
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should immediately consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in the Company, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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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;**
- (3) PROPOSED INCREASE IN AUTHORISED CAPITAL;**
- (4) AMENDMENTS TO THE MEMORANDUM AND ARTICLES OF ASSOCIATION; AND**
- (5) ADOPTION OF NEW SHARE OPTION SCHEME**

Financial Adviser to iMerchants Limited

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

A notice convening the EGM of the Company to be held at Plaza 3, Lower Lobby, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong on Monday, 12 December 2011 at 11 a.m. or any adjournment thereof is set out on pages 28 to 31 of this circular.

Whether or not you are able to attend the EGM, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon and deposit the same as soon as possible and in any event not later than 48 hours before the time of the EGM or any adjournment thereof to the Company's Hong Kong branch share registrar, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong. Completion and return of the form of proxy will not preclude you from attending and voting at the EGM or any adjournment thereof should you so wish.

This circular will remain on the "Latest Company Announcements" page of the GEM website at www.hkgem.com for a minimum period of seven (7) days from the date of its publication and on the Company's website at <http://www.imerchantsltd.com>.

17 November 2011

CHARACTERISTICS OF THE GEM OF THE STOCK EXCHANGE

The GEM of the Stock Exchange 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 the GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on the GEM, there is a risk that securities traded on the 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 the GEM.

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DEFINITIONS

In this circular, the following expressions have the following meanings unless the context requires otherwise:

“2002 Share Option Scheme”	the share option scheme of the Company adopted on 2 August 2002
“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)”	shares of HK\$0.1 each in the share capital of the Company upon the Capital Reorganisation becoming effective
“Announcements”	the announcements of the Company dated 24 October 2011, 31 October 2011 and 9 November 2011 in relation to the proposed Capital Reorganisation, Change in Board Lot Size, Increase in the Authorised Capital and amendments to the Memorandum and Articles of Association
“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 by the cancellation of the paid up capital to the extent of HK\$0.036 of each Share in issue, i.e. from HK\$0.04 to HK\$0.004 and the reduction of the nominal value of all the issued and unissued Shares to the same extent
“Capital Reorganisation”	the Capital Reduction and the Share Consolidation
“CCASS”	Central Clearing And Settlement System established and operated by Hong Kong Securities Clearing Company Limited
“Change in Board Lot Size”	the board lot size of the Shares for trading on the Stock Exchange will be changed from 25,000 Shares to 10,000 Adjusted Shares upon the Capital Reorganisation becoming effective
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong)

DEFINITIONS

“Company”	iMerchants Limited, a company incorporated in Hong Kong with limited liability, whose shares are listed on the GEM of the Stock Exchange
“Confirming Order”	an order being granted by the Court pursuant to Section 59(1) of the Companies Ordinance confirming the Capital Reduction
“Court”	the High Court of Hong Kong
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened and held at Plaza 3, Lower Lobby, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong on Monday, 12 December 2011 at 11 a.m. to consider, and if thought fit, pass the resolutions to approve, among other things, the proposed Capital Reorganisation, Change in Board Lot Size, Increase in the Authorised Capital, amendments to the Memorandum and Articles of Association and adoption of New Share Option Scheme
“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
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	The Hong Kong Special Administrative Region of the People’s Republic of China
“Increase in the Authorised Capital”	proposed increase of the authorised share capital of the Company after Share Consolidation (1) from HK\$120,000,000 divided into 1,200,000,000 ordinary Adjusted Shares to HK\$1,000,000,000 divided into 10,000,000,000 ordinary Adjusted Shares by the creation of an additional 8,800,000,000 ordinary Adjusted Shares and (2) from HK\$80,000,000 divided into 800,000,000 preference Adjusted Shares to HK\$500,000,000 divided into 5,000,000,000 preference Adjusted Shares by the creation of an additional 4,200,000,000 preference Adjusted Shares

DEFINITIONS

“Latest Practicable Date”	16 November 2011, the last practicable date prior to the printing of this circular for the purpose of ascertaining the information contained herein
“Memorandum and Articles of Association”	the memorandum and articles of association of the Company
“New Share Option Scheme”	the new share option scheme proposed to be adopted by the Company at the EGM, a summary of the principal terms of which is set out in Appendix I to this circular
“Option(s)”	a right to subscribe for Shares pursuant to the terms of the New Share Option Scheme
“Outstanding Convertible Bonds”	the outstanding convertible bonds in the aggregate principal amount of HK\$55,000,000 due 30 September 2014 issued by the Company on 23 October 2009 and 3 November 2011
“Reduced Share(s)”	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(s)”	existing share(s) of HK\$0.04 each in the share capital of the Company before the Capital Reorganisation 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
“Shareholder(s)”	registered holder(s) of the Share(s), Reduced Share(s) or Adjusted Share(s) (as the case may be)
“Shareholders’ Resolution”	the resolutions approving the Capital Reduction, Share Consolidation, Change in Board Lot Size, Increase in the Authorised Capital, the amendments to the Memorandum and Articles of Association and adoption of the New Share Option Scheme to be passed by the Shareholders at the EGM
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent

EXPECTED TIMETABLE

Latest time for lodging form of proxy in respect of the EGM (<i>Note 1</i>)	11 a.m. on Saturday, 10 December 2011
EGM (<i>Note 1</i>)	11 a.m. on Monday, 12 December 2011
Announcement of the result of EGM to be published	Monday, 12 December 2011
Notice of the hearing date of the petition published in the newspapers (<i>Note 2</i>)	on or before Tuesday, 7 February 2012
Hearing of petition to confirm the proposed Capital Reduction (<i>Note 2</i>)	on or before Wednesday, 7 March 2012
Announcement of the result of hearing of petition to confirm the proposed Capital Reduction and the Effective Date to be published (<i>Note 2</i>)	on or before Wednesday, 7 March 2012
Registration of the order of the Court to confirm the proposed Capital Reduction and the minute thereof with the Companies Registrar (<i>Note 3</i>)	on or before Friday, 9 March 2012
Effective date of the Capital Reduction (<i>Note 3</i>)	9:00 a.m., Friday, 9 March 2012
Effective date of the Share Consolidation	Monday, 12 March 2012
Effective date of the Increase in the Authorised Capital	Monday, 12 March 2012
First day of free exchange of the existing Share certificates for the Adjusted Share certificates	Monday, 12 March 2012
Original counter for trading in existing Shares in board lots of 25,000 Shares (in the form of existing Share certificates) closes	9:00 a.m. on Monday, 12 March 2012
Temporary counter for trading in the Adjusted Shares in board lots of 1,000 Adjusted Shares (in form of existing Share certificates) opens	9:00 a.m. on Monday, 12 March 2012
First day for designated broker to stand in the market to provide matching service for selling and buying of odd lots of the Adjusted Shares	Monday, 26 March 2012

EXPECTED TIMETABLE

Original counter for trading in the Adjusted Shares in board lots of 10,000 Adjusted Shares (in the form of Adjusted Share certificates) re-opens 9:00 a.m. on Monday, 26 March 2012

Parallel trading in the Adjusted Shares (in the form of Adjusted Share and existing Share certificates) commences 9:00 a.m. on Monday, 26 March 2012

Temporary counter for trading in the Adjusted Shares in board lots of 1,000 Adjusted Shares (in the form of existing Share certificates) closes 4:00 p.m. on Wednesday, 18 April 2012

Parallel trading in the Adjusted Shares (in the form of Adjusted Share certificates and existing Share certificate) ends 4:00 p.m. on Wednesday, 18 April 2012

Latest time for designated broker to stand in the market to provide matching service for selling and buying of odd lots of the Adjusted Shares 4:00 p.m. on Wednesday, 18 April 2012

Last day of free exchange of the existing Share certificates for the Adjusted Share certificates Friday, 20 April 2012

Notes:

1. The forms of proxy and, if required by the Company, the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power or authority, shall be deposited at the Company's share registrar, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event, not later than 48 hours before the time appointed for holding the EGM and taking the poll therein or the adjourned meeting. Completion and return of the form of proxy for the EGM will not preclude a Shareholder from attending and voting in person at the EGM or any adjournment thereof should the Shareholder so wish. In such event, the returned form of proxy will be deemed to have been revoked.
2. The hearing date of the petition is subject to the availability of the Court and is subject to change. Further announcement(s) will be made as and when appropriate.
3. The proposed Capital Reduction will become effective when it is confirmed by the Court and a copy of the order of the Court and a minute of the Company approved by the Court containing the particulars required under the Companies Ordinance are delivered to the Companies Registrar for registration, which is expected to be taken place on or before 12 March 2012.

