



iMerchants Limited

First Quarterly Report 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 full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (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, (i) the information contained in this report 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 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 loss for the three months ended 30 June 2009 was approximately HK\$26,822,000, compared to the unaudited consolidated profit of approximately HK\$7,953,000 of the Group for the corresponding period in 2008. No interim dividend is recommended for the period under review.

GROUP BUSINESS REVIEW

The Company and its subsidiaries (collectively referred to as the "**Group**") were principally engaged in manufacture and trading of ceramic sewage products as well as investment in listed securities.

The management is optimistic about the profitability of investing in listed securities in the long run. The market value of the investment which is currently held by the Group increased towards the end of three months period benefiting from the global fiscal stimulus packages. The management will continue to make use of the available funds to enhance the overall value of the Company's shares.

On 8 April 2009, Growwise Holdings Limited, a wholly-owned subsidiary of the Company (the "**Purchaser**"), entered into a sale and purchase agreement with an independent third party, Rightshine Holdings Limited (the "**Vendor**"), pursuant to which the Purchaser has conditionally agreed to purchase and the Vendor conditionally agreed to sell the entire issued share capital of Supreme Luck International Limited at a consideration of HK\$900,000,000. The Consideration will be satisfied by cash and/or the issuance of promissory note and the allotment of consideration shares, convertible preference shares and convertible bonds.

As at the date of this report, the authorised share capital of the Company is HK\$800,000,000 divided into 4,000,000,000 shares, of which 566,255,000 shares have been issued. In order to accommodate the future expansion and growth of the Group as well as to accommodate the allotment and issue of the Consideration Shares, the Conversion Shares and the Converted Preference Shares so that a maximum of 4,000,000,000 new shares will be issued, the Board proposes to increase the authorised share capital of the Company from HK\$800,000,000 divided into 4,000,000,000 shares to HK\$2,000,000,000 divided into 6,000,000,000 shares and 4,000,000,000 convertible preference shares of HK\$0.2 each. The Capital Increase, the Agreement and all transactions contemplated thereunder are subject to the approval of the Shareholders at the EGM by passing an ordinary resolution. The Capital Increase is a condition precedent for completion of the Agreement. Details of the Agreement and Capital Increase and the capitalized terms are included in the announcement of the Company dated 5 May 2009.

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 agreed 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 at a total consideration of approximately HK\$39.4 million. Details of which and the capitalized terms are set out in the circular of the Company on 4 February 2008. The Disposal was completed on 29 May 2009.

FINANCIAL REVIEW

The Group recorded a net loss of approximately HK\$26,822,000 for the three months ended 30 June 2009, compared to a net profit of approximately HK\$7,953,000 for the corresponding period in 2008. The loss for the first quarter in the current year is mainly due to the disposal of one of the Group's available-for-sale securities. The Group continues to be in a healthy financial situation. As at 30 June 2009, the Group holds current assets plus financial investments and deposits totaling approximately HK\$194,675,000 and has approximately HK\$1,287,000 of bank borrowings from the newly acquired subsidiary.

For the three months ended 30 June 2009, the Group's turnover was approximately HK\$24,034,000 compared to a turnover of approximately HK\$75,180,000 for the corresponding period in 2008.

RESULT

The board of Directors (the “Board”) presents the unaudited results of the Group for the three months ended 30 June 2009 together with the comparative unaudited figures for the corresponding period in 2008 as follows.

	NOTES	Three months ended 30 June	
		2009 HK\$'000	2008 HK\$'000
Turnover	2	24,034	75,180
Revenue		2,643	–
Cost of Goods sold		(1,727)	–
Gross profit		916	–
Investment income		13	368
Gain on disposal of convertible bonds		–	1,328
Net gain on disposal of debt securities		–	1,143
Net fair value change on listed trading securities		–	3,415
Net loss on disposal of listed trading securities		(24,460)	–
Increase in fair values of financial assets at fair value through profit or loss		–	2,584
Other income		17	822
Selling expenses		(1,011)	–
Administrative expenses		(2,237)	(1,707)
Financial costs		(34)	–
(Loss)/profit before taxation	3	(26,796)	7,953
Taxation	4	(26)	–
(Loss)/profit for the year		(26,822)	7,953
Attributed to:			
– Equity holders of the Company		(26,743)	7,953
– Minority interests		(79)	–
(Loss)/earnings per share	5		
– Basic		HK(4.7 cents)	HK1.4 cents

Notes

1. **BASIS OF PREPARATION**

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

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

The financial statements are unaudited, but have been reviewed by the audit committee of the Group.

