



iMerchants Limited

Second Quarterly Report 2008

Stock Code: 8009

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*This report, for which the directors (the “**Directors**”) of iMerchants Limited (the “**Company**”) collectively and individually accept responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM (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:– (1) the information contained in this report is accurate and complete in all material aspects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) 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 six months ended 30 September 2008 was approximately HK\$7,131,000, compared to the unaudited consolidated profit of approximately HK\$14,065,000 of the Group for the corresponding period in 2007. No interim dividend is recommended for the period.

The Group continues to be in a healthy financial condition with current assets comprised with cash and cash equivalents totalling at a comfortable level of approximately HK\$81 million at the period end date.

MANAGEMENT DISCUSSION AND ANALYSIS

GROUP BUSINESS REVIEW

The Company and its subsidiaries (the "**Group**") intends to, apart from its existing business, involve in other investments including sewage treatment or related business in the People's Republic of China (the "**PRC**").

On 12 August 2008, Shine Gain Holdings Limited, a direct wholly-owned subsidiary of the Company acquired the entire issued share capital of Plenty One Limited which directly holds 80% equity interest in Ping Xiang City San He Lian Chuang Water Technology Company Limited (萍鄉市三和聯創水務科技有限公司) ("**San He**"). San He is a company established in PRC which principally engaged in manufacture of bio-hang membrane filtering materials and filters, sales of water treatment equipment and material, chemical packing, sale of acid-resistant ceramic and anti-corrosion lining equipment used for sewage purpose.

During the period ended 30 September 2008, the Group had shift its principle activities from investments in securities as well as financial and investment products to ceramic sewage material sales and manufacturing. The management of the Company is optimistic about the profitable of the newly acquired ceramic sewage material sales and manufacturing business despite the turmoil in financial markets.

The business operation of our ceramic sewage material sales and manufacturing business is under going a major capital expenditure, transforming into a one of the leading manufacturers in the industry. After the completion, the manufacturing capacity will be increased by double in order to cope with the ever increasing demand for ceramicsite and biological purification material.

The Group continues the objective of enhancing the value of the Company's shares. We will cautiously make use of excess funds on long term 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 continue to identify and invest in suitable sewage and relating venture companies which are expected to have good growth potential and also possess the management ability to capture business opportunities.

FINANCIAL REVIEW

The Group's unaudited turnover and net profit for the six months period ended 30 September 2008 was approximately HK\$92,222,000 and approximately HK\$7,131,000 respectively as compared to the turnover of approximately HK\$78,623,000 and net profit of approximately HK\$14,065,000 for the corresponding period in 2007. This turnover and net profit were contributed by the disposal of the financial assets at the beginning of the period and the newly acquired sales and manufacturing business of ceramic sewage material.

The Group continues to be in a healthy financial position with current assets comprised with cash and cash equivalents totalling approximately HK\$81 million (31 March 2008: approximately HK\$231 million). The management of the Company considers its financial resources to be liquid because approximately 49.4% of this total comprised of cash and cash equivalents.

The management of the Company currently does not have any concrete plan to further acquire or take any equity stakes in companies for expansion. Any future capital expenditures and the daily operation expenses will be financed from the Group's existing financial resources. The Directors do not foresee the need for any material financing activities in order to execute the Group's plans.

As of 30 September 2008, approximately 76.3% of the Group's cash and cash equivalents and financial investments were denominated in Hong Kong dollars, approximately 15.7% in US dollars. Given the liquid nature of these financial investments and the currency peg between the Hong Kong dollars and the US dollars, the Group does not hedge its exchange rate exposures.

The Group's gearing ratio at 30 September 2008 was 0.68% (31 March 2008: 0%), as calculated by taking the ratio of the Group's total interest-bearing borrowings, divided by its shareholders' funds. The Group has bank borrowings as at 30 September 2008 was approximately HK\$1.3 million (31 March 2008: Nil) and no contingent liabilities as at 30 September 2008 (31 March 2008: Nil). As at 30 September 2008, none of the Company's subsidiaries pledged financial investments to a financial institution in respect of the due and punctual payment of its obligations (31 March 2008: HK\$ Nil).

INVESTMENTS

The Company continues to identify suitable investments in any sewage related industry.

