



# iMerchants Limited

First Quarterly Report 2008

Stock Code: 8009

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

**GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on the GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risk arising out of the emerging nature of companies listed on the GEM, and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risk of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**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 of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.**

**The principal means of information dissemination on GEM is publication on the GEM internet website operated by the Stock Exchange (“GEM website”). Listed companies are not generally required to issue paid announcement in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.**

*The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.*

*This report, for which the directors (the “Directors”) of iMerchants Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, (i) the information contained in this report is accurate and complete in all material aspects and not misleading; (ii) there are no other matters the omission of which would make any statement herein misleading; and (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

## SUMMARY

The Group's unaudited consolidated profit for the three months ended 30 June 2008 was approximately HK\$7,953,000, compared to the unaudited consolidated profit of approximately HK\$16,332,000 of the Group for the corresponding period in 2007. No interim dividend is recommended for the period under review.

The Group continues to be in a healthy financial position with current assets plus financial investments and deposits at a comfortable level of over HK\$133 million without any bank borrowings at the period end date.

## GROUP BUSINESS REVIEW

The Company and its subsidiaries (collectively referred to as the "Group") continues to identify suitable investments in both equity market and sewage ventures.

In respect of investments, the Group switch its focus in investing in Hong Kong equity market. The Group targets to classify these investments as long term even though suffering from a minor market fluctuation recently. The management still optimistic about the profitability of these investment in the long run. The market value of the other financial investments also increased during this three months period despite the global market still remained slow. The management will continue to make use of the available funds to enhance the overall value of the Company's shares.

## FINANCIAL REVIEW

The Group recorded a net profit of approximately HK\$7,953,000 for the three months ended 30 June 2008, compared to a net profit of approximately HK\$16,332,000 for the corresponding period in 2007. The profit for the quarter in the current year is mainly due to the good performance of the Group's financial investment portfolio. The Group continues to be in a healthy financial situation. As at 30 June 2008, the Group holds current assets plus financial investments and deposits totaling approximately HK\$133 million and has no bank borrowings. In 2008, the Directors considered investments in securities as well as financial and investment products being principal activities of the Group. For the three months ended 30 June 2008, the Group's turnover was approximately HK\$75,180,000 compared to a turnover of approximately HK\$46,052,000 for the corresponding period in 2007. The turnover does not include the turnovers of the Company's other venture investments in which the Company holds minority interests.

## RESULT

The board of Directors (the "Board") presents the unaudited results of the Group for the three months ended 30 June 2008 together with the comparative unaudited figures for the corresponding period in 2007 as follows.

		<b>Three months ended</b>	
		<b>30 June</b>	
	<i>Notes</i>	<b>2008</b> <b>HK\$'000</b>	2007 HK\$'000
Turnover	2	<u><b>75,180</b></u>	<u>46,052</u>
Investment income		<b>368</b>	970
Gain on disposal of convertible bonds		<b>1,328</b>	–
Net gain (loss) on disposal of debt securities		<b>1,143</b>	–
Net fair value change on listed trading securities		<b>3,415</b>	14,938
Increase in fair values of financial assets			
at fair value through profit or loss		<b>2,584</b>	2,207
Other income		<b>822</b>	386
Staff costs		<b>(534)</b>	(978)
Depreciation		<b>(9)</b>	(72)
Other operating expenses		<u><b>(1,164)</b></u>	<u>(1,119)</u>
Profit before taxation	3	<b>7,953</b>	16,332
Taxation	4	<u><b>–</b></u>	<u>–</u>
Profit for the year attributable to equity holders of the Company		<u><b>7,953</b></u>	<u>16,332</u>
Earnings per share (restated)	5		
– Basic and diluted		<u><b>HK1.4 cents</b></u>	<u>HK2.9 cents</u>

Notes

**1. BASIS OF PREPARATION**

The financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values.

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. In addition, the financial statements include applicable disclosures required by the GEM Listing Rules and by the Hong Kong Companies Ordinance.

