



iMerchants Limited

Third Quarterly Report 2008/2009

Stock Code: 8009

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*This report, for which the directors (the “**Directors**”) of iMerchants Limited (the “**Company**”) collectively and individually accept responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM (the “**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:– (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 2008 was approximately HK\$4,906,000, compared to the unaudited consolidated profit of approximately HK\$11,739,000 for the corresponding period in 2007. No interim dividend is recommended for the period.

GROUP BUSINESS REVIEW

On 12 August 2008, Shine Gain Holdings Limited, a direct wholly-owned subsidiary of the Company acquired the entire issued share capital of Plenty One Limited which directly holds 80% equity interest in Ping Xiang City San He Lian Chuang Water Technology Company Limited (萍鄉市三和聯創水務科技有限公司).

The Company and its subsidiaries (the "**Group**") consider its principal business operation as ceramic sewage material sales and manufacturing. The expansion of the ceramic sewage material production line is in progress. Upon completion on expansion, the manufacturing capacity will be increased by double in order to cope with the ever increasing demand for ceramsite and biological purification material.

The Group will continue its objective of enhancing the value of the Company's shares. We will cautiously make use of excess funds on investments in Hong Kong equity market. The investment strategy is reviewed and monitored frequently and we will take appropriate actions whenever necessary in response to changes in fundamental market situation.

The management of the Company will continue to focus on the business expansion of its selling and manufacturing ceramic sewage material. Should there exist any suitable opportunities, subject to the results of financial and operational reviews, the Company will consider investments with a view to expanding and diversifying its business.

During the nine-month period ended 31 December 2008, the Directors decided to ease out of investments in securities as well as financial and investment products and consider in selling and manufacturing of ceramic sewage material being principal activities of the Group. For the nine months ended 31 December 2008, the Group's turnover was approximately HK\$92,723,000 which was comprised of revenue from investments and sales of sewage material, compared to a turnover of approximately HK\$133,872,000 for the corresponding nine-month period in 2007.

The Group generated a net profit of approximately HK\$4,906,000 for the nine months ended 31 December 2008, compared to a net profit of approximately HK\$11,739,000 for the corresponding period in 2007. The profit was mainly attributable to the disposal and redemption of the Group's treasury investments and the newly acquired ceramic sewage material sales and manufacturing business. Currently most of the financial investments in our portfolio are intend to be held for long term, we believe the fair values of these investments will increase gradually in the long run despite the recent downturn of the stock price. The sewage material sales and manufacturing business also proved with a bright future since the demand for cleaner environment and water still sustain a sturdy growth.

RESULTS

The board of Directors (the "Board") of the Company presents the unaudited consolidated results of the Group for the three months and the nine months ended 31 December 2008 together with the comparative unaudited figures for the corresponding periods in 2007 as follows:

Unaudited Consolidated Income Statement

For the three months and nine months ended 31 December 2008

	Notes	Three months ended		Nine months ended	
		31 December		31 December	
		2008	2007	2008	2007
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	2	501	55,249	92,723	133,872
Cost of Sales		(386)	(57,430)	(83,904)	(118,972)
Gross Profit		115	(2,181)	8,819	14,900
Gain on disposal on convertible bond		-	-	1,328	-
Other income		-	3,495	845	4,373
Selling and distribution expenses		(60)	-	(256)	-
Administration expenses		(550)	-	(617)	-
Other operating expenses		(1,682)	(3,639)	(5,052)	(7,504)
Finance expenses		(48)	(1)	(161)	(30)
Profit (loss) before taxation	3	(2,225)	(2,326)	4,906	11,739
Taxation	4	-	-	-	-
Profit (loss) for the period attributable to equity holders of the Company		(2,225)	(2,326)	4,906	11,739
Attributable to:					
Equity holders of the Company		(2,120)	(2,326)	4,887	11,739
Minority interests		(105)	-	19	-
		(2,225)	(2,326)	4,906	11,739
Earnings (loss) per share (restated) – basic and diluted	5	(0.39) cent	(0.41) cent	0.87 cent	2.07 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 unaudited consolidated results have been prepared on the historical cost basis except for certain financial instruments, which are, measured at fair values.

The accounting policies used in preparing the unaudited consolidated results are consistent with those used in the Group's annual financial statements for the year ended 31 March 2008.

The unaudited consolidated results of the Group for the nine months ended 31 December 2008 are unaudited but have been reviewed by the Company's Audit Committee.