As of 30 September 2008, the Group's long-term financial investments in listed securities in Hong Kong with fair values of approximately HK\$60 million (31 March 2008: approximately HK\$80 million). The management of the Company will continue its conservative approach. In general, the investment strategy will be reviewed frequently to take appropriate actions whenever necessary in response to changes in market situation.

REVENUE, GROSS PROFIT AND ADMINISTRATIVE EXPENSES

The Company will continue to focus on the business of its sales and manufacturing of ceramic sewage material. Should there exist any suitable opportunities, subject to the results of financial and operational reviews, the Company will consider investments with a view to expanding and diversifying its business.

During the period ended 30 September 2008, the Directors decided to shift the Group's major operation from investments in securities as well as financial and investment products to pursue in sales and manufacturing of ceramic sewage material as being the principal activities of the Group. For the six months ended 30 September 2008, the Group's turnover was approximately HK\$92,222,000 which was comprised of revenue from disposal and redemption of debt and treasury investments as well as sales and manufacturing of ceramic sewage material, compared to a turnover of approximately HK\$78,623,000 for the corresponding period in 2007.

Currently all of the financial investments in our portfolio are intended to hold for the long term, the management believes the fair values of these investments will increase gradually in the long run despite the recent downturn of the stock price. The ceramic sewage material sales and manufacturing business also will embrace a bright future since the demand for cleaner environment and water will sustain a sturdy growth.

The Group generated a net profit of approximately HK\$7,131,000 for the six months ended 30 September 2008, compared to a net profit of approximately HK\$14,065,000 for the corresponding period in 2007. The profit is mainly attributable to the realised gain from disposal and redemption of the Group's debt and treasury investments during the last six months and the newly acquired ceramic sewage material sales and manufacturing business.

COMMENTARY ON SEGMENTAL INFORMATION

Geographical segments

The geographical location of the Group's financial and investment products can be categorised into (i) North America; (ii) Europe; (iii) Australia; (iv) Japan; (v) Asia Pacific (other than Japan); and (vi) other regions. Details of results by geographical segments are shown in note 3 to this financial statements.

Business segments

The Group changed its focus onto ceramic sewage material sales and manufacturing business over investments in financial and investment products. Neither asset nor revenue from ceramic sewage material business investments contribute 10% or more to the Group's total assets and revenue respectively, accordingly no analysis by business is presented.

EMPLOYEES

As it is the intention of the management that operational and personnel expansion would mainly occur within the manufacturing subsidiary, it is expected that the Group can maintain a focused team at the Group's Hong Kong head office level. As of 30 September 2008, Hong Kong head office employed 6 staff (31 March 2008: 6) excluding all employees of our manufacturing subsidiary.

Remuneration for the employees of the Group is typically reviewed once a year, or as the management deems appropriate. For the six months ended 30 September 2008, the total remuneration expenses, including contributions to the Mandatory Provident Fund, were approximately HK\$1.2 million (30 September 2007: approximately HK\$1.9 million).

The Company has introduced share option schemes to recognize the contributions of its employees to the development of the Company. As of 30 September 2008, the Company does not have any outstanding share option (31 March 2008: Nil).

RESULTS

The board of Directors (the "Board") presents the unaudited consolidated results of the Group for the three months and the six months ended 30 September 2008 together with the comparative unaudited figures for the corresponding periods in 2007 as follows:

Unaudited Consolidated Income Statement

For the three months and six months ended 30 September 2008

	Notes	Three months ended 30 September		Six months ended 30 September	
		2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
Turnover	2	17,042	32,571	92,222	78,623
Cost of Sales		(15,848)	(33,605)	(83,518)	(61,542)
Gross Profit		1,194	(1,034)	8,704	17,081
Gain on disposal on convertible bond		-	-	1,328	-
Other income		23	492	845	878
Selling and distribution expenses		(196)	-	(196)	-
Administration expenses		(67)	-	(67)	-
Other operating expenses		(1,663)	(1,696)	(3,370)	(3,865)
Finance expenses		(113)	(29)	(113)	(29)
Profit (loss) before taxation	4	(822)	(2,267)	7,131	14,065
Taxation	5	-	-	-	-
Profit (loss) for the period attributable to equity holders of the Company		(822)	(2,267)	7,131	14,065
Attributable to:					
Equity holders of the Company		(946)	(2,267)	7,007	14,065
Minority interests		124	-	124	-
		(822)	(2,267)	7,131	14,065
Earnings (loss) per share (restated)					
- basic and diluted	6	(0.15) cents	(0.40) cents	1.26 cents	2.48 cents

