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iMerchants Limited

菱控有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 8009)

**(1) PROPOSED CAPITAL REORGANISATION;
(2) PROPOSED CHANGE IN BOARD LOT SIZE; AND
(3) PROPOSED INCREASE IN AUTHORISED CAPITAL**

Financial Adviser to iMerchants Limited

 **川盟融資有限公司**
Chanceton Capital Partners Limited

PROPOSED CAPITAL REORGANISATION

The Directors propose to put forward a proposal to the Shareholders at the EGM to effect the Capital Reorganisation pursuant to the Companies Ordinance which will involve:

- (a) the Capital Reduction under which the authorised share capital of the Company will be reduced from HK\$1,200,000,000 divided into 30,000,000,000 Shares of HK\$0.04 each to HK\$120,000,000 divided into 30,000,000,000 Reduced Shares of HK\$0.004 each and that such reduction be effected by cancelling HK\$0.036 of the paid up capital on each issued Share of HK\$0.04 and reducing the nominal value of each issued or unissued share in the capital of the Company from HK\$0.04 per Share to HK\$0.004 per Reduced Share; and
- (b) the Share Consolidation under which every twenty-five (25) Reduced Shares of HK\$0.004 each will be combined into one Adjusted Share of HK\$0.1 each.

CHANGE IN BOARD LOT SIZE

The Board proposes to change the board lot size for trading in the Shares from 25,000 Shares to 2,000 Adjusted Shares upon the Capital Reorganisation becoming effective.

PROPOSED INCREASE IN AUTHORISED CAPITAL

After the completion of the Capital Reorganisation, the Board proposes to increase the authorised share capital of the Company from HK\$120,000,000 divided into 1,200,000,000 Adjusted Shares to HK\$1,000,000,000 divided into 10,000,000,000 Adjusted Shares by the creation of an additional 8,800,000,000 Adjusted Shares of par value HK\$0.1 each in order to facilitate any future expansion in the share capital of the Company.

PROPOSED CAPITAL REORGANISATION

The Directors propose to put forward a proposal to the Shareholders at the EGM to effect the Capital Reorganisation pursuant to the Companies Ordinance which will involve:

- (a) the Capital Reduction under which the authorised share capital of the Company will be reduced from HK\$1,200,000,000 divided into 30,000,000,000 Shares of HK\$0.04 each to HK\$120,000,000 divided into 30,000,000,000 Reduced Shares of HK\$0.004 each and that such reduction be effected by cancelling HK\$0.036 of the paid up capital on each issued Share of HK\$0.04 and reducing the nominal value of each issued or unissued share in the capital of the Company from HK\$0.04 per Share to HK\$0.004 per Reduced Share; and
- (b) the Share Consolidation under which every twenty-five(25) Reduced Shares of HK\$0.004 each will be combined into one Adjusted Share of HK\$0.1 each.

As at the date of this announcement, the authorised share capital of the Company was HK\$1,200,000,000 divided into 30,000,000,000 Shares and the issued share capital of the Company was HK\$763,251,000 divided into 19,081,275,000 Shares.

Assuming no further Shares will be issued between the date of this announcement and before the Capital Reorganisation becoming effective, the authorised capital of the Company will be reduced from HK\$1,200,000,000 divided into 30,000,000,000 Shares of HK\$0.04 each to HK\$120,000,000 divided into 30,000,000,000 Reduced Shares of HK\$0.004 each after the Capital Reduction and will then be changed to HK\$120,000,000 divided into 1,200,000,000 Adjusted Shares of HK\$0.1 each after the Share Consolidation and immediately upon the Capital Reorganisation becoming effective. Based on 19,081,275,000 Shares then in issue, the issued share capital of the Company will be reduced from HK\$763,251,000 to HK\$76,325,100 divided into 763,251,000 Adjusted Shares, giving rise to a total credit of HK\$686,925,900 which will, be set off against the accumulated losses of the Company and the balance be credited to the share premium account or such other reserve as the Court may direct.

According to the audited financial statements of the Company for the year ended 31 March 2011, the Company's share premium account and the accumulated losses account stood at approximately HK\$40.09 million and HK\$400.69 million respectively.

Conditions of the Capital Reorganisation

The Capital Reorganisation will be conditional upon the following:

- (a) the passing of the Shareholders' Resolution at the EGM to approve the Capital Reorganisation;
- (b) an Order being granted by the Court approving the Shareholders' Resolution in relation to Capital Reduction and completion of the registration of the Confirming Order together with the said resolution at the Registrar of Companies in Hong Kong; and
- (c) the Listing Committee of the Stock Exchange granting the listing approval of, and permission to deal in, the Adjusted Shares to be issued and allotted upon the Capital Reorganisation becoming effective.

