



iMerchants Limited

Third Quarterly Report 2011/2012

Stock Code : 8009

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

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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This report, for which the directors (the “Directors”) of iMerchants Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

SUMMARY

The Group's unaudited consolidated profit attributable to the owners of the Company for the nine months ended 31 December 2011 was approximately HK\$24,095,000 compared to the unaudited consolidated profit of approximately HK\$36,907,000 of the Group for the corresponding period in 2010. No interim dividend is recommended for the period under review.

GROUP BUSINESS REVIEW

The Company and its subsidiaries (collectively referred to as the “**Group**”) were principally engaged in provision of management service, investment in financial and investment products. For the nine months ended 31 December 2011, the turnover for the Group was approximately HK\$119,448,000 compared to approximately HK\$114,022,000 for the corresponding period last year.

We continue our objective of enhancing the value of the Company’s shares. We will cautiously make use of excess funds on investments in Hong Kong equity market. The investment strategy is reviewed and monitored frequently and we will take appropriate actions whenever necessary in response to changes in fundamental market situation. With adequate funds on hand, we will also continue to identify venture companies with growth potential and also possess the management ability to capture business opportunities.

Change of auditors

The Board of Directors (the “**Board**”) announced that SHINEWING (HK) CPA Limited (“**SHINEWING**”) resigned as auditors of the Group with effect from 1 November 2011 as the Company and SHINEWING could not reach a consensus on the audit fees for the financial year ending 31 March 2012. The Board also announces that HLM & Co. Certified Public Accountants has been appointed as the auditors with effect from 1 November 2011 to fill the casual vacancy in the office of the auditors of the Group arising there from and will hold office until the conclusion of the next annual general meeting of the Company. Details of the change were set out in the announcement of the Company dated 1 November 2011.

Capital Reorganisation and increase in authorised capital

The Shareholders had approved the resolutions proposed by the Directors at extraordinary general meeting (the “**EGM**”) of the Company held on 12 December 2011 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 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. For details and the meanings of the capitalised terms used in this section please refer to the announcement of the Company dated 9 November 2011, the circular of the Company dated 17 November 2011 and the announcement dated 12 December 2011.

Disposal of 100% Equity Interest of Plenty One Limited (“Plenty One”)

On 9 December 2011, Shine Gain Holdings Limited, direct wholly-owned subsidiary of the Company, entered into the Sale and Purchase Agreement with the Purchaser and in relation to the disposal of 100% equity interest of Plenty One at the consideration of HK\$6,500,000. For details and the meanings of the capitalised terms used in this section please refer to the announcement of the Company dated 9 December 2011.

FINANCIAL REVIEW

The Group recorded a net profit attributable to the owners of the Company of approximately HK\$24,095,000 for the nine months ended 31 December 2011, compared to a net profit of approximately HK\$36,907,000 for the corresponding period in 2010. The profit is mainly attributable to the accrued income arising from the signed management contract between Supreme Luck International Limited (“**Supreme luck**”) with Shenzhen Careall Capital Investment Co., Ltd. (深圳市康沃資本創業投資有限公司) (“**Careall**”) dated 19 August 2009.

The Group continues to be in a healthy financial situation. As at 31 December 2011, the Group holds current assets plus deposits totaling approximately HK\$162,262,000 and has approximately HK\$6,000,000 of borrowings. Most of the Group’s business transactions, assets and liabilities are denominated in Hong Kong dollars and Renminbi. The Group’s exposure to currency is minimal.

For the nine months ended 31 December 2011, the Group’s turnover was approximately HK\$119,448,000 compared to a turnover of approximately HK\$114,022,000 for the corresponding period in 2010.

RESULT

The Board presents the unaudited results of the Group for the nine months ended 31 December 2011 together with the comparative unaudited figures for the corresponding period in 2010 as follows.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months and nine months ended 31 December 2011