Unaudited Condensed Consolidated Balance Sheet

As at 30 September 2008

	Notes	30 September 2008 (Unaudited) HK\$'000	31 March 2008 (Audited) HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		5,370	120
Construction in Progress		469	-
Goodwill		48,830	-
Other Assets		2,755	-
Available-for-sale investments		60,343	-
		<u>117,767</u>	<u>120</u>
CURRENT ASSETS			
Inventories		236	-
Trade and other receivables	8	40,369	31,142
Other current assets		534	-
Convertible notes receivable		-	2,672
Amount due from a related company		-	21,946
Financial assets at fair value through profit or loss		-	12,481
Available-for-sale investments		-	18,694
Held-for-trading investments		-	49,193
Balances with non-bank financial institutions		33,607	64,510
Cash and cash equivalents		6,502	30,133
		<u>81,248</u>	<u>230,771</u>
CURRENT LIABILITIES			
Trade and other payables	9	1,883	653
Bank and other borrowings	10	1,330	-
Amount due to a fellow subsidiary		-	176
		<u>3,213</u>	<u>829</u>
Net current assets		78,035	229,942
Net Assets		<u>195,802</u>	<u>230,062</u>
CAPITAL AND RESERVES			
Share capital	11	113,251	113,251
Reserves		81,267	116,811
Equity attributable to equity holders of the Company		<u>194,518</u>	<u>230,062</u>
Minority interests		1,284	-
Total equity		<u>195,802</u>	<u>230,062</u>

Unaudited Condensed Consolidated Cash Flow Statement

For the six months ended 30 September 2008

	Six months ended	
	30 September	
	2008	2007
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Net cash from operating activities	739	12,624
Net cash (used in) from investing activities	(54,600)	21,154
Net cash used in financing activities	(673)	(3,250)
	<u> </u>	<u> </u>
Net (decrease) increase in cash and cash equivalents	(54,534)	30,528
Cash and cash equivalents at beginning of period	94,643	19,512
	<u> </u>	<u> </u>
Cash and cash equivalents at end of period	<u><u>40,109</u></u>	<u><u>50,040</u></u>
Analysis of balances of cash and cash equivalents		
Bank deposits	–	15,736
Cash and cash equivalents and balances with non-bank financial institutions	40,109	34,304
	<u> </u>	<u> </u>
	<u><u>40,109</u></u>	<u><u>50,040</u></u>

Unaudited Consolidated Statement of Changes in Equity

For the six months ended 30 September 2008

	Equity attributable to equity holders of the Company								
	Share capital	Special capital reserve	Capital redemption reserve	Merger reserve	Investment revaluation	Accumulated Profit (losses)	Total	Minority interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2007	114,237	60,592	2,311	45,918	1,147	600	224,805	-	224,805
Gain on fair value changes of available-for-sale investments and net expenses recognized directly in equity	-	-	-	-	1,961	-	1,961	-	1,961
Final dividend for 2006/07	-	-	-	-	-	(2,265)	(2,265)	-	(2,265)
Share repurchases	(986)	-	986	-	-	(928)	(928)	-	(928)
Profit for the period	-	-	-	-	-	14,065	14,065	-	14,065
At 30 September 2007	<u>113,251</u>	<u>60,592</u>	<u>3,297</u>	<u>45,918</u>	<u>3,108</u>	<u>11,472</u>	<u>237,638</u>	<u>-</u>	<u>237,638</u>

	Share capital	Special capital reserve	Capital redemption reserve	Merger reserve	Investment revaluation	Accumulated Profit (losses)	Total	Minority interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2008	113,251	60,592	3,297	45,918	771	6,233	230,062	-	230,062
Acquisition of subsidiaries (Loss)/gain on fair value changes of available-for-sale investments and net expenses recognized directly in equity	-	-	-	-	-	-	-	1,160	1,160
	-	-	-	-	(42,551)	-	(42,551)	-	(42,551)
Profit for the period	-	-	-	-	-	7,007	7,007	124	7,131
At 30 September 2008	<u>113,251</u>	<u>60,592</u>	<u>3,297</u>	<u>45,918</u>	<u>(41,780)</u>	<u>13,240</u>	<u>194,518</u>	<u>1,284</u>	<u>195,802</u>

Notes to the condensed interim financial statements

1. BASIS OF PREPARATION

The Board is responsible for the preparation of the Group's condensed interim consolidated financial statements. These condensed interim consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. They have been prepared under the historical cost convention except that certain financial assets and financial liabilities are stated at fair values. These condensed interim consolidated financial statements should be read in conjunction with the 2007/08 annual consolidated financial statements.