If there is any change in this expected timetable, the Company will make further announcement(s).

LETTER FROM THE BOARD



iMerchants Limited
菱控有限公司

(Incorporated in Hong Kong with limited liability)
(Stock Code: 8009)

Executive Directors:

Mr. Yau Yan Ming Raymond (*Chairman*)
Mr. Zha Jian Ping
Ms. Qi Yue
Mr. Wong Ka Chun Carson

Registered office and principal place of business:

Unit 2112, 21st Floor,
Wing On Centre,
111 Connaught Road Central,
Hong Kong

Independent Non-executive Directors:

Mr. Wu Tak Lung
Mr. Lam Tze Chung

17 November 2011

To the Shareholders

Dear Sir or Madam,

- (1) PROPOSED CAPITAL REORGANISATION;**
(2) PROPOSED CHANGE IN BOARD LOT SIZE;
(3) PROPOSED INCREASE IN AUTHORISED CAPITAL;
(4) AMENDMENTS TO THE MEMORANDUM AND
ARTICLES OF ASSOCIATION; AND
(5) ADOPTION OF NEW SHARE OPTION SCHEME

INTRODUCTION

Reference is made to the Announcements, whereby it was announced that the Directors proposed to put forward 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 (1) from HK\$1,200,000,000 divided into 30,000,000,000 ordinary Shares of HK\$0.04 each to HK\$120,000,000 divided into 30,000,000,000 ordinary Reduced Shares of HK\$0.004 each and (2) from HK\$800,000,000 divided into 20,000,000,000 preference Shares of HK\$0.04 each to HK\$80,000,000 divided into 20,000,000,000 preference Reduced Shares of HK\$0.004 each and that such reduction be effected by cancelling HK\$0.036

LETTER FROM THE BOARD

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;

- (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;
- (c) The Board proposes to change the board lot size for trading in the Shares from 25,000 Shares to 10,000 Adjusted Shares upon the Capital Reorganisation becoming effective;
- (d) After the completion of the Capital Reorganisation, the Board proposes to increase the authorised share capital of the Company (1) from HK\$120,000,000 divided into 1,200,000,000 ordinary Adjusted Shares to HK\$1,000,000,000 divided into 10,000,000,000 ordinary Adjusted Shares by the creation of an additional 8,800,000,000 ordinary Adjusted Shares of par value HK\$0.1 each and (2) from HK\$80,000,000 divided into 800,000,000 preference Adjusted Shares to HK\$500,000,000 divided into 5,000,000,000 preference Adjusted Shares by the creation of an additional 4,200,000,000 preference Adjusted Shares of par value HK\$0.1 each; and
- (e) corresponding amendments to the Memorandum and Articles of Association.

The Directors also proposed to put forward a proposal to the Shareholders to adopt the New Share Option Scheme.

The purpose of this circular is to provide you further details relating to the proposed Capital Reorganisation, Change in Board Lot Size, Increase in the Authorised Capital, amendments to the Memorandum and Articles of Association and adoption of the New Share Option Scheme. In addition, the notice of the EGM, at which special resolutions and ordinary resolutions will be proposed to consider and, if thought fit, to approve the matters aforesaid, is set out in this Circular.

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 (1) from HK\$1,200,000,000 divided into 30,000,000,000 ordinary 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 (2) from HK\$80,000,000 divided into 20,000,000,000 preference Shares of HK\$0.04 each to HK\$80,000,000 divided into 20,000,000,000 preference 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 ordinary 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.

LETTER FROM THE BOARD

As at the Latest Practicable Date, the authorised share capital of the Company was (1) HK\$1,200,000,000 divided into 30,000,000,000 ordinary Shares and (2) HK\$800,000,000 divided into 20,000,000,000 preference Shares and the issued share capital of the Company was HK\$763,251,000 divided into 19,081,275,000 ordinary Shares, 14,692,389,000 of which were converted from issued preference Shares and there was no issued preference Shares.

The Board further proposes to consolidate every twenty-five Reduced Shares of HK\$0.004 each into one Adjusted Share of HK\$0.10 each immediately after the Capital Reduction becoming effective, i.e. the capital structure of the Company will be changed from (1) HK\$120,000,000 divided into 30,000,000,000 ordinary Reduced Shares of HK\$0.004 each to HK\$120,000,000 divided into 1,200,000,000 ordinary Adjusted Shares of HK\$0.1 and (2) HK\$80,000,000 divided into 20,000,000,000 preference Reduced Shares of HK\$0.004 each to HK\$80,000,000 divided into 800,000,000 preference Adjusted Shares of HK\$0.1 each immediately upon completion of the Capital Reorganisation.

Assuming no further Shares will be issued between the Latest Practicable Date and the date before the Capital Reorganisation becoming effective, based on 19,081,275,000 ordinary Shares then in issue, the issued share capital of the Company will be reduced from HK\$763,251,000 divided into 19,081,275,000 ordinary Shares to HK\$76,325,100 divided into 763,251,000 ordinary Adjusted Shares, giving rise to a total credit of HK\$686,925,900 which will be set off against the Accumulated Losses 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 is conditional upon the satisfaction of the following conditions:

- (a) the passing of the Shareholders' Resolution at the EGM approving the Capital Reorganisation;
- (b) an Order being granted by the Court approving the Shareholders' Resolution in relation to the Capital Reduction and completion of the registration of the Confirming Order together with the said Shareholders' 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 ordinary and preference Adjusted Shares to be issued and allotted upon the Capital Reorganisation becoming effective.

LETTER FROM THE BOARD

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 the Capital Reduction, which is expected to be taken place on or before 12 March 2012.

As the effective date of the Capital Reorganisation will depend upon the timetable of the Court, it is not ascertainable at present and the dates indicated in the section headed "Expected Timetable" are for reference only and subject to change. An application will be made to the Court for approval of the proposed Capital Reduction as soon as practicable after the same is approved by the Shareholders by way of a special resolution set out in resolution no. (1) of the notice of the EGM. An application will also be made to the Listing Committee of the Stock Exchange for listing of, and permission to deal, in the ordinary and preference Adjusted Shares to be issued and allotted upon the Capital Reorganisation becoming effective. Further announcement(s) (if any) will be made to inform the Shareholders of the progress of the matter as and when appropriate.

Applicable Laws and Regulations for the Capital Reduction

The Company, being a company incorporated in Hong Kong under the Companies Ordinance, is subject to the provisions of the Companies Ordinance.

(1) Authorised by the Articles of Association

The Capital Reduction is authorised by Article 64(B) of the Articles of Association of the Company, which provides that "The Company may by special resolution reduce its share capital, any capital redemption reserve fund or any share premium account in any manner authorised and subject to any conditions prescribed by law."

(2) Approved by the Shareholders by way of special resolution

Approval of the Capital Reduction, among the others, is to be sought at the EGM.