2. TURNOVER

Turnover represents revenue generated from sales of sewage material as well as revenue from investments, and is analysed as follows:

	Three months ended		Nine months ended	
	31 December		31 December	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover from sales of sewage material	501	–	3,125	–
Interest income from debt securities	–	281	47	892
Dividends from listed securities	–	586	321	1,711
Proceeds from debt securities	–	18,628	19,184	25,307
Proceeds from held-for-trading investments	–	35,754	64,801	97,586
Proceeds from financial assets at fair value through profit or loss	–	–	5,245	8,376
Turnover	<u>501</u>	<u>55,249</u>	<u>92,723</u>	<u>133,872</u>

During the nine months ended 31 December 2008, the Directors consider selling and manufacturing sewage material 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	
	2008 HK\$'000	2007 HK\$'000
Operating lease charges in respect of rented premises	481	1,000
Staff costs		
Salaries and allowances	1,531	2,888
Redundancy payments	-	11
Net contributions to retirement benefits schemes	90	54
	1,621	2,953
Depreciation expense	335	223
Interest income from bank deposits	(278)	(1,138)
Net exchange (gain) loss	(545)	(2,745)
Rental income	-	(310)
Sundries	7	(180)
	<u> </u>	<u> </u>

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 subsidiaries 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 attributable to the ordinary equity holders of the Company for the three-month period and nine-month period ended 31 December 2008 is based on the following data:

	Three months ended 31 December		Nine months ended 31 December	
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
Earnings (loss) for the purposes of basic and diluted earnings (loss) per share	<u>(2,225)</u>	<u>(2,326)</u>	<u>4,906</u>	<u>11,739</u>
	<i>Number</i>	<i>Number</i> (restated)	<i>Number</i>	<i>Number</i> (restated)
Weighted average number of ordinary shares for the purposes of basic and diluted earnings (loss) per share	<u>566,255,000</u>	<u>566,255,000</u>	<u>566,255,000</u>	<u>566,255,000</u>

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 2007. No share options existing during the nine months ended 31 December 2008.

On 19 May 2008, the authorised share capital of the Company was HK\$800,000,000, divided into 800,000,000 Shares of HK\$1.00 each, of which 113,251,000 Shares were in issue and fully paid. Immediately upon the Share Subdivision becoming effective (i.e. 27 June 2008), the authorised share capital of the Company is HK\$800,000,000 divided into 4,000,000,000 Subdivided Shares of HK\$0.20 each, of which 566,255,000 Subdivided Shares are in issue and fully paid. No further Shares of the Company were issued or repurchased after 19 May 2008 and prior to the Share Subdivision becoming effective (i.e. 27 June 2008).

The Subdivided Shares will rank *pari passu* in all respects with the Shares in issue prior to the Share Subdivision and the rights attaching to the Subdivided Shares will not be affected by the Share Subdivision.

6. INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the nine months ended 31 December 2008 (2007: Nil).

7. MOVEMENT OF RESERVES

	Attributable to equity holders of the Company							
	Special capital reserve	Capital redemption reserve	Merger reserve	Investment revaluation reserve	Accumulated Profits (losses)	Total	Minority interests	Total
	HK\$'000	HK\$'000	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	-	110,568
Gain on fair value changes of available-for-sale investments and net expenses recognized directly in equity	-	-	-	1,521	-	1,521	-	1,521
Release of investment revaluation reserve upon maturity of available-for-sale investments	-	-	-	(1,132)	-	(1,132)	-	(1,132)
Final dividend for 2006/07	-	-	-	-	(2,265)	(2,265)	-	(2,265)
Share repurchases	-	986	-	-	(928)	58	-	58
Profit for the period	-	-	-	-	11,739	11,739	-	11,739
At 31 December 2007	<u>60,592</u>	<u>3,297</u>	<u>45,918</u>	<u>1,536</u>	<u>9,146</u>	<u>120,489</u>	<u>-</u>	<u>120,489</u>

	Special capital reserve	Capital redemption reserve	Merger reserve	Investment revaluation reserve	Accumulated Profits (losses)	Total	Minority interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	At 1 April 2008	60,592	3,297	45,918	771	6,233	116,811	-
Acquisition of subsidiaries	-	-	-	-	-	-	1,160	1,160
(Loss)/gain on fair value changes of available-for-sale investments and net expenses recognized directly in equity	-	-	-	(57,101)	-	(57,101)	-	(57,101)
Capital contribution by minority Shareholder of the subsidiary	-	-	-	-	-	-	338	338
Profit for the period	-	-	-	-	4,887	4,887	19	4,906
At 31 December 2008	<u>60,592</u>	<u>3,297</u>	<u>45,918</u>	<u>(56,330)</u>	<u>11,120</u>	<u>64,597</u>	<u>1,517</u>	<u>66,114</u>

During the period did the Company or its subsidiaries did not purchase, sell or redeem any of the Company's listed securities.

8. CAPITAL COMMITMENTS

At 31 December 2008, the Group had no capital commitment.