	Notes	Three months ended		Nine months ended	
		31 December		31 December	
		2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Continuing operations					
Turnover	2	–	–	119,448	114,022
Cost of Sales		(9,324)	(15,426)	(31,905)	(46,279)
Gross profit (loss)		(9,324)	(15,426)	87,543	67,743
Net gain on disposal of available-for-sale investments		–	–	–	3,220
Other income		–	6	–	3
Gain on redemption of convertible bonds		12,977	–	12,977	–
Impairment loss on intangible asset		–	–	(28,342)	–
Administration expenses		(2,680)	(2,114)	(10,875)	(6,889)
Finance expenses		(1,127)	(3,045)	(6,886)	(10,033)
Profit (loss) before taxation	3	(154)	(20,579)	54,417	54,044
Taxation	4	–	–	(29,862)	(20,000)
Profit (loss) for the period from continuing operation		(154)	(20,579)	24,555	34,044
Discontinued operations					
Profit (loss) for the period from discontinued operation	5	(164)	–	(460)	2,357
Profit (loss) for the period		(318)	(20,579)	24,095	36,401

	Three months ended		Nine months ended	
	31 December		31 December	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Notes				
Other comprehensive income (expense) for the period, net of tax				
Exchange difference arising on translation	792	(1)	792	4
Release of investment revaluation reserve upon disposal of available-for-sale investments	-	-	-	(4,452)
Total comprehensive income (expense) for the period, net of tax	474	(20,580)	24,887	31,953
Profit (loss) for the period attributable to:				
Owners of the Company	(318)	(20,579)	24,095	36,907
Non-controlling interests	-	-	-	(506)
	(318)	(20,579)	24,095	36,401
Total comprehensive income (expense) for the period attributable to:				
Owners of the Company	474	(20,580)	24,887	32,459
Non-controlling interests	-	-	-	(506)
	474	(20,580)	24,887	31,953
Earnings (loss) per share	6			
From continuing and discontinued operations				
– basic (HK cents)	(0.002)	(0.33)	0.15	0.84
– and diluted (HK cents)	(0.002)	(0.33)	0.14	0.18
From continuing operations				
– basic (HK cents)	(0.001)	(0.33)	0.15	0.77
– and diluted (HK cents)	(0.001)	(0.33)	0.14	0.17

NOTES:

1. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the disclosure requirements of Chapter 18 of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange.

The unaudited condensed consolidated results of the Group have not been reviewed by the Company’s auditors. Adjustments may be identified during the course of annual audit to be performed by the Company’s auditors. The accounting policies and methods of computation used in the unaudited condensed consolidated financial statements for the nine months ended 31 December 2011 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 March 2011 except as described below.

For the nine months ended 31 December 2011, the Group had applied, for the first time, a number of new or revised Standards and Interpretation (“new or revised HKFRSs”) issued by the HKICPA. The application of the new or revised HKFRSs in the nine months ended 31 December 2011 has had no material effect on the amounts reported in these unaudited condensed consolidated financial statements and/or disclosures set out in these unaudited condensed consolidated financial statements.

2. TURNOVER

Turnover represents revenue generated from sale of investments, management service fee income, dividend and interest income from investments is analysed as follows:

	Three months ended 31 December		Nine months ended 31 December	
	2011 (Unaudited) HK\$’000	2010 (Unaudited) HK\$’000	2011 (Unaudited) HK\$’000	2010 (Unaudited) HK\$’000
Continuing operations				
Management service fee income	–	–	119,448	114,000
Dividends from listed available-for-sale investments	–	–	–	22
	–	–	119,448	114,022
Discontinued operations				
Revenue from manufacture and trading of ceramic sewage materials	–	–	–	5,526
	–	–	119,448	119,548

3. PROFIT (LOSS) BEFORE TAXATION

	Nine months ended 31 December	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Profit (loss) before taxation has been arrived at after charging (crediting):		
Operating lease charges in respect of rented premises	1,025	931
Staff cost		
Salaries and allowances	2,808	2,365
Retirement benefit scheme contributions	58	168
	2,866	2,533
Gain on redemption of convertible bonds	(12,977)	–
Interest income from bank deposits	(11)	(2)
Amortisation of intangible asset	31,905	46,279
Impairment of intangible asset	22,581	–
Depreciation expense	175	140

4. TAXATION

	Three months ended 31 December		Nine months ended 31 December	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Current Tax				
The PRC	–	1	29,862	20,000
Taxation Attributable to the Group	–	1	29,862	20,000

No provision for Hong Kong Profits Tax has been made in the unaudited condensed consolidated financial statements as the Group incurred tax losses in Hong Kong for both periods.