(3) Confirmed by the Court

Subject to the results of the EGM, the Company will present a petition to the Court for confirmation of the Capital Reduction under Sections 58(1) and 59(1) of the Companies Ordinance.

In order to obtain the confirmation from the Court, the Company has to satisfy with the Court that:

- (i) the reduction of capital should be for a discernible purpose;
- (ii) the shareholders are treated equitably;
- (iii) the proposal had been properly explained to the shareholders in general meeting so that they could exercise an informed judgment; and
- (iv) the creditors were safeguarded.

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The Directors consider that the conditions for the Court to confirm the Capital Reduction are satisfied in that:

- (i) the purposes of the Capital Reduction are discernible in that first the credit arising from the Capital Reduction will be used to set off against the Accumulated Losses of the Company and the balance be credited to the share premium account, which will enable the Company first to declare and pay dividends as and when distributable profits shall arise in the future and also to increase the flexibility of the Company to raise new funds in the future by means of issuance of new shares of the Company;
- (ii) the respective interests of both the Shareholders and creditors of the Company are not affected or prejudiced by the Capital Reduction as the implementation of the Capital Reduction will not, by itself, alter the underlying assets, liabilities, businesses, management or financial position of the Company. Further, there is only one class of shareholders in the Company as there are no outstanding issued preference Shares and the Capital Reduction will not result in any change in the rights, voting rights and proportionate interests of the Shareholders in the Company; and
- (iii) The proposal of the Capital Reduction is properly explained to the Shareholders by this circular so that the Shareholders can exercise an informed judgment at the EGM.

PROPOSED CHANGE IN BOARD LOT SIZE

Subject to the Capital Reorganisation becoming effective, the Board proposes to change the board lot size for trading in the Shares from 25,000 Shares to 10,000 Adjusted Shares.

The Board is of the view that the Change in Board Lot Size will be able to bring it in line with the current market practice in view of the Share Consolidation, reduce the transaction amount and costs in trading of the Adjusted Shares and facilitate trading of the Adjusted Shares in the future.

PROPOSED INCREASE IN AUTHORISED CAPITAL

After the completion of the Capital Reorganisation, the Board proposes to increase the authorised share capital of the Company (1) 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 and (2) from HK\$80,000,000 divided into 800,000,000 preference Adjusted Shares to HK\$500,000,000 divided into 5,000,000,000 preference Adjusted Shares by the creation of an additional 4,200,000,000 preference Adjusted Shares in order to facilitate any future expansion in the share capital of the Company.

The proposed Increase in the Authorised Capital is subject to the passing of the Shareholders' Resolution No. (2) set out in the notice of the EGM.

LETTER FROM THE BOARD

EFFECT OF THE CAPITAL REORGANISATION, CHANGE IN BOARD LOT SIZE AND INCREASE IN AUTHORISED SHARE CAPITAL

Capital Reorganisation

Upon the Capital Reorganisation becoming effective, the authorised share capital of the Company will be changed from HK\$1,200,000,000 divided into 30,000,000,000 ordinary Shares to HK\$120,000,000 divided into 1,200,000,000 Adjusted Shares, and the issued share capital will be reduced by HK\$686,925,900 from HK\$763,251,000 divided into 19,081,275,000 ordinary issued Shares to HK\$76,325,100 divided into 763,251,000 ordinary Adjusted Shares.

The credit of approximately HK\$686,925,900 arising from the Capital Reduction will be used to set off against the Accumulated Losses and the balance be credited to the share premium account or such reserve as the Court may direct.

Implementation of the Capital Reorganisation would not, by itself, alter the underlying assets, liabilities, businesses, management or financial position of 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.

The Directors believe that the Capital Reduction will not have any adverse effect on the financial position of the Company and the Board believes that on the date the Capital Reduction is to be effected, there will be no reasonable grounds for believing that the Company is, or after the Capital Reduction would be, unable to pay its liabilities as they become due. No capital will be lost as a result of the Capital Reduction and, except for the expenses involved in relation to the Capital Reduction which are expected to be insignificant in the context of the net asset value of the Company. The net asset value of the Company will remain unchanged before and after the Capital Reduction becoming effective. The Capital Reduction does not in any way change the relative rights of the Shareholders.

Change in Board Lot Size

The Board proposes to change the board lot size for trading in the Shares from 25,000 Shares to 10,000 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 as at the Latest Practicable Date. Assuming the Capital Reorganisation becoming effective, the Adjusted Shares will be traded in board lots of 10,000 Adjusted Shares and the estimated market value per board lot of the Adjusted Shares will be HK\$2,500, based on the estimated market price of

LETTER FROM THE BOARD

HK\$0.25 deduced from the closing price of HK\$0.01 per Share as quoted on the Stock Exchange as at the Latest Practicable Date 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.

Subject to the granting of listing of, and permission to deal in, the Adjusted Shares on the Stock Exchange, the Adjusted Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Adjusted Shares on the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second business day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Odd lot arrangement

Fractional Adjusted Shares will be disregarded and will not be 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 being 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 Shenyin Wanguo Securities (HK) Limited to stand in the market to provide matching services for the odd lots of the Adjusted Shares for the period from 26 March 2012 to 18 April 2012 (both days inclusive) on the best effort basis.

Holders of odd lots of the Adjusted Shares should note that successful matching of the sale and purchase of odd lots of the Adjusted Shares is not guaranteed. Holders of the Adjusted Shares who wish to take advantage of this facility either to dispose of their odd lots or to top them up to a full board lot may contact Mr. Lai King Wai during the aforesaid period as follows:

Contact person	Address	Telephone
Mr. Lai King Wai	Room 3108, 31/F, Admiralty Centre, Tower 1, 18 Harcourt Road, Admiralty, Hong Kong	(852) 2841 5151

Any Shareholder, who is in any doubt about the odd lot arrangement, is recommended to consult his/her/its own professional advisers.

Free exchange of share certificates

Subject to the Capital Reorganisation becoming effective, the Shareholders may, during a period specified in the expected timetable set out on pages 4 and 5 of this circular, submit the existing share certificates for exchange to the Company's share registrar, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong during the business hours, at the expense of the Company, for new share certificates in board lots of 10,000 Adjusted Shares.

LETTER FROM THE BOARD

Increase in the Authorised Capital

Subject to the Capital Reorganisation becoming effective, the Board proposes to increase the authorised share capital of the Company (1) 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 and (2) from HK\$80,000,000 divided into 800,000,000 preference Adjusted Shares to HK\$500,000,000 divided into 5,000,000,000 preference Adjusted Shares by the creation of an additional 4,200,000,000 preference Adjusted Shares of par values HK\$0.1 each in order to facilitate any future expansion in the share capital of the Company.

The proposed Increase in the Authorised Capital of the Company is conditional upon the passing of an ordinary resolution set out in resolution no. (2) of the notice of the EGM by the Shareholders.

Expected adjustment to Outstanding Convertible Bonds

As at the Latest Practicable Date, there are outstanding convertible bonds in the aggregate principal amount of HK\$55,000,000 due 30 September 2014. Save for the conversion rights attaching to the Outstanding Convertible Bonds, the Company had no outstanding options, warrants or other securities convertible into or giving rights to subscribe for the Shares.