9. ACQUISITION OF SUBSIDIARIES AND BUSINESS

On 12 August 2008, the Group acquired the entire issued share capital of Plenty One Limited which directly holds 80% equity interest in Ping Xiang City San He Lian Chuang Water Technology Company Limited (萍鄉市三和聯創水務科技有限公司). The amount of goodwill arising as a result of the acquisition was approximately HK\$48,830,000.

The net assets acquired in the transaction and the goodwill arising are as follows:

	12 August 2008 HK\$'000
Net assets acquired:	
Property, plant and equipment	5,196
Other asset	2,755
Inventory	1,066
Trade and other receivables	401
Bank balances and cash	3,141
Trade and other payables	(1,726)
Bank and other borrowings	(2,003)
Shareholder's loan	(1,500)
Minority interests	(1,160)
	<hr/>
	6,170
Goodwill	48,830
	<hr/>
Total consideration	<u>55,000</u>
	<hr/>
Satisfied by:	
Cash	<u>55,000</u>
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Net cash outflow arising on acquired	
Cash consideration paid	55,000
Bank balance and cash acquired	3,141
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DIRECTORS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY OF ITS ASSOCIATED CORPORATIONS

At 31 December 2008, the interests and short positions of the Directors in the shares, underlying shares and debentures of the Company or any of 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 to Rule 5.66 of the GEM Listing Rules were as follows:

Long positions in ordinary shares of HK\$0.2 each of the Company (the "Shares")

No long positions of the Directors in the Shares was recorded in the register or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 to Rule 5.66 of the GEM Listing Rules.

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

No long positions of the Directors in the underlying shares of the equity derivatives of the Company or any of its associated corporations was recorded in the register or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 to Rule 5.66 of the GEM Listing Rules.

Long positions in debentures

No long positions of the Directors in the debentures of the Company or any of its associated corporations was recorded in the register or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 to Rule 5.66 of the GEM Listing Rules.

Long positions in the shares of associated corporations

Name of Director	Name of associated corporation	Number of shares held in the associated corporation	Approximate percentage of shareholding
Yang Bin	China Water Industry Group Limited	72,000	0.00%

Save as disclosed above, no long positions of the Directors in the shares of the associated corporations of the Company was recorded in the register or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 to Rule 5.66 of the GEM Listing Rules.

Short positions in the Shares

No short positions of the Directors in the Shares or any of its associated corporations was recorded in the register or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 to Rule 5.66 of the GEM Listing Rules.

Short positions in underlying shares

No short positions of the Directors in the underlying shares of the equity derivatives of the Company or any of its associated corporations was recorded in the register or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 to Rule 5.66 of the GEM Listing Rules.

Short positions in debentures

No short positions of the Directors in the debentures of the Company or any of its associated corporations was recorded in the register or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 to Rule 5.66 of the GEM Listing Rules.

Save as disclosed above, at 31 December 2008, none of the Directors had any interests in any shares, underlying shares and debentures of the Company or any of 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 to Rule 5.66 of the GEM Listing Rules.

INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

At 31 December 2008, the following persons or companies (other than the interests disclosed above in respect of the Director) had an interest or short positions in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

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	Beneficial owner	481,223,500	84.98%
China Water Industry Group Limited (Note)	Interest of a controlled corporation	481,223,500	84.98%

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

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 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, at 31 December 2008, the Directors were not aware of any other person or companies (other than the interests disclosed above in respect of the Director) who had an interest or a short position in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

AUDIT COMMITTEE

The Company has an audit committee (“**Audit Committee**”) which was established with written terms of reference in compliance with the GEM Listing Rules. As at the date of this report, the Audit Committee had three members comprising the three independent non-executive Directors, Mr. Chang Kin Man (Chairman of the Audit Committee), Mr. Wu Tak Lung and Mr. Pan Chik.

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 Group’s third quarterly results for the nine months ended 31 December 2008 have been reviewed by the members of the Audit Committee, who are of the opinion that such statements comply with the applicable accounting standards, the Stock Exchange listing requirements and legal requirements and that adequate disclosures have been made.

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 of Corporate Governance Practice (the “**Code**”) and the Rules on Corporate Governance Report as set out in the GEM Listing Rules Appendix 15 and Appendix 16 during the nine months ended 31 December 2008, save as the following deviation.

Under the code provision A.2.1 set out in the Code, the roles of chairman and chief executive officer should be separated.

Mr. Yau Yan Ming Raymond (“**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.

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

During the period under review, 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 nine-month period ended 31 December 2008, he or she had fully complied with the required standard of dealings and there was no event of non-compliance.

COMPETING INTERESTS

During the period under review, 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.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the period under review, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

By Order of the Board
Yau Yan Ming Raymond
Chairman

Hong Kong
10 February 2009

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

Executive Directors:

Mr. Yau Yan Ming Raymond
Mr. Yang Bin
Mr. Li Wen Jun
Mr. Wong Ka Chun Carson

Independent non-executive Directors:

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