\$11,739,000, compared to the unaudited consolidated profit of approximately HK\$6,353,000 of the Group for the corresponding nine-month period in 2006. No interim dividend is recommended for the period.

## RECENT DEVELOPMENT OF THE GROUP

On 1 December 2007, China Water Industry Group Limited ("China Water", whose issued shares are listed on the Main Board of the Stock Exchange), iMerchants Group Limited ("IMG", the controlling shareholder of iMerchants Limited (the "Company")) and Mr. Leroy Kung (as the guarantor to the Agreement) entered into the conditional sale and purchase Agreement (the "Agreement"), pursuant to which China Water conditionally agreed to acquire from IMG 76,246,100 issued ordinary shares of the Company ("Sale Shares") at an aggregate consideration of approximately HK\$198 million. The Sale Shares represented approximately 67.32% of the entire issued share capital of the Company as at the date of the Agreement. One of the conditions precedent to the completion of the Agreement ("Completion") is the passing by the China Water shareholders who are allowed to vote of a resolution to approve the Agreement and the transactions contemplated under the Agreement at the extraordinary general meeting ("EGM") of China Water which was held on 12 February 2008. The resolution to approve the Agreement was passed in that EGM. Subsequent to the change in control of the Company upon Completion, in compliance with the Hong Kong Code on Takeovers and Mergers ("Takeovers Code"), China Water will be required to make an unconditional mandatory cash offer for all the remaining shares of the Company ("Share Offer") and to make a comparable offer for all the outstanding options of the Company ("Option Offer"). A composite offer and response document in relation to such Share Offer and Option Offer will be despatched to the shareholders and the optionholders of the Company later.

On 3 December 2007 and 28 January 2008, the Company and iMerchants Hong Kong Limited ("IHK", a company wholly-owned by IMG) entered into the Disposal Agreement and the Disposal Supplemental Agreement, respectively, pursuant to which the Company conditionally agreed to sell, and IHK conditionally agreed to purchase, certain assets of the Company at a total cash consideration of approximately HK\$39.4 million (the "Disposal"). This Disposal also constitutes Special Deal for the Company under the Takeovers Code and will need approval by the Independent Shareholders (i.e. shareholders of the Company other than China Water and parties acting in concert with it; and Mr. Leroy Kung and Ms. Lena Foo, together with their respective associates and parties acting in concert with each of them) at the forthcoming extraordinary general meeting of the Company.

China Water intends that the Company and its subsidiaries (the "Group") will continue its existing principal activities after completion of the Disposal and it will maintain the listing status of the Company on the GEM after the close of the Share Offer and Option Offer. China Water will conduct a review of the business operations and financial position of the Group afterwards with a view to formulate a business plan and strategy suitable for the Group.

For further details of the above, please refer to the circular of the Company published on 4 February 2008.

## **FINANCIAL REVIEW**

During the year ended 31 March 2007, the Directors consider investments in securities as well as financial and investment products being principal activities of the Group. For the nine months ended 31 December 2007, the Group's turnover was approximately HK\$133,872,000 which was comprised of revenue from investments, compared to a restated turnover of approximately HK\$85,409,000 for the corresponding nine-month period in 2006.

Income in this nine months includes net fair value gains on listed trading securities of approximately HK\$10,840,000 (2006: approximately HK\$9,201,000) which are subject to short term volatility. As most of the financial investments in our portfolio are either blue-chip or big-cap stocks or well-managed funds, and we intend to hold them for the long term, we believe the fair values of these investments will increase gradually in the long run. Along with the recent volatility in the global equity market, the fair values of our investments decreased during the quarter ended 31 December 2007. The management takes a conservative approach towards the treasury investments and is aiming at a balanced risk versus return from investing available funds.

The Group generated a net profit of HK\$11,739,000 for the nine months ended 31 December 2007, compared to a net profit of HK\$6,353,000 for the corresponding period in 2006. The profit is mainly attributable to the increase in fair values of iMerchants' treasury investments during the last nine months. In addition, because of the recent depreciation in value of United States dollars and Hong Kong dollars relative to other major currencies, a substantial exchange gain was recorded from our holding of debt securities which are denominated in Australian dollars.

