



iMerchants Limited

First Quarterly Report 2010

Stock Code : 8009

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

GEM has been positioned 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 GEM mean that it is a market more suited to professional and other sophisticated investors.

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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 or deceptive; (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 2010 was approximately HK\$11,327,000, compared to the unaudited consolidated loss of approximately HK\$26,822,000 of the Group for the corresponding period in 2009. 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 material as well as investment in listed securities. The loss figure for the period is primary composed of the increase in administrative cost caused by the amortisation of intangible asset from the accounting treatment towards the acquisition of our new subsidiary.

References were made to the announcement of the Company dated 5 August 2010. The Board announced that on 3 August 2010, a direct wholly-owned subsidiary of the Company (the “**Purchaser**”) entered into the MOU with a company incorporated in the British Virgin Islands and beneficially owned by an Independent Third Party (the “**Vendor**”), the Vendor’s Guarantor and the Vendor’s PRC Co. for the possible acquisition of the entire issued share capital of the Target Company at a total consideration of not more than HK\$980 million, subject to the payment of the Adjusted Consideration. The Consideration and the Adjusted Consideration shall be satisfied in cash and by the Company allotting and issuing the Convertible Preference Shares and/or Convertible Bonds. The proposed Acquisition is subject to the entering into of the Sale and Purchase Agreement within 90 days from the date of the MOU.

The entering into of the Sale and Purchase Agreement, if it materialises, will constitute a notifiable transaction for the Company under the GEM Listing Rules. Further announcement will be made by the Company when the Sale and Purchase Agreement is signed. The proposed Acquisition may or may not proceed and that no legally binding document has been executed. For details and the meanings of the capitalised terms used in this paragraph please refer to the announcement of the company on 5 August 2010.

PENDING LITIGATION

On 26 May 2008, Shine Gain Holdings Limited, a direct wholly-owned subsidiary of the Company (the “**Purchaser**”), entered into an agreement (the “**Agreement**”) to purchase the entire issued share capital of Plenty One Limited (the “**Acquisition**”), which in turn holds a 80% interest in the registered and paid-up capital of 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 “**PRC Co.**”). Details of the Agreement and the Acquisition are disclosed in the circular of the Company dated 19 June 2008.

Pursuant to the Agreement, Da Luz, Sergio Augusto Josue Junior (the “**Vendor**”) irrevocably and unconditionally warrants, guarantees and undertakes to and with the Purchaser that the consolidated net profit after tax of the PRC Co. (the “**Net Profit**”) during the period from 1 June 2008 to 30 May 2009 (“**First Relevant Period**”) and the period from 1 June 2009 to 30 May 2010 (“**Second Relevant Period**”) as to be shown in the audited accounts of the PRC Co. for such period to be prepared by a certified public accountants acceptable to the Purchaser shall not be less than RMB6,000,000 and RMB10,000,000 respectively (the “**Guaranteed Profit**”). In the event that the Net Profit during the First and Second Relevant Period, as the case may be, is less than the Guaranteed Profit, the Purchaser shall be entitled to a cash sum which is equal to the amount of the difference between the Guaranteed Profit and the Net Profit (the “**Shortfall Payment**”).

Currently, the accounts of the PRC Co. has showed that the net profit for the First and Second Relevant Period is to be less than the Guaranteed Profit. The Company has already appointed legal representative in search for possible action against the Vendor for compensation.

FINANCIAL REVIEW

The Group recorded a net loss of approximately HK\$11,327,000 for the three months ended 30 June 2010, compared to a net loss of approximately HK\$26,822,000 for the corresponding period in 2009. The Group continues to be in a healthy financial situation. As at 30 June 2010, the Group holds current assets plus financial investments and deposits totaling approximately HK\$61,862,000 and has approximately HK\$3,990,000 of bank borrowings.

For the three months ended 30 June 2010, the Group’s turnover was approximately HK\$10,628,000 compared to a turnover of approximately HK\$24,034,000 for the corresponding period in 2009.