2. **TURNOVER**

Turnover represents revenue generated from manufacture and trading of ceramic sewage materials as well as revenue from investments, and is analysed as follows:

	Three months ended	
	30 June	
	2009	2008
	HK\$'000	HK\$'000
Interest income from debt securities	–	47
Dividends from listed securities	13	321
Proceeds from debt and available-for-sale securities	21,378	19,184
Proceeds from held-for-trading investments	–	50,383
Proceeds from financial assets at fair value through profit or loss	–	5,245
	<hr/>	<hr/>
Revenue from investments	21,391	75,180
Revenue from manufacture and trading of ceramic sewage materials	2,643	–
	<hr/>	<hr/>
	24,034	75,180

3. (LOSS)/PROFIT BEFORE TAXATION

	Three months ended	
	2009	2008
	HK\$'000	HK\$'000
(Loss)/profit before taxation has been arrived at after charging (crediting):		
Operating lease charges in respect of rented premises	87	167
Staff cost		
Salaries and allowances	754	519
Retirement benefit scheme contributions	19	15
	773	534
Interest income from bank deposits	(1)	(199)
Sundries	17	–

4. 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 periods.

On 16 March 2007, the People's Republic of China (the "PRC") promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. Under the New Law and Implementation Regulation, the Enterprise Income Tax rate of the Group's subsidiary in the PRC reduced from 33% to 25% from 1 January 2008 onwards. The relevant tax rate for the Group's subsidiary in the PRC is 25%.

5. 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:

	Three months ended 30 June	
	2009 HK\$'000	2008 HK\$'000
(Loss)/Earnings for the purposes of basic and diluted earnings per share	<u>(26,743)</u>	<u>7,953</u>
	Number	Number
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	<u>566,255,000</u>	<u>566,255,000</u>

No share options were granted during both period under review.

6. INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the three months ended 30 June 2009 (2008: Nil).

7. MOVEMENT OF RESERVES

	Attributable to equity holders of the Company								
	Capital redemption reserve	Merger reserve	Investment revaluation reserve	Special capital reserve	Translation reserve	Accumulated (Loss)/profit	Sub-total	Minority interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2008	3,297	45,918	771	60,592	-	6,233	116,811	-	116,811
Gain/(loss) on fair value changes of available-for-sale investments recognised directly in equity	-	-	(11,478)	-	-	-	(11,478)	-	(11,478)
Profit for the period	-	-	-	-	-	7,953	7,953	-	7,953
At 30 June 2008	<u>3,297</u>	<u>45,918</u>	<u>(10,707)</u>	<u>60,592</u>	<u>-</u>	<u>14,186</u>	<u>113,286</u>	<u>-</u>	<u>113,286</u>

	Attributable to equity holders of the Company								
	Capital redemption reserve	Merger reserve	Investment revaluation reserve	Special capital reserve	Translation reserve	Accumulated (Loss)/profit	Sub-total	Minority interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2009	3,297	45,918	(54,073)	60,592	(104)	8,619	64,249	1,151	65,400
Exchange differences arising on translation of foreign operations	-	-	-	-	(81)	-	(81)	(20)	(101)
Gain/(loss) on fair value changes of available-for-sale investments recognised directly in equity	-	-	95,345	-	-	-	95,345	-	95,345
Loss for the period	-	-	-	-	-	(26,743)	(26,743)	(79)	(26,822)
At 30 June 2009	<u>3,297</u>	<u>45,918</u>	<u>41,272</u>	<u>60,592</u>	<u>(185)</u>	<u>(18,124)</u>	<u>132,770</u>	<u>1,052</u>	<u>133,822</u>

8. PLEDGE OF ASSETS

Assets with the following carrying amounts have been pledged to secure the other loans of the Group:

	The Group	
	30 June 2009 HK\$'000	30 June 2008 HK\$'000
Property, plant and equipment	2,018	-
Prepaid lease payments	2,658	-
	<u>4,676</u>	<u>-</u>

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

At 30 June 2009, 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 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 Directors in the Shares 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 the shares of associated corporation

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 (" China Water ")	365,000,000 (Note)	19.30%

Note: These shares are held by Boost Skill Investments Limited (as to 265,479,000 shares of China Water) and its wholly-owned subsidiaries, Favor Jumbo Investments Limited (as to 130,000,000 shares of China Water) and Sure Ability Limited (as to 55,000,000 shares of China Water). Mr. Yang Bin is interested in 60% of the equity interest in Boost Skill Investments Limited.

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

Short positions in underlying shares

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

Short positions in debentures

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

Save as disclosed above, at 30 June 2009, 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

At 30 June 2009, the following persons (other than the interests disclosed above in respect of certain Directors) 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	481,223,500	84.98%
China Water Industry Group Limited	Interest of a controlled corporation	481,223,500 (Note)	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 were recorded in the register.

Short positions in underlying shares

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

Save as disclosed above, at 30 June 2009, 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.

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 three independent non-executive Directors, namely, 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 first quarterly results for the three months ended 30 June 2009 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.

During the period under review, the Company has applied the principles and complied with all the applicable code provisions in the Code of Corporate Governance Practices as set out in Appendix 15 to the GEM Listing Rules, save as the following deviation.

Under code provision A.2.1, 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 period under review, 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
13 August 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