



# iMerchants Limited

First Quarterly Report 2011

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 higher investment risk may be attached than other companies listed on the Stock Exchange. 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.

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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 the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.*

*This report will remain on the “Latest Company Announcements” page of the GEM website at [www.hkgem.com](http://www.hkgem.com) for at least 7 days from the date of publication and on the website of the Company at <http://www.imerchantsltd.com>.*

## **SUMMARY**

The Group's unaudited consolidated loss for the three months ended 30 June 2011 was approximately HK\$14,768,000, as compared to the unaudited consolidated loss of approximately HK\$11,327,000 of the Group for the corresponding period in 2010. 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 provision of management service, investment in financial and investment products as well as manufacturing and trading of ceramic sewage material. The loss figure for the period is primarily due to the increase in cost of sales caused by the amortisation of intangible asset from the accounting treatment towards the acquisition of our new subsidiary. The cost of sales for the period was approximately HK\$11,290,000.

## FINANCIAL REVIEW

The Group recorded a net loss attributable to owners of the Company of approximately HK\$14,768,000 for the three months ended 30 June 2011, as compared to a net loss of approximately HK\$10,782,000 for the corresponding period in 2010. As at 30 June 2011, the Group holds current assets plus financial investments and deposits totaling approximately HK\$162,575,000 and has approximately HK\$4,169,000 of bank borrowings.

For the three months ended 30 June 2011, the Group’s turnover was HK\$nil as compared to a turnover of approximately HK\$10,628,000 for the corresponding period in 2010. An annual fee relating to the provision of management service to Shenzhen Careall Capital Investment Co., Ltd (“**Careall Capital**”) will be received. Such fee will be calculated based on 70% of the audited profit of Careall Capital. The relevant period will end at 18 August 2011 and audit work will be performed subsequently. The guaranteed profit for the second relevant period will be RMB150,000,000 which should give the company a management fee of approximately RMB105,000,000 (equivalent to approximately HK\$126,000,000). The management did not accrue this amount as turnover during the period under review. The Company is still in the process of searching for business partner or subcontractor for the operation of manufacturing and trading of ceramic sewage materials. No turnover or revenue occurred during the period under review.

## RESULT

The board of Directors (the “**Board**”) presents the unaudited results of the Group for the three months ended 30 June 2011 together with the comparative unaudited figures for the corresponding period in 2010 as follows.

## UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months ended 30 June 2011

		Three months ended 30 June	
	NOTES	2011 HK\$'000	2010 HK\$'000
Turnover	2	–	10,628
Revenue		–	5,526
Cost of sale		<b>(11,290)</b>	(17,202)
Gross loss		<b>(11,290)</b>	(11,676)
Investment income		–	22
Net gain on disposal of listed trading securities		–	3,220
Other income (expenses)		<b>3</b>	(9)
Selling expenses		–	(781)
Administrative expenses		<b>(3,054)</b>	(1,996)
Finance costs		<b>(427)</b>	(106)
Loss before taxation	3	<b>(14,768)</b>	(11,326)
Taxation	4	–	(1)
Loss for the period		<b>(14,768)</b>	(11,327)
Other comprehensive expense for the period, net of tax			
Exchange difference arising on translation		–	5
Release of investment revaluation reserve upon disposal of available-for-sale investments		–	(4,452)
Total comprehensive expense for the period, net of tax		<b>(14,768)</b>	(15,774)

**Three months ended  
30 June**

	<i>NOTES</i>	<b>2011 HK\$'000</b>	2010 HK\$'000
Loss for the period attributable to:			
Owners of the Company		<b>(14,768)</b>	(10,782)
Non-controlling interests		–	(545)
		<b>(14,768)</b>	(11,327)
Total comprehensive expense attributable to:			
Owners of the Company		<b>(14,768)</b>	(15,229)
Non-controlling interests		–	(545)
		<b>(14,768)</b>	(15,774)
Loss per share (HK cents)			
– Basic and diluted	5	<b>(0.10)</b>	(0.33)

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 (the “**Audit Committee**”).