RESULT

The board of Directors (the “**Board**”) presents the unaudited results of the Group for the three months ended 30 June 2010 together with the comparative unaudited figures for the corresponding period in 2009 as follows.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months ended 30 June 2010

	NOTES	Three months ended 30 June	
		2010 HK\$'000	2009 HK\$'000
Turnover	2	10,628	24,034
Revenue		5,526	2,643
Cost of Sale		(1,776)	(1,727)
Gross profit		3,750	916
Investment income		22	13
Net gain (loss) on disposal of listed trading securities		3,220	(24,460)
Other income (expenses)		(9)	17
Selling expenses		(781)	(1,011)
Administrative expenses		(17,422)	(2,237)
Financial costs		(106)	(34)
Loss before taxation	3	(11,326)	(26,796)
Taxation	4	(1)	(26)
Loss for the period		(11,327)	(26,822)

		Three months ended 30 June	
	<i>NOTES</i>	2010 HK\$'000	2009 HK\$'000
Other comprehensive (expense) income for the period, net of tax			
Exchange difference arising on translation		5	(101)
Change in fair value of available-for-sale investments		–	96,116
Release of investment revaluation reserve upon disposal of available-for-sale investments		(4,452)	(771)
Total comprehensive (expense) income for the period, net of tax		(15,774)	68,422
Loss for the period attributable to:			
Owners of the Company		(10,782)	(26,743)
Minority interests		(545)	(79)
		(11,327)	(26,822)
Total comprehensive (expense) income attributable to:			
Owners of the Company		(15,229)	68,521
Minority interests		(545)	(99)
		(15,774)	68,422
Loss per share (HK cents)	5		
– Basic and diluted		(0.33)	(0.94)

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	
	2010	2009
	HK\$'000	HK\$'000
Dividends from listed securities	22	13
Proceeds from debt and available-for-sale securities	5,080	21,378
Revenue from investments	5,102	21,391
Revenue from manufacture and trading of ceramic sewage materials	5,526	2,643
	10,628	24,034

3. LOSS BEFORE TAXATION

	Three months ended 30 June	
	2010 HK\$'000	2009 HK\$'000
Loss before taxation has been arrived at after charging (crediting):		
Operating lease charges in respect of rented premises	323	87
Staff cost		
Salaries and allowances	1,138	754
Retirement benefit scheme contributions	29	19
	1,167	773
Amortisation of intangible asset	15,426	–
Interest income from bank deposits	(1)	(1)
Sundries	66	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 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. LOSS PER SHARE

The calculation of the basic and diluted loss per share attributable to owners of the Company for the period is based on the following data:

	Three months ended 30 June	
	2010 HK\$'000	2009 HK\$'000
Loss for the purposes of basic loss per share (loss for the period attributable to owners of the Company)	10,782	26,743
	Number	Number
Weighted average number of ordinary shares for the purpose of basic loss per share	3,246,797,888	2,831,275,000

Diluted loss per share was same as the basic loss per share for the three months ended 30 June 2010, as the effect of the conversion of the Company's convertible bonds and non-redeemable convertible preference shares were anti-dilutive for the period ended 30 June 2010.

Diluted loss per share was same as the basic loss per share for the three months ended 30 June 2009 as there were no diluting events existed.

The weighted average number of ordinary shares for the purpose of basic loss per share has been adjusted for the share subdivision on 2 November 2009.

6. INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the three months ended 30 June 2010 (2009: Nil).

7. MOVEMENT OF RESERVES

	Attributable to owners of the Company										
	Share premium HK\$'000	Capital		Investment revaluation reserve HK\$'000	Special capital reserve HK\$'000	Translation reserve HK\$'000	Equity component of		Sub-total HK\$'000	Minority interests HK\$'000	Total HK\$'000
		redemption reserve HK\$'000	Merger reserve HK\$'000				convertible bonds HK\$'000	Accumulated profits (losses) HK\$'000			
At 1 April 2009	-	3,297	45,918	(54,073)	60,592	(104)	-	8,619	64,249	1,151	65,400
Total comprehensive income (expense) for the period	-	-	-	95,345	-	(81)	-	(26,743)	68,521	(99)	68,422
At 30 June 2009	-	3,297	45,918	41,272	60,592	(185)	-	(18,124)	132,770	1,052	133,822