5. DISCONTINUED OPERATIONS

On 9 December 2011, Shine Gain Holdings Limited, direct wholly-owned subsidiary of the Company, entered into the Sale and Purchase Agreement with the Purchaser and in relation to the disposal of 100% equity interest of Plenty One. Plenty One is a company incorporated in the British Virgin Islands on 10 August 2007 and is principally engaged in investment holding. Plenty One holds a 100% interest in the registered and paid-up capital of PRC Co. which is a domestic limited liability company duly incorporated in PRC on 10 March 2000 with paid-up registered capital of RMB6,500,000. PRC Co. was principally engaged in manufacture of bio-hang membrane filtering materials and filters, sale of water treatment equipment and material, chemical packing, sale of acid-resistant ceramic and anti-corrosion lining equipment. For details and the meanings of the capitalised terms used in this paragraph please refer to the announcement of the Company dated 9 December 2011.

The result of Plenty One for the nine months and three months period ended 31 December 2011, which have been included in the unaudited condensed consolidated income statement, are as follows.

	Three months ended 31 December		Nine months ended 31 December	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Revenue	–	–	–	5,526
Cost of Sales	–	–	–	(1,776)
Gross Profit	–	–	–	3,750
Selling and distribution expenses	–	–	–	(781)
Administration expenses	(58)	–	(142)	(470)
Finance expenses	(106)	–	(318)	(142)
(Loss) profit before taxation	(164)	–	(460)	2,357
Taxation	–	–	–	–
(Loss) profit for the period from discontinued operation	(164)	–	(460)	2,357
Attributable to:				
Owners of the Company	(164)	–	(460)	2,863
Non-controlling interest	–	–	–	(506)
	(164)	–	(460)	2,357

6. EARNINGS (LOSS) PER SHARE

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

	Three months ended 31 December		Nine months ended 31 December	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Earnings (loss) from continuing and discontinued operations				
Earnings (loss) for the purpose of basic earnings (loss) per share				
Profit (loss) for the period attributable to owners of the Company	(318)	(20,579)	24,095	36,907
Earnings (loss) from continuing operations				
Earning (loss) for the purpose of basic earnings (loss) per share				
Profit (loss) for the period attributable to owners of the Company	(154)	(20,579)	24,555	34,044

	Three months ended 31 December		Nine months ended 31 December	
	2011 (Unaudited) '000	2010 (Unaudited) '000	2011 (Unaudited) '000	2010 (Unaudited) '000
Number of shares				
Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share	19,081,275	6,330,119	16,068,861	4,415,443
Effect of dilutive potential ordinary shares:				
Convertible bonds	1,375,000	5,000,000	1,375,000	5,000,000
Convertible preference shares	–	11,252,589	–	11,252,589
Weighted average number of ordinary shares for the purpose of diluted earnings (loss) per share	20,456,275	22,582,708	17,443,861	20,668,032

The diluted loss per share was the same as the basic loss per share for the three months ended 31 December 2011 and 2010, as the effect of conversion of the Company convertible bonds and non-redeemable convertible preference shares would result in a decrease in loss per share.

7. INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the nine months ended 31 December 2011 (2010: Nil).

8. MOVEMENT OF RESERVES

	Equity attributable to owners of the Company												
	Non-redeemable convertible		Capital		Investment		Special		Equity component of Accumulated			Non-controlling	
	Share capital	preference share	Share premium	reemption reserve	Merger reserve	revaluation reserve	capital reserve	Translation reserve	convertible bonds	Profits/(losses)	Sub-total	interest	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
					(Note b)		(Note a)						
At 1 April 2011 (audited)	477,403	285,848	40,095	3,297	45,918	-	50,587	40,258	63,034	(400,688)	605,752	27	605,779
Total comprehensive income (expenses) for the period	-	-	-	-	-	-	-	792	-	24,095	24,887	-	24,887
Redemption of convertible bonds	-	-	-	-	-	-	-	-	(39,922)	-	(39,922)	-	(39,922)
Conversion of non-redeemable Preference shares (Note c)	285,848	(285,848)	(10,005)	-	-	-	10,005	-	-	-	-	-	-
At 31 December 2011 (unaudited)	763,251	-	30,090	3,297	45,918	-	60,592	41,050	23,112	(376,593)	590,717	27	590,744