Upon the Capital Reorganisation becoming effective, pursuant to the terms and conditions of the instrument constituting the Outstanding Convertible Bonds, the conversion price of the Convertible Bonds and the total number of Shares to be allotted and issued upon full exercise of the conversion rights attaching to the Convertible Bonds are expected to be adjusted in the following manner:

Before Capital Reorganisation		After Capital Reorganisation	
Number of Shares to be allotted and issued	Conversion price per Share	Number of Adjusted Shares to be allotted and issued	Adjusted conversion price per Adjusted Share
1,375,000,000	HK\$0.04	55,000,000	HK\$1.00

The Company will appoint an approved merchant bank or the auditors of the Company to consider whether for any reason whatever the adjustment to be made would or might not fairly and appropriately reflect the interests of the persons affected thereby. The Capital Reorganization may give rise to adjustment(s) to the conversion price and/or number of Shares to be issued upon exercise of conversion rights of the Outstanding Convertible Bonds. The Company will make further announcement(s) about any adjustment(s) in due course.

LETTER FROM THE BOARD

REASONS FOR CAPITAL REORGANISATION, CHANGE IN BOARD LOT SIZE AND INCREASE IN THE AUTHORISED CAPITAL

Capital Reduction

The Shares have been trading below their par value of HK\$0.04 for more than 8 months. Under the Companies Ordinance, it is not permissible for a company to issue shares at a discount to the nominal value of its share unless, among other things, it is authorised by the Shareholders and sanctioned by the Court. Therefore, unless the par value of each Share is reduced, it will be very difficult for the Company to raise new capital by issuing new Shares. Capital Reduction will therefore provide the Company with greater flexibility for raising capital by issuing new Shares in the future.

In addition, the Capital Reduction will enable the Company to apply the credit arising from the Capital Reduction to eliminate the Accumulated Losses, so as to enable the Company to declare and pay dividends in the event of distributable profit should arise in the future.

Share Consolidation

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.

Change in Board Lot Size

Subject to the Capital Reorganisation becoming effective, the Board also proposes to change the board lot size for trading in the Adjusted Shares from 25,000 Shares to 10,000 Adjusted Shares. It is believed that the change in board lot size will reduce the transaction amount and costs in dealing with the Adjusted Shares.

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

Increase in the Authorised Capital

Upon completion of the Share Consolidation, there remain a total number of 436,749,000 unissued ordinary Adjusted Shares and 212,304,432 unissued preference Adjusted Shares in the capital of the Company available for issuance. The proposed Increase in the Authorised Capital will increase the number of unissued ordinary Adjusted Shares and unissued preference Adjusted Shares by 8,800,000,000 and 4,200,000,000 respectively, which will provide greater flexibility to the Company in raising capital and facilitate any such future expansion in the share capital of the Company.

LETTER FROM THE BOARD

AMENDMENTS TO THE MEMORANDUM AND ARTICLES OF ASSOCIATION

Subject to and conditional upon completion of the Capital Reorganisation and the Increase in the Authorised Capital, a special resolution is proposed at the EGM by the Company to approve the corresponding amendments to the Memorandum and Articles of Association and to adopt the form of the amended and restated Memorandum and Articles of Association which consolidates and incorporates all of the proposed amendments and all previous amendments made pursuant to resolutions passed by the Shareholders.

The amendments to the Memorandum and Articles of Association which is put forward for the Shareholder's approval at the EGM are mainly in relation to the following changes in the authorised share capital of the Company:

- (1) the existing authorised ordinary share capital of HK\$1,200,000,000 divided into 30,000,000,000 ordinary Shares of HK\$0.04 each will be changed to HK\$1,000,000,000 divided into 10,000,000,000 ordinary Shares of HK\$0.10 each;
- (2) the existing authorised preference share capital of HK\$800,000,000 divided into 20,000,000,000 preference Shares of HK\$0.04 each will be changed to HK\$500,000,000 divided into 5,000,000,000 preference Shares of HK\$0.1 each;
- (3) the conversion price for the convertible preference Shares which is set out in the Articles of Association will be changed from HK\$0.04 to HK\$0.10.

Full details of the proposed amendments to the Memorandum and the Articles of Association are set out in the notice of the EGM. The board is of the view that there is nothing unusual about the proposed amendments to the Memorandum and Articles of Association.

The Memorandum and Articles of Association are written in English. There is no official Chinese version. Should there be any discrepancies, the English version shall prevail.

ADOPTION OF NEW SHARE OPTION SCHEME

As the 2002 Share Option Scheme adopted by the Company on 2 August 2002 would expire on 2 August 2012. The Board has taken this opportunity to review and consider the rules of the 2002 Share Option Scheme and propose to terminate the 2002 Share Option Scheme and at the same time adopt the New Share Option Scheme. Upon termination of the 2002 Share Option Scheme, no further options will be granted thereunder. However, the rules of the 2002 Share Option Scheme will remain in full force and effective to the extent necessary to give effect to the exercise of option(s) granted prior to its termination or otherwise as may be required in accordance with the rules of the 2002 Share Option Scheme. Options granted prior to such termination will continue to be valid and exercisable in accordance with the rules of the 2002 Share Option Scheme. As at the Latest Practicable Date, no options have been granted under the 2002 Share Option Scheme.

LETTER FROM THE BOARD

The Company considers that the proposed adoption of the New Share Option Scheme would be in the interest of the Company and the Shareholders as a whole as the New Share Option Scheme will enable the Company to encourage and provide incentives to, and strengthen the business relationship with, the prescribed classes of participants who may contribute to the growth and development of the Company.

The New Share Option Scheme is conditional upon:

- (a) the passing of an ordinary resolution at the EGM to approve the termination of the 2002 Share Option Scheme;
- (b) the passing of an ordinary resolution at the EGM to approve and adopt the New Share Option Scheme and to authorise the Board to grant the Options thereunder and to allot, issue and deal with the Shares which fall to be issued by the Company pursuant to the exercise of the Options under the New Share Option Scheme; and
- (c) the Listing Committee of the Stock Exchange granting approval for the listing of, and permission to deal in such number of Shares to be issued by the Company pursuant to the exercise of the Options which may be granted under the New Share Option Scheme.

The purpose of the New Share Option Scheme is to encourage the participants (as defined under the New Share Option Scheme) to perform their best in achieving the goals of the Company and at the same time allow the participants to enjoy the results of the Company attained through their efforts and contributions and to provide the participants with incentives and help the Company in relating its existing employees and recruiting additional employees. A stronger business relationship will accordingly be established by the Company with the participants.

Under the New Share Option Scheme, the Board has the authority to set terms and conditions in the grant of the Options (i.e. to set terms and conditions in relation to the minimum period of the Options to be held and/or the performance targets to be achieved before such Options can be exercised and the requirement for a minimum subscription price). With such authority and flexibility, the Directors may impose different terms and conditions in the grant of the Options to the participants as they consider appropriate with a view of achieving the purpose of the New Share Option Scheme as stated above.

The Options do not carry any right to vote in general meeting of the Company, or any right to dividend, transfer or any other rights including those arising on the liquidation of the Company.

Scheme mandate limit and maximum number of Shares to be issued under the New Share Option Scheme

Shares which may fall to be issued upon the exercise of all Options to be granted under the New Share Option Scheme at any time may not exceed 10% of the Shares in issue as at the date of adoption of the New Share Option Scheme.

LETTER FROM THE BOARD

On the basis of 19,081,275,000 ordinary Shares in issue as at the Latest Practicable Date and assuming that no further shares will be issued or repurchased by the Company prior to the EGM, the scheme mandate limit for the New Share Option Scheme will be 1,908,127,500 ordinary Shares before Capital Reorganisation (76,325,100 ordinary Adjusted Shares after Capital Reorganisation) under Rule 23.03(3) of GEM Listing Rules, should the New Share Option Scheme be adopted at the EGM.

Value of the Options

The Company considers that it would be inappropriate to state the value of all Options that could be granted under the New Share Option Scheme in this circular, as if they had been granted on the Latest Practicable Date, as a number of variables which are crucial for the calculation of the value of the Options are yet to be determined. Such variables include the subscription price payable for the Shares, exercise period, any lock-up period and any performance target. The Company believes that any calculation of the value of the Options as at the Latest Practicable Date based on a number of speculative assumptions would be misleading to the Shareholders.