The principal accounting policies and methods of computation used in the preparation of these condensed interim consolidated financial statements are consistent with those used in the annual consolidated financial statements for the year ended 31 March 2008.

The following interpretations are mandatory for the year ending 31 March 2009. The Group has adopted these new interpretations where considered appropriate and relevant to its operations.

- HK(IFRIC)-Int 12, "Service concession arrangements", effective for annual periods beginning on or after 1 January 2008
- HK(IFRIC)-Int 14, "HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interactions", effective for annual periods beginning on or after 1 January 2008

The following new standards, amendments to standards and interpretations have been issued but are not effective for the year ending 31 March 2009 and have not been early adopted:

- HKFRS 2 (Amendment), "Share-based payment – vesting conditions and cancellation", effective for annual periods beginning on or after 1 January 2009
- HKFRS 3 (Revised), "Business combinations", effective for annual periods beginning on or after 1 July 2009
- HKFRS 7 (Amendment), "Financial instruments: disclosures", effective for annual periods beginning on or after 1 January 2009
- HKFRS 8, "Operating segments", effective for annual periods beginning on or after 1 January 2009
- HKAS 1 (Revised), "Presentation of financial statements", effective for annual periods beginning on or after 1 January 2009
- HKAS 23 (Revised), "Borrowing costs", effective for annual periods beginning on or after 1 January 2009
- HKAS 27 (Revised), "Consolidated and separate financial statements", effective for annual periods beginning on or after 1 July 2009
- HKAS 32 (Amendment), "Financial instruments: presentation", effective for annual periods beginning on or after 1 January 2009
- HKAS 39 (Amendment), "Financial instruments: recognition and measurement", effective for annual periods beginning on or after 1 January 2009

- HK(IFRIC)-Int 2 (Amendment), "Members' shares in co-operative entities and similar instruments", effective for annual periods beginning on or after 1 January 2009
- HK(IFRIC)-Int 13, "Customer loyalty programmes", effective for annual periods beginning on or after 1 July 2008
- HK(IFRIC)-Int 15, "Agreements for the construction of real estate", effective for annual periods beginning on or after 1 January 2009
- HK(IFRIC)-Int 16, "Hedges of a net investment in a foreign operation", effective for annual periods beginning on or after 1 October 2008

The effect on the adoption of HKFRS 3 (Revised) and HKAS 27 (Revised) to the results and financial position of the Group when they become effective will depend on the incidence and timing of business combinations occurring on or after 1 April 2010. The Group is currently assessing the impact of the adoption of the other standards, amendments to standards and interpretations above to the Group in future periods.

2. TURNOVER

Turnover represents revenue generated from sales of ceramic sewage material as well as revenue from investments, and is analysed as follows:

	2008 HK\$'000	2007 HK\$'000
Turnover from sales of ceramic sewage material	2,624	-
Interest income from debt securities	47	611
Dividends from listed securities	321	1,125
Proceeds from debt securities	19,184	6,679
Proceeds from held-for-trading investments	64,801	61,832
Proceeds from financial assets at fair value through profit or loss	5,245	8,376
Turnover	<u>92,222</u>	<u>78,623</u>

During the period ended 30 September 2008, the Directors of the Group consider ceramic sewage material sales and manufacturing being principal activities of the Group.