	Equity attributable to owners of the Company												
	Non-redeemable convertible		Capital		Investment		Special		Equity component of Accumulated			Non-controlling	
	Share capital	preference share	Share premium	reemption reserve	Merger reserve	revaluation reserve	capital reserve	Translation reserve	convertible bonds	Profits/(losses)	Sub-total	interest	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
					(Note b)		(Note a)						
At 1 April 2010 (audited)	125,555	587,696	46,142	3,297	45,918	4,452	40,022	(52)	84,045	(83,884)	853,191	511	853,702
Total comprehensive income (expenses) for the period	-	-	-	-	-	(4,452)	-	4	-	36,907	32,459	(506)	31,953
Conversion of non-redeemable Preference shares (Note c)	137,592	(137,592)	(4,816)	-	-	-	4,816	-	-	-	-	-	-
At 31 December 2010 (unaudited)	263,147	450,104	41,326	3,297	45,918	-	44,838	(48)	84,045	(46,977)	885,650	5	885,655

Notes:

- (a) Pursuant to a special resolution passed at an extraordinary general meeting of the Company held on 22 July 2005 and the subsequent order of the High Court of Hong Kong (“the **High Court**”) made on 13 December 2005, the entire amount of HK\$207,130,000 then standing to the credit of the share premium accounts of the Company was cancelled in accordance with the provisions of the Hong Kong Companies Ordinance (the “**Capital Reduction**”).

Out of the credit arising from the Capital Reduction, HK\$146,538,000 was applied to eliminate the accumulated losses of the Company as at 31 March 2005 and the remaining balance of HK\$60,592,000 of the credit arising from the Capital Reduction was credited to a special capital reserve in the accounting records of the Company.

- (b) The merger reserve of the Group represents the difference between the nominal amount of the share capital of the subsidiaries at the date on which they were acquired by the Group and the nominal amount of the Company's shares issued as consideration for the acquisition in March 2000 less the premium arising on repurchase of shares and the amount transferred to the capital redemption reserve.
- (c) On 23 October 2009, the Company issued approximately 2,938,478,000 non-redeemable convertible preference shares with a par value of HK\$0.2 each, as subsequently subdivided of share of HK\$0.2 each into five shares of HK\$0.04 per share, as a partial consideration for the acquisition of an intangible asset through acquisition of a subsidiary. The fair value of the convertible preference shares as at 23 October 2009 amounted to approximately HK\$567,126,000, representing HK\$0.193 per convertible preference share. The discount of approximately HK\$20,570,000, which represented the difference between the fair value of the non-redeemable convertible preference shares as of 23 October 2009 and the par value, is charged to the special capital reserve of the Company.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 31 December 2011, the interests and short positions of each Director and chief executive of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) ("SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors, to be notified to the Company and the Stock Exchange, were as follows:

Long positions in ordinary shares of HK\$0.04 each of the Company (the "Shares")

No long positions of Directors in the Shares were recorded in the register or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

Long positions in the shares of associated corporation

No long positions of the Directors in the shares of the associated corporation of the Company were recorded in the register or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

Long positions in underlying shares – share options granted by the Company

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

Long positions in debentures

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

Short positions in the Shares

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

Short positions in underlying shares

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

Short positions in debentures

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

Save as disclosed above, at 31 December 2011, none of the Directors had any interests in any shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

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

At 31 December 2011, so far as was known to the Directors, the following persons or companies (other than the interests disclosed above in respect of certain Directors) had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

Long positions in the Shares

Name of Substantial Shareholder	Capacity/ Nature of interest	Number of ordinary shares in the Company held	Percentage of issued share capital of the Company (Note 3)
Bonus Raider Investments Limited (" Bonus Raider ")	Beneficial owner	2,406,117,500	12.61%
China Water Industry Group Limited (" China Water ")	Through a controlled corporation	2,406,117,500 (Note 1)	12.61%
Will Success Holdings Limited (" Will Success ")	Beneficial owner	5,400	0.00%
Mr. Xin Jun (" Mr. Xin ")	Through a controlled corporation	5,400 (Note 2)	0.00%

Notes:

1. These shares are registered in the name of Bonus Raider, a wholly-owned subsidiary of China Water. By virtue of the SFO, China Water was deemed to be interested in the Shares held by Bonus Raider.
2. Will Success is a company originally wholly-owned by Mr. Chen Lixue. On 18 July 2011, Mr. Chen Lixue transferred his entire interest in Will Success to Mr. Xin. By virtue of the SFO, Mr. Xin was deemed to be interested in the Shares held by Will Success.
3. The percentage is calculated based on 19,081,275,000 issued Shares as at 31 December 2011.