A summary of the principal terms of the New Share Option Scheme which is proposed to be approved and adopted by the Company at the EGM is set out in Appendix I on pages 19 to 27 of this circular. A copy of the rules of the New Share Option Scheme is available for inspection at the principal place of business of the Company at Room 2112, 21/F., Wing On Centre, No. 111 Connaught Road Central, Hong Kong during normal business hours on any Business Day from the date of this circular up to and including the date of the EGM.

The resolution for approving the termination of the 2002 Share Option Scheme is set out in resolution no. 3 in the notice of the EGM and the resolution for approving the New Share Option Scheme is set out in resolution no. 4 in the notice of the EGM.

GENERAL INFORMATION

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

EGM

The notice of the EGM is set out from pages 28 to 31 of this circular. A form of proxy for use at the EGM is enclosed. At the EGM, resolutions will be proposed to the Shareholders for the purpose of considering and, if thought fit, approving the Capital Reorganisation, Change in the Board Lot Size, Increase in the Authorised Capital, corresponding amendments to the Memorandum and Articles of Association and adoption of the New Share Option Scheme. The vote of the Shareholders at the EGM will be taken by poll in accordance with Rule 17.47(4) of GEM Listing Rules and the Company will announce the results of the poll in the manner prescribed under Rule 17.47(5) of GEM Listing Rules.

LETTER FROM THE BOARD

To the best of the Directors' knowledge, information and belief, having made reasonable enquiries, the Directors confirm that no Shareholder is required to abstain from voting at the EGM.

Whether or not you intend to attend the EGM, you are requested to complete and return the enclosed form of proxy to the Company's share registrar, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

Closure of Register of Member

For the purpose of determining the entitlement to vote at the EGM, the register of members of the Company will be closed from Friday, 9 December 2011 to Monday, 12 December 2011, both dates inclusive, during this period, no transfer of Shares of the Company will be effected. In order to attend and vote at the meeting, all completed transfer forms of shares (together with the relevant share certificates) must be lodged with the Company's share registrar, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration by no later than 4:30 p.m. on Thursday, 8 December 2011.

RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with 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 circular 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 circular misleading.

RECOMMENDATION

The Directors believe that the proposals for the Capital Reorganisation, Change in the Board Lot Size, Increase in the Authorised Capital, amendments to the Memorandum and Articles of Association and adoption of the New Share Option Scheme are in the interests of the Company and Shareholders as a whole and recommend Shareholders to vote in favour of the resolutions proposed at the EGM to approve the proposed resolutions as set out in the notice of the EGM.

Yours faithfully,
By order of the Board
iMerchant Limited
Yau Yan Ming Raymond
Chairman

This Appendix summarises the principal terms of the New Share Option Scheme but does not form part of, nor was it intended to be, part of the New Share Option Scheme nor should it be taken as effecting interpretation of the rules of the New Share Option Scheme.

The purpose of the New Share Option Scheme is to provide the people and the parties working for the interests of the Company with an opportunity to obtain an equity interest in the Company, thus linking their interest with the interests of the Company and thereby providing them with an incentive to work better for the interests of the Company.

(a) WHO MAY JOIN

The Board may, at its absolute discretion, offer to any (i) employees of the Group; (ii) directors (including any executive, non-executive and independent non executive Directors (where applicable)) of the Company; (iii) substantial shareholders of each member of the Company; and (iv) any advisers, consultants, distributors, contractors, suppliers, agents, customers, business partners, joint venture business partners, promoters, service providers of any member of the Group (together, the “**Participants**” and each, a “**Participant**”), options to subscribe for such number of Shares as the Board may determine at a subscription price determined in accordance with sub-paragraph (c) headed “Price for Shares” below, and subject to the other terms of the New Share Option Scheme summarised below.

Upon acceptance of the offer, the grantee shall pay HK\$10.00, the offered price, to the Company by way of consideration for the grant and the option shall be deemed to have been granted and to have taken effect with retrospective effect from the date on which the option is offered.

(b) GRANT OF OPTIONS TO CONNECTED PERSONS OR ANY OF THEIR ASSOCIATES

Any grant of options to a Participant who is a Director, chief executive, or substantial Shareholder (as defined in the GEM Listing Rules) of the Company or any of his/her/its respective associates must be approved by the independent non-executive Directors, excluding any independent non-executive Director who is a grantee of the options.

Where the Board proposes to grant any option to a Participant who is a substantial Shareholder (as defined in the GEM Listing Rules) of the Company or an independent non-executive Director, or any of his/her/its associates, and such option which if exercised in full, would result in the Shares issued and to be issued upon exercise of all options granted and to be granted pursuant to the New Share Option Scheme and other share option schemes of the Company (including options exercised, cancelled and outstanding) to such Participant in the 12-month period up to and including the date of grant being proposed by the Board (the “**Relevant Date**”):

- (i) representing in aggregate more than 0.1% of the total number of Shares in issue at the Relevant Date; and

- (ii) having an aggregate value, based on the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the Relevant Date and if the Relevant Date is not a business day, the business day immediately preceding the Relevant Date, in excess of HK\$5 million.

Such proposed grant of options and any proposed change in the terms of options granted to a grantee who is a substantial Shareholder or an independent non-executive Director of the Company shall be approved by the Shareholders by way of a poll in general meeting and the Company shall send a circular to the Shareholders, containing all such information as may be required by the GEM Listing Rules. All the Participants concerned and all other connected persons of the Company must abstain from voting in favour of the resolution at such general meeting.

The abovementioned circular must contain the following information:–

- (a) details of the number and terms (including the subscription price) of the options to be granted to each Participant, which must be fixed before the Shareholders' meeting and the date of the board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the subscription price;
- (b) a recommendation from the independent non-executive Directors (excluding the independent non-executive Director who is the grantee of the options) to the independent Shareholders as to voting; and
- (c) the information required under Rules 23.02(2)(c) and (d) of the GEM Listing Rules, the disclaimer required under Rule 23.02(4) of the GEM Listing Rules and the information required under Rule 2.28 of the GEM Listing Rules.

(c) PRICE FOR SHARES

The subscription price for the Shares under the New Share Option Scheme shall be determined by the Board in its absolute discretion and notified to a Participant, provided that such price shall be at least the highest of (i) the closing price of Shares as stated in the Stock Exchange's daily quotations sheet on the date of offer of an option which must be a business day; (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheet for the five consecutive business days immediately preceding the date of offer; and (iii) the nominal value of the Share.

(d) MAXIMUM NUMBER OF SHARES

- (i) The total number of Shares which may be allotted and issued upon the exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the 2002 Share Option Scheme, the New Share Option Scheme and any other share option scheme(s) of the Company) to be granted under the New Share Option

Scheme and any other share option scheme(s) of the Company must not in aggregate exceed 1,908,127,500 ordinary Shares before Capital Reorganisation (76,325,100 ordinary Adjusted Shares after Capital Reorganisation) Shares, representing 10% of the Shares in issue (the “**Scheme Mandate Limit**”), unless the Company obtains a fresh approval from its Shareholders pursuant to sub-paragraph (ii) below or the options are granted pursuant to sub-paragraph (iii) below.