Assuming all the conditions are fulfilled, the Capital Reorganisation will become effective upon the registration of the Confirming Order together with the Shareholders' Resolution in relation to Capital Reduction, which is expected to take place on or around early March 2012.

Upon completion of the EGM and subject to the results thereof, the Company will issue announcement(s) in respect of the result of the petition to the Court and the effective date of the Capital Reduction (*note*).

Note: the Capital Reduction will only become effective upon the Court granting the Confirmation Order and registration of the same with the Companies Registry. Please refer to Conditions of the Capital Reorganisation above.

Effect of the Capital Reorganisation

Implementation of the Capital Reorganisation would not, by itself, alter the underlying assets, liabilities, businesses, management or financial position of the Group and the Company or the rights of the Shareholders, except for payment of the related expenses. The proportionate interests and the voting rights of the Shareholders in the Company will not be affected by the Capital Reorganisation.

The Adjusted Shares will rank *pari passu* in all respects with each other and the Capital Reorganisation will not result in any change in the rights of the Shareholders. Fractional Adjusted Shares will not be issued to the Shareholders but will be aggregated and sold for the benefit of the Company.

CHANGE IN BOARD LOT SIZE

The Board proposes to change the board lot size for trading in the Shares from 25,000 Shares to 2,000 Adjusted Shares upon the Capital Reorganisation becoming effective.

The Shares are currently traded in board lots of 25,000 Shares each and the market value per board lot of the Shares is HK\$250, based on the closing price of HK\$0.01 per Share as quoted on the Stock Exchange on the last trading day immediately preceding the date of this announcement. Assuming the Capital Reorganisation becoming effective, the Adjusted Shares will be traded in board lots of 2,000 Adjusted Shares and the estimated market value per board lot of the Adjusted Shares will HK\$500, based on the closing price of HK\$0.01 per Share as quoted on the Stock Exchange on the last trading day immediately preceding the date of this announcement and adjusted for the effect of Share Consolidation. Save as disclosed herein, the Change in Board Lot Size will not affect the rights of the Shareholders.

REASONS FOR THE CAPITAL REORGANISATION AND THE CHANGE IN BOARD LOT SIZE

The Capital Reduction will enable the Company to apply the credit arising from the Capital Reduction to eliminate its accumulated loss, so as to enable the Company to declare and pay dividends in the event of distributable profit should arise in the future. It can also increase the flexibility for raising new funds in future by means of issuance of new shares of the Company. However, as the date of announcement, the Company did not have any plan for or was not in any negotiation of any fund raising activities. The Share Consolidation will reduce the total number of Shares currently in issue and together with the Change in Board Lot Size will reduce the overall transaction costs for dealing in the Adjusted Shares which are calculated on per board lot basis.

Accordingly, the Directors consider that the Capital Reorganisation and the Change in Board Lot Size are in the interests of the Company and the Shareholders as a whole.

EXCHANGE OF SHARE CERTIFICATES ARRANGEMENT

Subject to the Capital Reorganisation becoming effective, the Shareholders may submit existing certificates for the Shares to the Company's share registrar, Tricor Tengis Limited, 26th Floor, Tesbury Centre 28 Queen's Road East, Wanchai, Hong Kong, for exchange, at the expense of the Company, for new certificates for the Adjusted Shares. Thereafter, certificates for the Shares will be accepted for exchange only on payment of a fee of HK\$2.50 (or such higher amount as may from time to time be specified by the Stock Exchange) for each certificate issued or cancelled, whichever is higher. Certificates for the Shares will continue to be good evidence of legal title and may be exchanged for certificates for the Adjusted Shares at any time at the expense of the Shareholders.

ODD LOT ARRANGEMENTS

Fractional Adjusted Shares will be disregarded and not issued to the Shareholders, but all such fractional Adjusted Shares will be aggregated and, if possible, sold for the benefit of the Company. Fractional Adjusted Shares will only arise in respect of the entire shareholding of a holder of the Shares regardless of the number of share certificates held by such holder.