3. SEGMENT INFORMATION

Geographical segments

The following table provides analysis of the Group's turnover by the geographical area:

Income statement for the six months ended 30 September 2008

	North America HK\$'000	Europe HK\$'000	Australia HK\$'000	Japan HK\$'000	Asia Pacific (other than Japan) HK\$'000	Other HK\$'000	Total HK\$'000
Turnover	43,469	14,014	10,580	10,904	10,680	2,575	92,222
Segment results	2,704	1,413	1,385	1,781	1,123	298	8,704
Other income							845
Gain on disposal on convertible bonds							1,328
Depreciation							(87)
Unallocated corporate expenses							(3,546)
Finance Cost							(113)
Profit before taxation							7,131
Taxation							-
Profit for the period							7,131

Income statement for the six months ended 30 September 2007

	North				Asia Pacific (other than		Total
	America	Europe	Australia	Japan	Japan)	Other	HK\$'000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	<u>40,587</u>	<u>4,125</u>	<u>7,363</u>	<u>2,598</u>	<u>22,355</u>	<u>1,595</u>	<u>78,623</u>
Segment results	2,521	1,722	1,695	(1,490)	12,345	288	17,081
Other income							878
Depreciation							(135)
Unallocated corporate expenses							<u>(3,759)</u>
Profit before taxation							14,065
Taxation							<u>-</u>
Profit for the period							<u><u>14,065</u></u>

No analysis of capital expenditure and depreciation by location is disclosed for both periods as in the opinion of the Directors, there is no appropriate basis in such allocation.

Business segments

The Group principally business changes from engaging in investments in financial and investment products to ceramic sewage material sales and manufacturing. Currently neither assets nor revenue from ceramic sewage material contribute 10% or more to the Group's total assets and revenue respectively, accordingly no analysis by business is presented.

4. PROFIT (LOSS) BEFORE TAXATION

Profit (loss) before taxation is arrived at after charging (crediting):

	Six months ended 30 September	
	2008 HK\$'000	2007 HK\$'000
Operating lease charges in respect of rented premises	321	596
Staff costs		
Salaries and allowances	1,187	1,905
Redundancy payments	–	–
Net contributions to retirement benefits schemes	57	36
	1,244	1,941
Depreciation expense	87	135
Interest income from bank deposits	(254)	(575)
Rental income	–	(183)
Sundries	–	(120)
	<u> </u>	<u> </u>

5. TAXATION

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group incurred tax losses for both periods. No provision for taxation in other jurisdictions was made as the Group's subsidiaries operated in the People's Republic of China had no assessable profits.

6. EARNINGS (LOSS) PER SHARE

The calculation of the basic and diluted earnings (loss) per share for the three months and the six months ended 30 September 2008 is based on the loss of the Group of approximately HK\$822,000 (2007: loss of approximately HK\$2,267,000) and profit of approximately HK\$7,131,000 (2007: profit of approximately HK\$14,065,000), respectively, and on the weighted average number of ordinary shares of 566,255,000 (2007 (restated): 566,255,000).

The computation of diluted earnings (loss) 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 periods.

7. INTERIM DIVIDEND

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

8. TRADE AND OTHER RECEIVABLES

	30 September 2008 HK\$ '000	31 March 2008 HK\$ '000
Trade receivables	2,629	-
Other receivables	37,338	31,142
Deposit and prepayments	402	-
	<u>40,369</u>	<u>31,142</u>

The Group allows an average credit period of 90 days to 180 days given to the customers.

An aged analysis of trade receivables at the balance sheet dates, based on invoice date was as follows:

	30 September 2008 HK\$ '000	31 March 2008 HK\$ '000
Current to 90 days	870	-
91 to 180 days	-	-
181 to 365 days	-	-
Over 1 year	1,759	-
	<u>2,629</u>	<u>-</u>

9. TRADE AND OTHER PAYABLES

As at the balance sheet date, the aging analysis of the trade payables was as follows:

	30 September 2008 HK\$ '000	31 March 2008 HK\$ '000
Current to 90 days	230	-
91 to 180 days	10	-
181 to 365 days	-	-
Over 1 year	325	-
	<u>565</u>	<u>-</u>
Other payables	1,318	653

10. BANK AND OTHER BORROWINGS

Bank and other borrowings as at 30 September 2008 with an aggregate amount of approximately HK\$1,330,000 were acquired by the Group through acquisition of subsidiaries during the six months ended 30 September 2008.