## 2. TURNOVER

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

	Three months ended 30 June	
	2011 HK\$'000	2010 HK\$'000
Dividends from listed securities	–	22
Proceeds from disposal debt and available-for-sale securities	–	5,080
Revenue from investment	–	5,102
Revenue from manufacturing and trading of ceramic sewage material	–	5,526
	–	10,628

### 3. LOSS BEFORE TAXATION

	Three months ended 30 June	
	2011 HK\$'000	2010 HK\$'000
Loss before taxation has been arrived at after charging (crediting):		
Operating lease charges in respect of rented premises	401	323
Staff cost		
Salaries and allowances	811	1,138
Retirement benefit scheme contributions	24	29
	835	1,167
Interest income from bank deposits	–	(1)
Sundries	780	66

### 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:

	<b>2011</b>	2010
	<b>HK\$'000</b>	HK\$'000
Loss for the purposes of basic loss per share loss for the period attributable to owners of the Company	<b>14,768</b>	10,782
Number of shares	<b>Number</b>	Number
Weighted average number of ordinary shares for the purpose of basic loss per share	<b>14,891,957,112</b>	3,246,797,888

Diluted loss per share was the same as the basic loss per share for the three months ended 30 June 2011, 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 2011.

Diluted loss per share was the same as the basic loss per share for the three months ended 30 June 2010 as there were no diluting events existed.

## 6. INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the three months ended 30 June 2011 (2010: Nil).

## 7. MOVEMENT OF RESERVES

	Attributable to owners of the Company										
	Share premium	Capital redemption reserve	Merger reserve	Investment revaluation reserve	Special capital reserve	Translation reserve	Equity component of		Sub-total	Non-controlling interests	Total
							convertible bonds	Accumulated losses			
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	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

	Attributable to owners of the Company										
	Share premium	Capital redemption reserve	Merger reserve	Investment revaluation reserve	Special capital reserve	Translation reserve	Equity component of		Sub-total	Non-controlling interests	Total
							convertible bonds	Accumulated losses			
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 April 2011	40,095	3,297	45,918	-	50,587	40,258	63,034	(400,688)	(157,499)	27	(157,472)
Total comprehensive expense for the period	-	-	-	-	-	-	-	(14,768)	(14,768)	-	(14,768)
At 30 June 2011	40,095	3,297	45,918	-	50,587	40,258	63,034	(415,456)	(172,267)	27	(172,240)

## 8. PLEDGE OF ASSETS

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

	<b>The Group</b>	
	<b>30 June 2011</b>	30 June 2010
	<b>HK\$'000</b>	HK\$'000
Property, plant and equipment	–	–
Prepaid lease payments	<b>2,688</b>	2,629
	<b>2,688</b>	2,629

## DIRECTOR'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 30 June 2011, the interests and short positions of the Directors in the shares, underlying shares and debentures of the Company or any of its associated corporation (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 ordinary shares of HK\$0.04 each of the Company (each a "Share")

No long positions of Directors in the Shares were 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.

### 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
Mr. Yang Bin ("Mr. Yang")	China Water Industry Group Limited ("China Water")	450,479,000 (Note 1)	10.98% (Note 2)

Notes:

- These shares were held by Boost Skill Investments Limited ("Boost Skill") (as to 265,479,000 shares of China Water), 60% equity interest of which owned by Mr. Yang, 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) both are wholly-owned subsidiaries of Boost Skill.
- The percentage is calculated based on 4,103,317,664 issued shares of China Water as at 30 June 2011.

Save as disclosed above, no long positions of the Directors in the shares of the associated corporation were 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.

## 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 or any of its associated corporation were 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.

## Long positions in debentures

No long positions of Directors in the debentures of the Company or any of its associated corporation were 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.

## Short positions in the Shares and the shares of associated corporation

No short positions of Directors in the Shares and the shares of its associated corporation were 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.

## Short positions in underlying Shares

No short positions of Directors in the underlying Shares of the equity derivatives of the Company or any of its associated corporation were 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.

## Short positions in debentures

No short positions of Directors in the debentures of the Company or any of its associated corporation were 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.