## RESULTS

The board of Directors (the "Board") of the Company presents the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the three months and the nine months ended 31 December 2007 together with the comparative unaudited figures for the corresponding periods in 2006 as follows:

### Unaudited Consolidated Income Statement

For the three months and nine months ended 31 December 2007

	Notes	Three months ended		Nine months ended	
		31 December 2007 HK\$'000	2006 HK\$'000	31 December 2007 HK\$'000	2006 HK\$'000
Turnover	2	<b>55,249</b>	34,382	<b>133,872</b>	85,409
Investment income		<b>867</b>	2,063	<b>2,603</b>	4,180
Revenue from contracts of information technology consultancy services		-	-	-	88
Net gain (loss) on disposal of debt securities		<b>1,144</b>	(131)	<b>1,132</b>	(131)
Net fair value change on listed trading securities		<b>(4,518)</b>	10,027	<b>10,840</b>	9,201
Increase in fair values of financial assets at fair value through profit or loss		<b>326</b>	54	<b>325</b>	55
Other income		<b>3,495</b>	(360)	<b>4,373</b>	311
Staff costs		<b>(1,012)</b>	(902)	<b>(2,953)</b>	(3,114)
Depreciation		<b>(88)</b>	(76)	<b>(223)</b>	(244)
Other operating expenses		<b>(2,540)</b>	(1,006)	<b>(4,358)</b>	(3,993)
Profit (loss) before taxation	3	<b>(2,326)</b>	9,669	<b>11,739</b>	6,353
Taxation	4	-	-	-	-
Profit (loss) for the period attributable to equity holders of the Company		<b>(2,326)</b>	9,669	<b>11,739</b>	6,353
Earnings (loss) per share - basic and diluted	5	<b>(2.05) cent</b>	8.34 cent	<b>10.36 cent</b>	5.48 cent

## Notes

### 1. Basis of preparation

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

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

### 2. Turnover

Turnover represents revenue from investments and is analysed as follows:

	Nine months ended 31 December	
	2007	2006
	HK\$'000	HK\$'000
Interest income from debt securities	892	2,329
Dividends from listed securities	1,711	1,851
Proceeds from debt securities	25,307	21,000
Proceeds from held-for-trading investments	97,586	52,341
Proceeds from financial assets at fair value through profit or loss	8,376	7,800
	<hr/>	<hr/>
Revenue from investments	133,872	85,321
Revenue from contracts of information technology consultancy services	-	88
	<hr/>	<hr/>
	<b>133,872</b>	<b>85,409</b>

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

### 3. Profit (loss) before taxation

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

	Nine months ended 31 December	
	2007	2006
	HK\$'000	HK\$'000
Operating lease charges in respect of rented premises	1,000	795
Staff costs		
Salaries and allowances	2,888	3,003
Redundancy payments	11	148
Net contributions (refund) to retirement benefits schemes	54	(37)
	2,953	3,114
Interest income from bank deposits	(1,138)	(513)
Net exchange (gain) loss	(2,745)	648
Rental income	(310)	(266)
Sundries	(180)	(180)

### 4. Taxation

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

### 5. Earnings (loss) per share

The calculation of the basic and diluted earnings (loss) per share for the three months and the nine months ended 31 December 2007 is based on the loss of the Group of approximately HK\$2,326,000 (2006: profit of approximately HK\$9,669,000) and profit of approximately HK\$11,739,000 (2006: profit of approximately HK\$6,353,000), respectively, and on the weighted average number of ordinary shares of 113,324,571 (2006: 115,893,841).

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

### 6. Interim dividend

The Directors do not recommend the payment of an interim dividend for the nine months ended 31 December 2007 (2006: Nil).