11. SHARE CAPITAL

	Number of ordinary shares	Amount HK\$'000
<i>Authorized:</i>		
Ordinary shares of HK\$1.00 each at 1 April 2007	800,000,000	800,000
Ordinary shares of HK\$1.00 each at 30 September 2007	<u>800,000,000</u>	<u>800,000</u>
Ordinary shares of HK\$1.00 each at 1 April 2008	800,000,000	800,000
Increase due to Share Subdivision (<i>Note a</i>)	<u>3,200,000,000</u>	<u>-</u>
Ordinary shares of HK\$0.20 each at 30 September 2008	<u>4,000,000,000</u>	<u>800,000</u>
<i>Issued and fully paid:</i>		
Ordinary shares of HK\$1.00 each at 1 April 2007	113,251,000	113,251
Ordinary shares of HK\$1.00 each at 30 September 2007	<u>113,251,000</u>	<u>113,251</u>
Ordinary shares of HK\$1.00 each at 1 April 2008	113,251,000	113,251
Increase due to Share Subdivision (<i>Note a</i>)	<u>453,004,000</u>	<u>-</u>
Ordinary shares of HK\$0.20 each at 30 September 2008	<u>566,255,000</u>	<u>113,251</u>

Note

- (a) On 19 May 2008, the authorised share capital of the Company was HK\$800,000,000, divided into 800,000,000 shares of HK\$1.0 each, of which 113,251,000 shares were in issue and fully paid. Immediately upon the Share Subdivision becoming effective (i.e. 27 June 2008), the authorised share capital of the Company is HK\$800,000,000 divided into 4,000,000,000 Subdivided Shares of HK\$0.2 each, of which 566,255,000 Subdivided Shares are in issue and fully paid. No further shares of the Company were issued or repurchased after 19 May 2008 and prior to the Share Subdivision becoming effective (i.e. 27 June 2008).

The Subdivided Shares will rank *pari passu* in all respects with the Shares in issue prior to the Share Subdivision and the rights attaching to the Subdivided Shares will not be affected by the Share Subdivision.

12. OPERATING LEASE COMMITMENTS

As lessee

At the balance sheet date, the Group had commitments for future minimum lease payments under operating leases in respect of land and buildings which fall due as follows:

	30 September	31 March
	2008	2008
	HK\$'000	HK\$'000
Within one year	380	556
In the second to fifth year inclusive	54	46
	434	602

Operating lease payments in respect of land and buildings represent rentals payable by the Group for its office premises. Leases are fixed for an average of three years.

13. CAPITAL COMMITMENTS

At 30 September and 31 March 2008, the Group had no capital commitment.

14. RELATED PARTY DISCLOSURES

During the period, the Group had the following transactions with a related party:

	Six months ended	
	30 September	
	2008	2007
	HK\$'000	HK\$'000
Rental income from an associate	-	183
Consultancy income from an associate	-	120

The above related party transactions were carried out in accordance with the relevant agreements governing these transactions.

15. ACQUISITION OF SUBSIDIARIES AND BUSINESS

On 12 August 2008, the Group acquired the entire issued share capital of Plenty One Limited which directly holds 80% equity interest in San He. The amount of goodwill arising as a result of the acquisition was approximately HK\$48,830,000.

The net assets acquired in the transaction and the goodwill arising are as follows:

	12 August 2008 HK\$'000
Net assets acquired:	
Property, Plant and equipment	5,196
Other Asset	2,755
Inventory	1,066
Trade and other receivables	401
Bank balances and cash	3,141
Trade and other payables	(1,726)
Bank and other borrowings	(2,003)
Shareholder loan	(1,500)
Minority interests	(1,160)
	<u>6,170</u>
Goodwill	<u>48,830</u>
Total consideration	<u><u>55,000</u></u>
Satisfied by:	
Cash	<u><u>55,000</u></u>
Net cash outflow arising on acquired	
Cash consideration paid	55,000
Bank balances and cash acquired	<u><u>3,141</u></u>

DIRECTORS' INTEREST AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

At 30 September 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 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 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 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 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 September 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 September 2008, the following persons 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	84.98%
China Water Industry Group Limited (" China Water ") <i>(Note)</i>	Interest of a controlled corporation	481,223,500	84.98%

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

Long positions in underlying shares

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

Short positions in the Shares

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

Short positions in 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 September 2008, 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.

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 interim results for the six months ended 30 September 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 September 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 ended 30 September 2008, 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 September 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 ended 30 September 2008, 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 ended 30 September 2008, 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
11 November 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 (appointed on 1 August 2008)

Independent non-executive Directors

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