- (ii) The Company may seek approval of its Shareholders in general meeting to renew the Scheme Mandate Limit provided that the total number of Shares in respect of which options may be granted under the New Share Option Scheme and any other share option schemes of the Company shall not exceed 10% (the “**Renewal Limit**”) of the issued share capital of the Company at the date of approval to renew such limit. Options previously granted under the 2002 Share Option Scheme and the New Share Option Scheme (including those outstanding, cancelled, lapsed in accordance with the New Share Option Scheme or exercised options) shall not be counted for the purpose of calculating the Renewal Limit. The Company shall send a circular to Shareholders containing the information and disclaimer required under the GEM Listing Rules for the purpose of seeking the approval of its Shareholders for the Renewal Limit.
- (iii) The Company may authorise the Directors to grant options to specified Participant(s) beyond the Scheme Mandate Limit or Renewal Limit if the grant of such options is specifically approved by the Shareholders in general meeting. In such case, the Company shall send a circular to Shareholders in connection with the general meeting at which their approval will be sought containing a generic description of the specified Participants who may be granted such options, the number and terms of the option to be granted, the purpose of granting options to the specified Participants with an explanation as to how the terms of the options serve such purpose, the information and the disclaimer required under the GEM Listing Rules and such further information as may be required by the Stock Exchange from time to time.
- (iv) Notwithstanding the above, the maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2002 Share Option Scheme, the New Share Option Scheme and any other share option schemes of the Company must not exceed 10% of the total number of Shares in issue from time to time. No option may be granted under the New Share Option Scheme or any other share option schemes if this will result in the said limit being exceeded.

The maximum number of Shares issued and to be issued upon exercise of the options granted and to be granted pursuant to the New Share Option Scheme and any other share option schemes of the Company to each Participant (including both exercised and outstanding options) in any 12-month period up to and including the date of grant of the options must not exceed 1% of the total number of Shares in issue (the “**Individual Limit**”). Any further grant of options in excess of the Individual Limit in any 12-month period up to and including the date of such further grant must be subject to the approval of the Shareholders in general meeting at which such Participant and his associates must abstain from voting.

(e) TIME OF AND RESTRICTIONS ON EXERCISE OF OPTION

An option may be exercised in whole or in part in accordance with the terms of the New Share Option Scheme at any time during a period to be notified by the Board to each grantee provided that the period within which the Shares may be taken up under the option must not be more than 10 years from the date of offer of the option.

There is no general requirement on the minimum period for which an option must be held or the performance targets which must be achieved before an option can be exercised under the terms of the Share Option Scheme.

(f) RIGHTS ARE PERSONAL TO GRANTEE

Options granted under the New Share Option Scheme must be personal to the grantee, which may not be sold, transferred, charged, mortgaged, encumbered, assigned or created any interest (whether legal or beneficial) by the grantee to or in favour of any third party over or in relation to any option.

(g) TERMINATION OF EMPLOYMENT

In the event that the grantee ceases to be a Participant for any reason (other than on his death) including the termination of employment or engagement on one or more of the grounds specified in sub-paragraph (o)(vi) below, the option granted to such grantee will lapse on the date of such cessation (to the extent not already exercised) and will not be exercisable unless the Board otherwise determines to grant an extension at the absolute discretion of the Board in which event the grantee may exercise the option within such period of extension and up to a maximum entitlement directed at the absolute discretion of the Board on the date of grant of extension (to the extent which has become exercisable and not already exercised) and subject to any other terms and conditions decided at the discretion of the Board. For the avoidance of doubt, such period of extension (if any) shall be granted within and in any event ended before the expiration of the period of one month following the date of his cessation to be a Participant or the relevant option period, whichever is earlier.

(h) RIGHTS ON CESSATION OF EMPLOYMENT BY DEATH

If the grantee of an option who is an individual dies before exercising the option in full and none of the event sets out in sub-paragraph (o)(vi) below arises, his/her personal representative(s) may exercise the option up to the entitlement of the grantee as at the date of death (to the extent they have become exercisable and not already exercised) within a period of 12 months or such longer period as the Board may at its absolute discretion determine from the date of death (provided that such exercise is during the relevant option period).

(i) EFFECTS OF ALTERATIONS TO SHARE CAPITAL

In the event of capitalisation issue, rights issue, open offer, sub-division or consolidation of the Shares, or reduction of capital in the Company whilst any option remains exercisable (excluding any alteration in the capital structure of the Company as a result of an issue of Shares as consideration in respect of a transaction to which the Company is a party), or in the event of any distribution of the Company's capital assets to its Shareholders on a pro rata basis (whether in cash or in specie) other than dividend paid out of the net profit attributable to its Shareholders for each financial year of the Company, such corresponding alterations (if any) shall be made to the number or nominal amount of Shares subject to the option so far as unexercised or the subscription price for the Shares subject to the option so far as unexercised, or any combination thereof, as an independent financial adviser appointed by the Company or the auditors for the time being of the Company shall certify in writing to the Directors, either generally or as regards any particular grantee, to be in their opinion fair and reasonable. The capacity of the independent financial adviser or the auditors in this paragraph is that of experts and not of arbitrators and their certification shall, in the absence of manifest error, be final, conclusive and binding on the Company and the grantees. The costs of the independent financial adviser or the auditors shall be borne by the Company. Notice of such alteration(s) (if any) shall be given to the grantees by the Company. Any such alteration will be made on the basis that a Participant shall have the same proportion of the issued share capital of the Company (as interpreted in accordance with the supplementary guidance on GEM Listing Rule 23.03(13) and the note immediately after the Listing Rule ("**Supplementary Guidance**"). No such alteration will be made the effect of which would be to enable a Share to be issued at less than its nominal value. In addition, any adjustment to be made will comply with the GEM Listing Rules, the Supplemental Guidance and any future interpretation of the GEM Listing Rules issued by the Stock Exchange from time to time.

(j) RIGHTS ON A TAKE-OVER OR SHARE REPURCHASE

If a general or partial offer, whether by way of take-over or share repurchase offer (but other than by way of scheme of arrangement), is made to all the Shareholders (or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror) and if such offer becomes or is declared unconditional prior to the expiry of the relevant option period, the grantee (or his personal representative(s)) shall be entitled to exercise the option in full (to the extent which has become exercisable on the date of the notice of the offeror and not already exercised) at any time within one month after the date on which the offer becomes or is declared unconditional.

(k) RIGHTS ON WINDING UP

If a notice is given by the Company to its members to convene a general meeting for the purpose of considering and, if thought fit, approving a resolution to voluntarily wind up the Company, the Company shall forthwith after it despatches such notice to each of its members give notice thereof to the grantees (or his/her personal representative(s)), who may, subject to the provisions of all applicable laws, by notice in writing to the Company (such notice to be received by the Company not later than

two business days prior to the proposed general meeting) accompanied by a remittance for the full amount of the subscription price for the Shares in respect of which the notice is given, exercise the option (to the extent they have become exercisable and not already exercised) either to its full extent or to the extent specified in such notice and the Company shall, as soon as possible and in any event no later than the business day immediately prior to the date of the proposed general meeting referred to above, allot and issue such number of Shares to the grantee which falls to be issued on such exercise, credited as fully paid and register the grantee as holder thereof.

(l) RIGHTS ON A SCHEME OF ARRANGEMENT

If a general or partial offer by way of a scheme of arrangement is made to all Shareholders and has been approved by the necessary number of Shareholders at the requisite meetings, the grantee (or his personal representative(s)) may thereafter (but only until such time as shall be notified by the Company, after which it shall lapse) exercise the option (to the extent which has become exercisable and not already exercised) to its full extent or to the extent specified in the notice.