**2. TURNOVER**

Turnover represents revenue generated from investments, and is analysed as follows:

	<b>Three months ended</b>	
	<b>30 June</b>	
	<b>2008</b>	2007
	<b>HK\$ '000</b>	HK\$ '000
Interest income from debt securities	47	274
Dividends from listed securities	321	696
Proceeds from debt and Available for Sales securities	19,184	-
Proceeds from held-for-trading investments	50,383	40,944
Proceeds from financial assets at fair value through profit or loss	5,245	4,138
	<hr/>	<hr/>
Revenue from investments	75,180	46,052
Revenue from contracts of information technology consultancy services	-	-
	<hr/>	<hr/>
	<b>75,180</b>	<b>46,052</b>
	<hr/> <hr/>	<hr/> <hr/>

In the three months period ended 30 June 2008, the Directors for the Company considered investments in securities as well as financial and investment products being principal activities of the Group.

### 3. PROFIT BEFORE TAXATION

	Three months ended 30 June	
	2008 HK\$'000	2007 HK\$'000
Profit before taxation has been arrived at after charging (crediting):		
Operating lease charges in respect of rented premises	167	316
Staff cost		
Salaries and allowances	519	949
Redundancy payments	-	11
Retirement benefit scheme contributions	15	18
	534	978
Interest income from bank deposits	(199)	(232)
Rental income	-	(92)
Sundries	-	(60)
	<u>          </u>	<u>          </u>

### 4. TAXATION

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

No provision for taxation in other jurisdictions was made as the Group's subsidiary operated in the People's Republic of China ("PRC") had no assessable profits for both periods.

## 5. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the Company for the year is based on the following data:

	Three months ended 30 June	
	2008 HK\$'000	2007 HK\$'000
Earnings for the purposes of basic and diluted earnings per share	<u>7,953</u>	<u>16,332</u>
	<i>Number</i>	<i>Number</i> (Restated)
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	<u>566,255,000</u>	<u>567,366,650</u>

The calculation of the diluted earnings per share did not assume the exercise of the Company's outstanding share options as their exercise prices were higher than the average market price of the Company's shares for both years.

An extraordinary general meeting of the Company was held on 26 June 2008, pursuant to which, among other matters, the subdivision of each of the then existing issued and unissued shares of HK\$1.00 each in the share capital of the Company into 5 subdivided shares of HK\$0.2 each was approved by an ordinary resolution passed thereat ("**Share Subdivision**"). The Share Subdivision became effective on 27 June 2008. The number of shares has been adjusted due to the Share Subdivision.

## 6. INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the three months ended 30 June 2008 (2007: Nil)

## 7. MOVEMENT OF RESERVES

	Capital redemption reserve HK\$'000	Merger reserve HK\$'000	Investment revaluation reserve HK\$'000	Special capital reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
At 1 April 2007	2,311	45,918	1,147	60,592	600	110,568
Gain/(loss) on fair value changes of available-for-sale investments recognised directly in equity	-	-	1,175	-	-	1,175
Profit for the period	-	-	-	-	16,332	16,332
Dividends paid	-	-	-	-	(2,265)	(2,265)
Repurchase of shares	986	-	-	-	(928)	58
At 30 June 2007	<u>3,297</u>	<u>45,918</u>	<u>2,322</u>	<u>60,592</u>	<u>13,739</u>	<u>125,868</u>

	Capital redemption reserve HK\$'000	Merger reserve HK\$'000	Investment revaluation reserve HK\$'000	Special capital reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
At 1 April 2008	3,297	45,918	771	60,592	6,233	116,811
Gain/(loss) on fair value changes of available-for-sale investments recognised directly in equity	-	-	(11,478)	-	-	(11,478)
Profit for the period	-	-	-	-	7,953	7,953
At 30 June 2008	<u>3,297</u>	<u>45,918</u>	<u>(10,707)</u>	<u>60,592</u>	<u>14,186</u>	<u>113,286</u>

## 8. PLEDGE OF ASSETS

At 1 April 2007, the Group had pledged assets amounted to approximately HK\$71,897,000 to a financial institution in respect of the due and punctual payment to the respective financial institution. Pursuant to the Deed of Release issued by that financial institution on 13 November 2007, the Group had no assets pledged as at 30 June 2008.