Save as disclosed above, as at 30 June 2011, none of the Directors had any interests in any Shares, underlying Shares and debentures of the Company or any of its associated corporation (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

As at 30 June 2011, the following persons or companies (other than the interests as disclosed above in respect of the Director) had interests and short positions in the Shares and underlying Shares 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 Shares held	Approximate percentage of issued share capital of the Company (Note 4)
Bonus Raider Investments Limited (" <b>Bonus Raider</b> ")	Beneficial owner	2,406,117,500 (Note 1)	15.35%
China Water	Through a controlled corporation	2,406,117,500 (Note 1)	15.35%
Even Glory Holdings Limited (" <b>Even Glory</b> ") (Note 2)	Beneficial owner	1,533,805,400	9.78%
Mr. Wang Hongjun (" <b>Mr. Wang</b> ") (Note 2)	Through a controlled Corporation	1,533,805,400	9.78%
Mr. Chen Lixue (" <b>Mr. Chen</b> ") (Note 2)	Through a controlled corporation	1,533,810,800 (Note 3)	9.79%

Notes:

1. These shares were registered in the name of Bonus Raider, a wholly-owned subsidiary of China Water. By virtue of the SFO, China Water was deemed to be interested in the Shares held by Bonus Raider.
2. During the period under review, Even Glory is a company equally owned by Mr. Chen and Mr. Wang and hence, by virtue of the SFO, Mr. Chen and Mr. Wang were deemed to be interested in the Shares held by Even Glory. On 18 July 2011, Mr. Chen transferred his interest in Even Glory to Mr. Wang.
3. During the period under review, of these Shares, Mr. Chen was deemed to be interested in 1,533,805,400 Shares held by Even Glory, which relates to the same block of Shares as mentioned in Note 2 above. The remaining 5,400 Shares was held by Will Success Holdings Limited ("**Will Success**"), a company wholly-owned by Mr. Chen. On 18 July 2011, Mr. Chen transferred the entire interest in Will Success to Mr. Xin Jun.
4. The percentage is calculated based on 15,675,080,400 issued Shares as at 30 June 2011.

## Long positions in underlying Shares

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

<b>Name of holder</b>	<b>Capacity</b>	<b>Number of Shares entitled pursuant to the full exercise of the Convertible Preference Shares held as at 30 June 2011</b>
Even Glory (Note)	Beneficial Owner	3,406,194,600
Mr. Chen (Note)	Through a controlled corporation	3,406,194,600
Mr. Wang (Note)	Through a controlled corporation	3,406,194,600

*Note:*

During the period under review, Even Glory is a company equally owned by Mr. Chen and Mr. Wang.

- (b) *Convertible bonds (the "Convertible Bonds")*

<b>Name of holder</b>	<b>Capacity</b>	<b>Number of Shares entitled pursuant to the full exercise of the Convertible bonds held as at 30 June 2011</b>
Will Success (Note 1)	Beneficial Owner	1,250,000,000
Even Glory (Note 2)	Beneficial Owner	2,500,000,000
Mr. Chen (Notes 1 & 2)	Through a controlled corporation	3,750,000,000
Mr. Wang (Note 2)	Through a controlled corporation	2,500,000,000

*Notes:*

- During the period under review, Will Success is a company wholly-owned by Mr. Chen.
- During the period under review, Even Glory is a company equally owned by Mr. Chen and Mr. Wang.

## Short positions in the Shares

No short positions of other persons and substantial shareholders of the Company in the Shares were recorded in the register required to be kept under Section 336 of the SFO.

## 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 required to be kept under Section 336 of the SFO.

Save as disclosed above, as at 30 June 2011, the Directors were not aware of any other person who had an interest or a short position in the Shares or underlying Shares as recorded in the register required to be kept under Section 336 of the SFO.

## AUDIT COMMITTEE

The Company has established an Audit Committee 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 2011 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 GEM Listing Rules and other legal requirements and that adequate disclosures have been made.

## CODE ON CORPORATE GOVERNANCE PRACTICES

The Board and senior management of the Company are committed to the principles of corporate governance and have dedicated significant effort 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 on Corporate Governance Practices as set out in Appendix 15 to the GEM Listing Rules.



## 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 the securities transactions by Directors. Upon the Group's specific enquiry, each Director confirmed that during the period under review, he 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, the management shareholders of the Company or substantial shareholders of the Company or any of their respective associates (as defined in the GEM Listing Rules) had any interest in a business which causes or may cause any significant competition with the business of the Group.

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

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 2011

*As at the date of this report, the Board consists of five executive Directors, namely Mr. Yau Yan Ming Raymond, Mr. Chan Wai Keung, Mr. Yang Bin, Mr. Li Wen Jun and Mr. Wong Ka Chun Carson; and three independent non-executive Directors, namely Mr. Chang Kin Man, Mr. Wu Tak Lung and Mr. Lam Tze Chung.*