## 7. Movements of reserves

	<b>Special capital reserve</b>	<b>Capital redemption reserve</b>	<b>Merger reserve</b>	<b>Investment revaluation reserve</b>	<b>Accumulated profit (losses)</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2006	60,592	409	45,918	(2,026)	2,371	107,264
Gain on fair value changes of available-for-sale investments and net expenses recognized directly in equity	-	-	-	2,380	-	2,380
Release of investment revaluation reserve upon maturity of an available-for-sale investment	-	-	-	131	-	131
Final dividend for 2005/06	-	-	-	-	(2,321)	(2,321)
Share repurchases	-	606	-	-	(603)	3
Profit for the period	-	-	-	-	6,353	6,353
	<u>60,592</u>	<u>1,015</u>	<u>45,918</u>	<u>485</u>	<u>5,800</u>	<u>113,810</u>

	<b>Special capital reserve</b>	<b>Capital redemption reserve</b>	<b>Merger reserve</b>	<b>Investment revaluation reserve</b>	<b>Accumulated profit profit</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2007	60,592	2,311	45,918	1,147	600	110,568
Gain on fair value changes of available-for-sale investments and net expenses recognized directly in equity	-	-	-	1,521	-	1,521
Release of investment revaluation reserve upon maturity of available-for-sale investments	-	-	-	(1,132)	-	(1,132)
Final dividend for 2006/07	-	-	-	-	(2,265)	(2,265)
Share repurchases	-	986	-	-	(928)	58
Profit for the period	-	-	-	-	11,739	11,739
	<u>60,592</u>	<u>3,297</u>	<u>45,918</u>	<u>1,536</u>	<u>9,146</u>	<u>120,489</u>

## 8. Pledge of assets

At 1 April 2007, the Group had pledged assets amounted to approximately HK\$71,897,000 to a financial institution in respect of the due and punctual payment to the respective financial institution. Pursuant to the Deed of Release issued by that financial institution on 13 November 2007, the Group had no assets pledge to any party thereafter.



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

During the nine months ended 31 December 2007, the Company repurchased certain of its own shares through The Stock Exchange of Hong Kong Limited (the "Stock Exchange") as follows:

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

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

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

## **COMPETING INTERESTS**

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

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

At 31 December 2007, the interests and short positions of the Directors in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Rule 5.46 of the GEM Listing Rules were as follows:

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

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

Note: The registered shareholder of 76,246,100 shares is iMerchants Group Limited ("iMerchants Group"). iMerchants Group is wholly-owned by Asian Gold Associates Limited ("Asian Gold"), 76% of its issued share capital is owned by Galaface Limited ("Galaface"). Mr Kung is deemed to have interests in the 76,246,100 shares owned by iMerchants Group as he owns the entire interest in Galaface and is entitled to exercise more than one-third of the voting power at general meetings of both Asian Gold and Galaface.

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

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

### Long positions in debentures

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

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

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

### **Short positions in underlying shares**

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

### **Short positions in debentures**

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

Save as disclosed above, as at 31 December 2007, none of the Directors had any interest in any shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

### **INTEREST DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS**

At 31 December 2007, the following person (other than the interests disclosed above in respect of certain Directors of the Company) had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

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

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

### **Long positions in underlying shares**

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

**Short positions in shares**

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

**Short positions in underlying shares**

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

Save as disclosed above, as at 31 December 2007, the Directors were not aware of any other person who had an interest or a short position in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

**ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES**

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

**DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE**

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

**AUDIT COMMITTEE**

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

## **COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES**

The Board has reviewed the Company's corporate governance practices and is satisfied that the Company has full compliance with the Code as set out in Appendix 15 of the GEM Listing Rules for the nine-month period ended 31 December 2007.

By order of the Board  
**Leroy Kung Lin Yuen**  
Chairman

Hong Kong, 14 February 2008

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

*Executive Directors:*

Mr. Leroy Kung Lin Yuen

Ms. Lena Foo

*Independent Non-executive Directors:*

Mr. Ronny Chow Fan Chim

Mr. Matthew P. Johnston

Mr. Tony Lo Tung Sing