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

At 30 June 2008, the interests and short positions of the Directors in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of GEM Listing Rules were as follows:

### **Long positions in ordinary shares of HK\$0.2 each of the Company (the "Shares")**

No long positions of Directors in the Shares 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 the 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 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 underlying Shares

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

### Short positions in debentures

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

Save as disclosed above, at 30 June 2008, 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.

## INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

At 30 June 2008, the following persons (other than the interests disclosed above in respect of certain Directors of the Company) had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

### Long positions in the Shares

Name of Substantial Shareholder	Capacity/ Nature of interest	Number of ordinary shares in the Company held	Percentage of issued share capital of the Company
Bonus Raider Investments Limited ("Bonus Raider")	Beneficial owner	481,223,500 (Note 2)	84.98%
China Water Industry Group Limited (Note 1) ("China Water")	Interest of a controlled corporation	481,223,500 (Note 2)	84.98%

Note: (1) These shares are registered in the name of Bonus Raider, which is a wholly-owned subsidiary of China Water.

- (2) An extraordinary general meeting of the Company was held on 26 June 2008, pursuant to which, among other matters, the subdivision of each of the then existing issued and unissued shares of HK\$1.00 each in the share capital of the Company into 5 subdivided shares of HK\$0.2 each was approved by an ordinary resolution passed thereat ("**Share Subdivision**"). The Share Subdivision became effective on 27 June 2008. The number of shares has been adjusted due to the Share Subdivision.

### **Long positions in the underlying Shares**

No long positions of other persons and substantial shareholders in the underlying Shares of equity derivatives were recorded in the register.

### **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 the underlying Shares**

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

Save as disclosed above, at 30 June 2008, the Directors were not aware of any other person who had an interest or a short position in the Shares or underlying Shares as recorded in the register required to be kept under Section 336 of the SFO.

## **AUDIT COMMITTEE**

The Company has 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 the three independent non-executive Directors, Mr. Chang Kin Man (Chairman of the Audit Committee), Mr. Wu Tak Lung and Mr. Pan Chik.

The primary duties of the Audit Committee are to review the financial information of the Group and supervise the financial reporting process and internal control procedures of the Group. The Group’s first quarterly results for the three months ended 30 June 2008 have been reviewed by the members of the Audit Committee, who are of the opinion that such statements comply with the applicable accounting standards, the Stock Exchange listing requirements and legal requirements and that adequate disclosures have been made.

## CODE ON CORPORATE GOVERNANCE PRACTICES

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

The Company has applied the principles and complied with all the applicable code provisions of the Code of Corporate Governance Practice and the Rules on Corporate Governance Report as set out in the GEM Listing Rules Appendix 15 and Appendix 16 for the period ended 30 June 2008, save as the following deviation.

Under Code Provision A.2.1, the roles of chairman and chief executive officer should be separated.

Mr. Yau Yan Ming Raymond (“**Mr. Yau**”) serves as the Chairman of the Board and the Chief Executive Officer. The reason for not splitting the roles of chairman and chief executive officer are as follows:

- The size of the Group is still relatively small and thus not justified in separating the roles of chairman and chief executive officer; and
- The Group has in place an internal control system to perform the check and balance function.

Mr. Yau is primarily responsible for leadership of the Group and the Board, setting strategic direction, ensuring the effectiveness of management in execution of the strategy approved by the Board. Execution responsibilities lie with another executive Director and senior management of the Company.

Thus, the Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Company.

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

During the period under review, the Group adopted the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding directors’ securities transactions in securities of the Company. Upon the Group’s specific enquiry, each Director confirmed that during the period ended 30 June 2008, he or she had fully complied with the required standard of dealings and there was no event of non-compliance.

## COMPETING INTERESTS

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

## **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

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

By Order of the Board  
**Yau Yan Ming Raymond**  
*Chairman*

Hong Kong  
13 August 2008

The Directors as at the date of this report are as follows:

*Executive Directors*

Mr. Yau Yan Ming Raymond  
Mr. Yang Bin  
Mr. Li Wen Jun  
Mr. Wong Ka Chun Carson

*Independent non-executive Directors*

Mr. Chang Kin Man  
Mr. Wu Tak Lung  
Mr. Pan Chik