In order to alleviate the difficulties arising from the existence of odd lots of the Adjusted Shares, the Company has agreed to procure an arrangement with an agent to stand in the market to provide matching services for the odd lots of the Adjusted Shares on the best effort basis. Further details in respect of the odd lots arrangement and the new share certificates will be set out in the circular of the Company to be despatched to the Shareholders.

PROPOSED INCREASE IN AUTHORISED CAPITAL

Subject to the Capital Reorganisation becoming effective, the Board proposes to increase the authorised share capital of the Company from HK\$120,000,000 divided into 1,200,000,000 Adjusted Shares to HK\$1,000,000,000 divided into 10,000,000,000 Adjusted Shares by the creation of an additional 8,800,000,000 Adjusted Shares of par value HK\$0.1 each in order to facilitate any future expansion in the share capital of the Company.

The proposed increase in authorised capital of the Company is conditional upon the passing of the relevant ordinary resolution by the Shareholders at the EGM.

GENERAL INFORMATION

The Company is incorporated in Hong Kong with limited liability. The principal business activities of the Group include provision of management service, investment in financial and investment products and manufacture and trading of ceramic sewage materials.

A circular containing, among other things, details of the Capital Reorganisation, the Change in Board Lot Size, and the increase in authorised capital and the notice of the EGM will be despatched to the Shareholders as soon as practicable.

DEFINITIONS

In this announcement, the following terms shall have the meanings respectively set opposite them unless the context requires otherwise:—

“Accumulated Losses”	the entire audited balance in the accumulated losses account of the Company as at 31 March 2011 of approximately HK\$400.69 million
“Adjusted Share(s)”	ordinary shares of HK\$0.1 each in the share capital of the Company upon the Capital Reorganisation becoming effective
“Board”	the board of Directors
“Business Day”	a day (other than a Saturday, Sunday or a public holiday) on which banks are open for business in Hong Kong

“Capital Reduction”	the proposed reduction of the share capital of the Company including the cancellation of the paid up capital to the extent of HK\$0.036 of each Share in issue from HK\$0.04 to HK\$0.004 and the reduction of the nominal value of all the issued and unissued Shares
“Capital Reorganisation”	the Capital Reduction and the Share Consolidation
“Change in Board Lot Size”	The board lot size of the Adjusted Shares for trading on the Stock Exchange will be changed from 25,000 Shares to 2,000 Adjusted Shares upon the Capital Reorganisation becoming effective
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
“Company”	iMerchants Limited, a company incorporated in Hong Kong with limited liability, whose shares are listed on the GEM board of the Stock Exchange
“Confirming Order”	an order issued by the Court pursuant to Section 59(1) of the Companies Ordinance confirming the Capital Reduction
“Court”	the Court of Hong Kong
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened for the Shareholders to consider, and if thought fit, pass the resolutions to approve among other things the proposed Capital Reorganisation, the proposed increase in authorised capital
“GEM”	the Growth Enterprise Market operated by the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange
“Group”	the Company and its subsidiaries
“Hong Kong”	The Hong Kong Special Administrative Region of the People’s Republic of China
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Reduced Share(s)”	ordinary shares of HK\$0.004 each in the share capital of the Company immediately after the Capital Reduction but before the Share Consolidation becoming effective

“Share Consolidation”	the proposed consolidation of every twenty-five Reduced Shares of HK\$0.004 each into one Adjusted Share of HK\$0.1 each
“Share(s)”	existing ordinary share(s) of HK\$0.04 each in the share capital of the Company before the Capital Reorganisation becoming effective
“Shareholder(s)”	registered holder(s) of the Share(s), Reduced Shares(s) or Adjusted Share(s) (as the case may be)
“Shareholders’ Resolution”	a special resolution approving the Capital Reduction and an ordinary resolution approving the Share Consolidation and ordinary resolution approving the increase in authorised capital to be passed by the Shareholders at the EGM
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent

By Order of the Board
iMerchants Limited
Yau Yan Ming Raymond
Chairman

Hong Kong, 24 October 2011

As at the date of this announcement, the executive Directors are Mr. Yau Yan Ming Raymond, Mr. Zha Jian Ping, Ms. Qi Yue, and Mr. Wong Ka Chun Carson; and the independent non-executive Directors are Mr. Wu Tak Lung and Mr. Lam Tze Chung.

This announcement, for which the directors of the Company collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited 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 announcement 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 announcement misleading.

This announcement will remain on the “Latest Company Announcements” page of the GEM website at www.hkgem.com for at least 7 days of its publication and on the websites of the Company at <http://www.imerchantsltd.com>.