(m) RIGHTS ON COMPROMISE OR ARRANGEMENT

Other than a general offer or partial offer or a scheme of arrangement contemplated in subparagraph (l) above, if a compromise or arrangement between the Company and its members or creditors is proposed for the purposes of or in connection with the reconstruction of the Company or its amalgamation with any other company or companies, the Company shall give notice thereof to all grantees (or to their personal representatives) on the same day as it gives notice to the members or creditors of the Company summoning a meeting to consider such a compromise or arrangement, and the grantee (or his/her personal representative(s)) may, by notice in writing to the Company accompanied by the remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given (such notice to be received by the Company not later than two business days prior to the proposed meeting), exercise his/her option (to the extent which has become exercisable and not already exercised) either to its full extent or to the extent specified in such notice, but the exercise of an option as aforesaid shall be conditional upon such compromise or arrangement being sanctioned by the court of competent jurisdiction and becoming effective. The Company shall as soon as possible and in any event no later than the business day immediately prior to the date of the proposed meeting referred to above, allot and issue such number of Shares to the grantee which falls to be issued on such exercise credited as fully paid and register the grantee as holder of such Shares. Upon such compromise or arrangement becoming effective, all options shall lapse except insofar as previously exercised under the 2002 Share Option Scheme and the New Share Option Scheme. The Company may require the grantee (or his personal representative(s)) to transfer or otherwise deal with the Shares issued as a result of the exercise of options in these circumstances so as to place the grantee in the same position as nearly as would have been the case had such Shares been subject to such compromise or arrangement.

(n) RANKING OF SHARES

The Shares to be allotted and issued upon the exercise of an option will be subject to all the provisions of the Articles for the time being in force and will rank pari passu in all respects with the fully paid Shares in issue on the date of their allotment and issue (the “**Exercise Date**”) and accordingly will entitle the Shareholders to participate in all dividends or other distributions declared paid or made on or after the Exercise Date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor is before the Exercise Date. Shares allotted and issued upon the exercise of an option shall not carry voting rights until the name of the grantee has been duly entered into the register of members of the Company as the holder thereof.

(o) LAPSE OF OPTION

The right to exercise an option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

- (i) the expiry of the option period;
- (ii) the expiry of the periods referred to in sub-paragraphs (g), (h) or (m), where applicable;
- (iii) subject to the court of competent jurisdiction not making an order prohibiting the offeror from acquiring the remaining shares in the offer, the expiry of the period referred to in sub-paragraph (j);
- (iv) subject to the scheme of arrangement becoming effective, the expiry of the period referred to in sub-paragraph (l);
- (v) subject to the expiry of the period of extension (if any) referred to in subparagraph the date on which the grantee ceases to be a Participant for any reason other than his death or the termination of his employment or engagement on one or more grounds specified in (vi) below. A transfer of employment from one company in the Company to another company in the Company shall not be considered as a cessation of employment;
- (vi) the date on which the grantee ceases to be a Participant by reason of the termination of his employment on the grounds that he has been guilty of misconduct, or has been in breach of a material term of the relevant employment contract, or appears either to be unable to pay or have no reasonable prospect to be able to pay debts, or has committed any act of bankruptcy, or has become insolvent, or has been served a petition for bankruptcy or winding-up, or has made any arrangements or composition with his creditors generally, or has been convicted of any criminal offence or (if so determined by the Board, the board of the relevant subsidiary or the board of the relevant associated company of the Company,

as the case may be) on any other ground on which an employer would be entitled to summarily terminate his employment at common law or pursuant to any applicable laws or under the grantee's service contract with the Company, the relevant subsidiary or the relevant associated company of the Company (as the case may be). A resolution of the Board, the board of the relevant subsidiary or the board of the relevant associated company of the Company (as the case may be) to the effect that the employment or engagement of a grantee has or has not been terminated on one or more of the grounds specified in this paragraph (v) above shall be conclusive and binding on the grantee;

- (vii) subject to sub-paragraph (k) the date of the commencement of the winding up of the Company;
- (viii) the date on which the grantee commits a breach of sub-paragraph (f); or
- (ix) the date on which the option is cancelled by the Board as set out in sub-paragraph (t).

(p) PERIOD OF THE SHARE OPTION SCHEME

Subject to earlier termination by Shareholders' resolution in general meeting, the New Share Option Scheme shall be valid and effective for a period of 10 years commencing from the date of grant, after which period no further options will be offered or granted but the provisions of the New Share Option Scheme shall remain in full force and effect in respect of all options which remain exercisable at the end of such period.

(q) PRICE SENSITIVE DEVELOPMENTS

No grant of options shall be made after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been announced in accordance with the requirements of the GEM Listing Rules. In particular, during the period of one month immediately preceding the earlier of:

- (i) the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the GEM Listing Rules) for the approval of the Company's results for any year, half-year, quarterly or any other interim period (whether or not required under the GEM Listing Rules); and
- (ii) the deadline for the Company to publish an announcement of its results for any year, or half-year, quarterly or any other interim period under the GEM Listing Rules (whether or not required under the GEM Listing Rules).

and ending on the date of the results announcement, no option may be granted. Such period will cover any period of delay in the publication of a results announcement.

(r) ALTERATIONS TO THE NEW SHARE OPTION SCHEME AND THE TERMS OF OPTION GRANTED UNDER THE NEW SHARE OPTION SCHEME

- (i) Subject to (ii) below, the terms and conditions of the New Share Option Scheme may be altered by resolution of the Board from time to time except that the provisions relating to matters contained in Rule 23.03 of the GEM Listing Rules shall not be altered to extend the class of persons eligible for the grant of options or to the advantage of grantees or Participants except with the prior approval of the Shareholders in general meeting, with grantees and their associates abstaining from voting, and no such alteration shall operate to affect adversely the terms of issue of any option granted or agreed to be granted prior to such alteration except with the consent or sanction of such majority of the grantees as would be required of the Shareholders under the Articles for the time being for a variation of the rights attached to the Shares;
- (ii) Any alterations of the terms and conditions of the New Share Option Scheme, which are material or change the authority of the Board, shall be approved by the Stock Exchange and the Shareholders in general meeting, except where the alterations take effect automatically under the existing terms of the New Share Option Scheme;
- (iii) The amended terms of the New Share Option Scheme or the option must still comply with the relevant requirements of Chapter 23 of the GEM Listing Rules;
- (iv) Any change to the authority of the Directors or scheme administrators, if any, in relation to any alteration to the terms of the Scheme must be approved by the Shareholders in general meeting.

(s) TERMINATION OF NEW SHARE OPTION SCHEME

The Company by ordinary resolution in general meeting or the Board may at any time terminate the operation of the New Share Option Scheme and in such event no further option shall be offered but the provisions of the New Share Option Scheme shall remain in full force and effect in all other respects in respect of any options granted prior thereto but not yet exercised at the time of termination.

(t) CANCELLATION OF OPTIONS

The Board may, with the consent of the relevant grantee, at any time cancel any option granted but not exercised. Where the Company cancels options and offers new options to the same option holder, the offer of such new options may only be made under the New Share Option Scheme with available options (to the extent not yet granted and excluding the cancelled options) within the limit approved by the Shareholders as mentioned in sub-paragraph (d) headed "Maximum number of Shares" above.

(u) OPTIONS' RIGHTS ON VOTING, DIVIDEND AND TRANSFER

The Options do not carry any right to vote in general meeting of the Company, or any right to dividend, transfer or any other rights including those arising on the liquidation of the Company.