Long positions in underlying shares

Convertible bonds

Name of holder	Capacity	Number of Shares entitled pursuant to the full exercise of the Convertible bonds held as at 31 December 2011	Approximate percentage of issued share capital of the Company <i>(Note 2)</i>
Will Success	Beneficial Owner	1,250,000,000	6.55%
Mr. Xin	Through a controlled corporation	1,250,000,000 <i>(Note 1)</i>	6.55%

Note:

1. Will Success is a company originally wholly-owned by Mr. Chen Lixue. On 18 July 2011, Mr. Chen Lixue transferred his entire interest in Will Success to Mr. Xin. By virtue of the SFO, Mr. Xin was deemed to be interested in the Shares held by Will Success.
2. The percentage is calculated based on 19,081,275,000 issued Shares as at 31 December 2011.

Short positions in the Shares

No short positions of other persons and substantial shareholders in the Shares were recorded in the register.

Short positions in underlying shares

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

Save as disclosed above, at 31 December 2011, the Directors were not aware of any other person who had an interest or a short position in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

SHARE OPTION SCHEME

The Company has adopted the share option scheme (the “Scheme”) on 12 December 2011 under which certain selected classes of participants may be granted options to subscribe for the Company’s shares. The principal terms of the Scheme are summarised in the paragraph headed “Summary of the Principal Terms of the New Share Option Scheme” in Appendix I to the Circular dated 17 November 2011.

From the adoption date of the Scheme to 31 December 2011, no share option was granted, exercised or lapsed under the Scheme.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Board and senior management of the Company are committed to the principles of corporate governance and have dedicated significant efforts to provide transparency, accountability and independence.

During the period under review, the Company has applied the principles and complied with all the applicable code provisions in the Code of Corporate Governance Practices (the “**CG Code**”) as set out in Appendix 15 to the GEM Listing Rules.

AUDIT COMMITTEE

The Company has an audit committee (“**Audit Committee**”) which was established with written terms of reference in compliance with the GEM Listing Rules. As at the date of this report, the Audit Committee had three members comprising three independent non-executive Directors, namely, Mr. Lam Tze Chung (Chairman of the Audit Committee), Mr. Wu Ka Ho Stanley and Mr. Yue Laiqun.

The primary duties of the audit committee are to oversee that management (i) has maintained the reliability and integrity of the accounting policies and financial reporting and disclosure practices of the Company; (ii) has established and maintained processes to assure that an adequate system of internal control is functioning within the Company; and (iii) has established and maintained processes to assure compliance by the Company with all applicable laws, regulations and corporate policy. The audit committee has reviewed the this third quarterly results and has provided advice and comments thereon before passing the same for approval by the Board of the Company. The audit committee are of the opinion that such statements comply with the applicable accounting standards, the GEM listing requirements and other legal requirements and that adequate disclosures have been made.

COMPLIANCE WITH THE REQUIRED STANDARD OF DEALINGS IN SECURITIES TRANSACTIONS BY DIRECTORS

The Board and senior management of the Company are committed to the principles of corporate governance and have dedicated significant effort to provide transparency, accountability and independence.

During the period under review, the Company has applied the principles and complied with all the applicable code provisions in the CG Code as set out in Rules 5.48 to 5.67 of the GEM Listing Rules.

The Company has made specific inquiry with all the Directors and has not been notified of any non-compliance with the required standard of dealing of securities by the Directors.

DIRECTOR'S INTERESTS IN COMPETING INTERESTS

During the period under review, none of the Directors or the management shareholders of the Company (as defined in the GEM Listing Rules) had an interest in a business that competed with the Group or might compete with the business of the Group.

DIRECTOR'S RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the reporting period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company or of any other body corporate granted to any directors or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, its holding company or any of its subsidiaries a party to any arrangements to enable the directors, their respective spouse or children under 18 years of age to acquire such rights in the Company or any other body corporate.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the period under review, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

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

Hong Kong
10 February 2012

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 three independent non-executive Directors, namely Mr. Lam Tze Chung, Mr. Wu Ka Ho Stanley and Mr. Yue Laiqun.