

Notice of criticism by the Takeovers Executive of the Securities and Futures Commission

The Takeovers Executive of the Securities and Futures Commission (the “Executive”) criticises Bonus Raider Investments Limited (“Bonus Raider”) and its board of directors for breaching Rule 3.6 of the Takeovers Code, which requires an offeror to make an announcement immediately after any acquisition of voting rights of an offeree company that may give rise to an obligation to make an offer.

Bonus Raider is a wholly owned subsidiary of China Water Industry Group Limited (“China Water”), the issued shares of which are listed on The Stock Exchange of Hong Kong Limited. On 12 December 2007, China Water, Bonus Raider and iMerchants Limited (“iMerchants”) jointly announced, amongst other things, possible unconditional mandatory cash offers by Bonus Raider for the issued shares in iMerchants. The possible offers related to an agreement pursuant to which Bonus Raider had conditionally agreed to acquire 76,246,100 shares representing about 67.32% in iMerchants from its then controlling shareholder, iMerchants Group Limited. Completion of the agreement, which was conditional on the approval of shareholders of China Water in a general meeting as required by the Listing Rules, would give rise to an obligation of Bonus Raider to make the offers under Rule 26.1 of the Takeovers Code.

On 12 February 2008, China Water announced that its shareholders had approved the acquisition of about 67.32% in iMerchants. The date of completion of the relevant acquisition agreement, however, was not mentioned in the announcement.

On 21 February 2008, Bonus Raider and iMerchants despatched a composite offer document setting out the terms of the unconditional mandatory general cash offers for the shares in iMerchants. This document included a statement that the relevant acquisition agreement had already been completed on 14 February 2008.

Under Rule 3.6 of the Takeovers Code, Bonus Raider was required to issue an announcement of the completion of the acquisition agreement on 14 February 2008. Failure of Bonus Raider to make such an announcement constituted a breach of Rule 3.6.

According to Bonus Raider, the breach was due to the fact that the parties had focused their efforts on the arrangement and settlement for completing the acquisition agreement and preparation of the composite offer document and the relevant circular for the general meeting. Bonus Raider and its board of directors admit and apologise for the breach and accept the Executive’s criticism.

The Executive has found that the breach was not in any sense deliberately made, but did reflect a culpable failure to ensure that the requirements of the Takeovers Code were being met. A direct consequence of this failure was that a false market, in the sense of a market denied information which should properly have been made

available to it, may have existed for an extended period of time. In arriving at the decision of criticising the parties, the Executive has taken into account the inadvertent nature of the breach and the co-operation of the parties in the Executive's enquiry.

The Executive would like to remind all those involved in takeover transactions in Hong Kong of the requirements set out in Rule 3.6 of the Takeovers Code. Rule 3.6 ensures prompt disclosure of the offeror's obligation to make an offer immediately after such obligation has arisen. It is particularly relevant where the offer obligation is dependent on fulfilment of pre-conditions. Full compliance with Rule 3.6 will help avoid the risk of the relevant shares being traded in an uninformed market.

If there is any doubt about the application of the Takeovers Code the Executive should be consulted at the earliest opportunity.

4 March 2008