	Attributable to owners of the Company										
	Share premium HK\$'000	Capital		Investment revaluation reserve HK\$'000	Special capital reserve HK\$'000	Translation reserve HK\$'000	Equity component of		Sub-total HK\$'000	Minority interests HK\$'000	Total HK\$'000
		redemption reserve HK\$'000	Merger reserve HK\$'000				convertible bonds HK\$'000	Accumulated losses HK\$'000			
At 1 April 2010	46,142	3,297	45,918	4,452	40,022	(52)	84,045	(83,884)	139,940	511	140,451
Total comprehensive (expense) income for the period	-	-	-	(4,452)	-	5	-	(10,782)	(15,229)	(545)	(15,774)
At 30 June 2010	46,142	3,297	45,918	-	40,022	(47)	84,045	(94,666)	124,711	(34)	124,677

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 2010 HK\$'000	30 June 2009 HK'000
Property, plant and equipment	-	2,018
Prepaid lease payments	2,629	2,658
	2,629	4,676

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

At 30 June 2010, 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\$0.04 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")	450,479,000 (Note)	16.64%

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 2010, 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.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES

At 30 June 2010, the following persons or companies (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 (<i>Note 1</i>)	Beneficial owner	2,406,117,500	67.23%
China Water Industry Group Limited (<i>Note 1</i>)	Interest of a controlled corporation	2,406,117,500	67.23%
Will Success Holdings Limited (<i>Note 2</i>)	Beneficial owner	300,005,400	8.38%
Even Glory Holdings Limited (<i>Note 2</i>)	Beneficial owner	5,400	0.00%
Chen Lixue (<i>Note 2</i>)	Interest of a controlled corporation	300,010,800	8.38%
Wang Hongjun (<i>Note 2</i>)	Interest of a controlled corporation	5,400	0.00%

Notes:

1. These shares are registered in the name of Bonus Raider Investments Limited, which is a wholly-owned subsidiary of China Water Industry Group Limited.
2. These Shares are held by Will Success Holdings Limited ("Will Success") (as to 300,005,400 Shares), the wholly-owned subsidiary of Chen Lixue and Even Glory Holdings Limited ("Even Glory") (as to 5,400 Shares). Chen Lixue owns 50% equity interest of Even Glory.

Long positions in underlying shares

(a) *Convertible preference shares of HK\$0.04 each of the Company (“Convertible Preference Shares”)*

Name of holder	Capacity	Number of Shares entitled pursuant to the full exercise of the Convertible Preference Share held as at 30 June 2010 <i>(Note 3)</i>
Will Success Holdings Limited <i>(Note 1)</i>	Beneficial Owner	6,906,194,600
Even Glory Holdings Limited <i>(Note 2)</i>	Beneficial Owner	7,346,194,600
Chen Lixue <i>(Note 1&2)</i>	Interest of a controlled corporation	14,252,389,200
Wang Hongjun <i>(Note 2)</i>	Interest of a controlled corporation	7,346,194,600

Note:

1. Will Success is a company wholly-owned by Mr. Chen Lixue.
2. Even Glory is a company owned by Mr. Chen Lixue and Mr. Wang Hongjun respectively. Each of them holds 50% of the interests of Even Glory.
3. The number of Shares is adjusted by the share subdivision effect from 2 November 2009.

(b) *Convertible bonds*

Name of holder	Capacity	Number of Shares entitled pursuant to the full exercise of the Convertible bonds held as at 30 June 2010 (Note 3)
Will Success Holdings Limited (Note 1)	Beneficial Owner	2,500,000,000
Even Glory Holdings Limited (Note 2)	Beneficial Owner	2,500,000,000
Chen Lixue (Note 1&2)	Interest of a controlled corporation	5,000,000,000
Wang Hongjun (Note 2)	Interest of a controlled corporation	2,500,000,000

Note:

1. Will Success is a company wholly-owned by Mr. Chen Lixue.
2. Even Glory is a company owned by Mr. Chen Lixue and Mr. Wang Hongjun respectively. Each of them holds 50% of the interests of Even Glory.
3. The number of Shares is adjusted by the share subdivision effect from 2 November 2009.

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 of the Company in the underlying shares of equity derivatives of the Company were recorded in the register.

Save as disclosed above, at 30 June 2010, 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. Lam Tze Chung.

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 2010 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
iMerchants Limited
Yau Yan Ming Raymond
Chairman

Hong Kong
12 August 2010

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. Lam Tze Chung