NOTICE OF THE EGM



iMerchants Limited **菱控有限公司**

(Incorporated in Hong Kong with limited liability)
(Stock Code: 8009)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (“**EGM**”) of iMerchants Limited (the “**Company**”) will be held at Plaza 3, Lower Lobby, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong on Monday, 12 December 2011 at 11 a.m. for the purposes of considering and, if thought fit, (with or without amendments) passing the following resolutions:

SPECIAL RESOLUTION

- (1) “**THAT** conditional upon (i) granting of an order by the Court pursuant to the Companies Ordinance (Cap. 32) for the purpose of confirming the Capital Reduction (as defined below) and registration of the Confirming Order and the minute of this meeting by the Companies Registrar in respect of the Capital Reduction and compliance with any conditions as may be imposed by the Court in relation to the Capital Reduction; and (ii) the Listing Committee of The Stock Exchange of Hong Kong Limited approving the listing of, and granting the permission to deal in, shares of HK\$0.1 each in the issued share capital of the Company:–
 - (a) the authorised share capital of the Company be reduced from (1) HK\$1,200,000,000 divided into 30,000,000,000 ordinary shares of HK\$0.04 each to HK\$120,000,000 divided into 30,000,000,000 ordinary shares of HK\$0.004 each and (2) from HK\$800,000,000 divided into 20,000,000,000 preference shares of HK\$0.04 each to HK\$80,000,000 divided into 20,000,000,000 preference 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 share (the “**Capital Reduction**”);
 - (b) every twenty five shares in the share capital of the Company of HK\$0.004 each be consolidated into one share of HK\$0.10 each (“**Adjusted Share**”) and any fraction of the Adjusted Shares arising from the share consolidation shall not be allocated to any holders of shares of the Company otherwise entitled thereto but such fractions shall be aggregated and be sold for the benefit of the Company (“**Share Consolidation**”);

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- (c) the credit arising from the Capital Reduction be used to set off against the audited balance in the accumulated losses account as at the latest audited account of the Company (if any) and the balance be credited to the share premium account or such reserve as the Court may direct;
- (d) all of the Adjusted Shares resulting from the Capital Reduction and Share Consolidation shall rank pari passu in all respects with each other and while the rights and privileges be subject to the restrictions contained in the Articles of Association of the Company;
- (e) the Directors of the Company be and are hereby authorised generally to do all things they may consider appropriate and desirable to effect and implement the Capital Reduction, Share Consolidation and application of credit arising from the Capital Reduction;
- (f) Subject to the Capital Reduction, Share Consolidation and Increase in the Authorised Capital (as defined below) taking effect, the Memorandum and Articles of Association of the Company (the “**Memorandum and Articles of Association**”) be and are hereby amended as follows:
 - (i) By deleting the existing Clause 5 of the Memorandum of Association of the Company and replacing it with the following:

“The authorised share capital of the Company is HK\$1,500,000,000 divided into 10,000,000,000 ordinary shares of HK\$0.10 each and 5,000,000,000 convertible preference shares of HK\$0.10 each.”
 - (ii) By deleting the existing Article 3 of the Articles of Association of the Company and replacing it with the following:

“The authorised share capital of the Company is HK\$1,500,000,000 divided into 10,000,000,000 ordinary shares of HK\$0.10 each and 5,000,000,000 convertible preference shares of HK\$0.10 each.”
 - (iii) By deleting the word “HK\$0.04” in Clause 5.1 of Appendix I to the Articles of Association of the Company and replacing it by the word “HK\$0.10”.
- (g) the amended and restated Memorandum and Articles of Association in the form of the document marked “A” and produced to the meeting and for the purpose of identification signed by the chairman of the meeting, which consolidates and incorporates all of the proposed amendments referred to above and all previous amendments made pursuant to resolutions passed by the shareholders of the Company in general meetings be approved and adopted in substitution for and to the exclusion of the existing Memorandum and Articles of Association, and any Director or a person duly authorised by the Board be authorised to execute all documents, instruments and to do all such acts and deeds as he may deem necessary or desirable for or in connection with the adoption of the amended and restated Memorandum and Articles of Association.”

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ORDINARY RESOLUTION

- (2) “**THAT** conditional upon the Capital Reduction and Share Consolidation becoming effective, the authorised share capital of the Company be increased (1) from HK\$120,000,000 divided into 1,200,000,000 ordinary Adjusted Shares to HK\$1,000,000,000 divided into 10,000,000,000 ordinary Adjusted Shares by the creation of an additional 8,800,000,000 ordinary Adjusted Shares and (2) from HK\$80,000,000 divided into 800,000,000 preference Adjusted Shares to HK\$500,000,000 divided into 5,000,000,000 preference Adjusted Shares by the creation of an additional 4,200,000,000 preference Adjusted Shares, and that each such Adjusted Share, upon issue, shall rank pari passu in all respects with the existing issued Adjusted Shares (the “**Increase in the Authorised Capital**”) and that the Directors of the Company be and are hereby authorised to do all things and acts and sign all documents which they consider necessary, desirable, or expedient in connection with the implementation of the Increase in the Authorised Capital.”
- (3) “**THAT** with effect from the close of business of the day on which this resolution is passed, the existing share option scheme, namely 2002 Share Option Scheme (“**2002 Share Option Scheme**”) adopted by the Company on 2 August 2002 be and is hereby terminated and cease to have any further effect save and except that the 2002 Share Option Scheme will remain in full force and effective to the extent necessary to give effect to the exercise of the option(s) granted thereunder prior to the termination thereof, if any.”
- (4) “**THAT** subject to the passing of the resolution (3) and The Stock Exchange of Hong Kong Limited approving the listing of, and granting the permission to deal in, shares to be issued under the rules of the new share option scheme (“**New Share Option Scheme**”), a copy of which having been produced to the meeting marked “B” and for the purpose of identification signed by the Chairman, the New Share Option Scheme be and are hereby approved and adopted to be the share option scheme of the Company and that the Directors of the Company be and are hereby authorised to approve any amendments to the rules of the New Share Option Scheme as may be acceptable or not objected by The Stock Exchange of Hong Kong Limited, and at their absolute discretion to grant options to subscribe for shares of the Company thereunder and to allot, issue and deal with the shares of the Company pursuant to the exercise of options granted under the New Share Option Scheme and to do all such acts and to enter into all such transactions and arrangements as may be necessary or expedient in order to give effect to the New Share Option Scheme.”

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

Hong Kong, 17 November 2011

NOTICE OF THE EGM

Notes:

1. Any shareholder entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies (if the member is a holder of two or more shares) to attend and vote in his/her stead. A proxy need not be a shareholder of the Company.
2. Where there are joint registered holders of any shares, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such shares as if he/she were solely entitled thereto; but if more than one of such joint holders is present at any meeting personally or by proxy, that one of the said persons so present whose name stands first on the register in respect of such shares shall alone be entitled to vote in respect thereof.
3. In order to be valid, the form of proxy must be duly lodged at the Company's Hong Kong branch share registrar, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong together with a power of attorney or other authority, if any, under which it is duly signed or a notarially certified copy of that power of attorney or authority, not less than 48 hours before the time for holding the meeting or any adjourned meeting.
4. The register of members of the Company will be closed from Friday, 9 December 2011 to Monday, 12 December 2011, both days inclusive, during which no transfer of Shares will be registered. For the purpose of determining the entitlement to vote at the EGM, all transfers of Shares accompanied by the relevant share certificates and appropriate transfer forms must be lodged with the Company's share registrar, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Thursday, 8 December 2011.
5. Completion and return of a form of proxy will not preclude a Shareholder from attending in person and voting at the above meeting or any adjournment thereof, should he/she so wish, and in such event, the form of proxy shall be deemed to be revoked.
6. This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with 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 circular is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this circular misleading; and (iii) all opinions expressed in this circular have been arrived at after due and careful consideration and are found on bases and assumptions that are fair and reasonable.

As at the date hereof, the Board consists of four executive Directors, namely Mr. Yau Yan Ming Raymond, Mr. Zha Jian Ping, Ms. Qi Yue and Mr. Wong Ka Chun Carson, and two independent non-executive Directors, namely Mr. Wu Tak Lung and Mr. Lam Tze Chung.

This circular 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>.