



iMerchants Limited

Second Quarterly Report 2009

Stock Code: 8009

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This report, for which the directors (“Directors”) of iMerchants Limited (“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 (“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 loss for the six months ended 30 September 2009 was approximately HK\$17,983,000, compared to the unaudited consolidated profit of approximately HK\$7,131,000 of the Group for the corresponding six-month period in 2008. No interim dividend is recommended for the period.

The Group continues to be in a healthy financial condition with current assets plus financial investments and deposits at a comfortable level of approximately HK\$162,662,000 at the period end date.

BUSINESS REVIEW

During the period ended 30 September 2009, the principal activity of the Company together with its subsidiaries (collectively the “**Group**”) was engaged in investment in financial and investment products as well as manufacture and trading of ceramic sewage products. The turnover for the Group was approximately HK\$54,670,000 as compared to approximately HK\$92,222,000 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.

On 26 May 2008, Shine Gain Holdings Limited, a direct wholly-owned subsidiary of the Company (the “**Purchaser**”), entered into an agreement (the “**Agreement**”) to purchase the entire issued share capital of Plenty One Limited (the “**Acquisition**”), which in turn holds a 80% interest in the registered and paid-up capital of 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) (the “**PRC Co.**”). Details of the Agreement and the Acquisition are disclosed in the circular of the Company dated 19 June 2008.

Pursuant to the Agreement, Da Luz, Sergio Augusto Josue Junior (the “**Vendor**”) irrevocably and unconditionally warrants, guarantees and undertakes to and with the Purchaser that the consolidated net profit after tax of the PRC Co. (the “**Net Profit**”) during the period from 1 June 2008 to 30 May 2009 (“**First Relevant Period**”) as to be shown in the audited accounts of the PRC Co. for such period to be prepared by a certified public accountants acceptable to the Purchaser shall not be less than RMB6,000,000 (the “**Guaranteed Profit**”). In the event that the Net Profit during the First Relevant Period, as the case may be, is less than the Guaranteed Profit, the Purchaser shall be entitled to a cash sum which is equal to the amount of the difference between the Guaranteed Profit and the Net Profit (the “**Shortfall Payment**”).

Currently, the unaudited account of the PRC Co. has showed that the net profit for the First Relevant Period is to be less than the Guaranteed Profit. The Company has already appointed legal representative in search for possible action against the Vender for compensation.

On 8 April 2009, Growwise Holdings Limited, a wholly-owned subsidiary of the Company, as the Purchaser, entered into the Agreement with Rightshine Holdings Limited, as the Vendor, pursuant to which the Purchaser conditionally agreed to purchase and the Vendor conditionally agreed to sell the entire issued share capital of Supreme Luck International Limited at a consideration of HK\$900,000,000. The Acquisition, the Agreement and the transactions contemplated thereunder including, among others, the allotment and issue of the Consideration Shares, the Convertible Preference Shares, the Conversion Shares and the Converted Preference Shares and the issue of the Convertible Bonds and the Capital Increase were approved by the shareholders of the Company ("**Shareholders**") by passing the ordinary resolutions at the EGM held on 17 September 2009. The Acquisition was completed on 23 October 2009. Upon Completion, 61,522,160 Consideration Shares, the Convertible Bonds and 2,938,477,840 Convertible Preference Shares were allotted and issued to the Vendor by the Company on 23 October 2009. Details of the Acquisition and the Completion are disclosed in the circular of the Company dated 31 August 2009 and the report of the Company dated 23 October 2009 respectively.

On 2 October 2009, the Board announced that it proposed to subdivide each of the existing issued and unissued Shares and Convertible Preference Shares of HK\$0.20 each in the share capital of the Company into 5 Subdivided Shares and 5 Subdivided Convertible Preference Shares of HK\$0.04 each respectively. The Share Subdivision was approved by the Shareholders by passing an ordinary resolution at the EGM held on 30 October 2009. The Share Subdivision became effective on 2 November 2009 and the board lots of the Company has been changed from 5,000 Shares to 25,000 Subdivided Shares. Details of the Share Subdivision are disclosed in the circular of the Company dated 7 October 2009.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group continues to be in a healthy financial position with current assets totalling approximately HK\$24,205,000 (31 March 2009: approximately HK\$72,332,000). The management of the Group considers its financial resources to be liquid because approximately 73.9% of this total comprised of bank balances and cash and cash held at non-bank financial institutions.

As of 30 September 2009, most of the Group's business transactions, assets and liabilities are denominated in Hong Kong dollars. The Group's exposure to currency is minimal.

The Group's gearing ratio at 30 September 2009 was 0.62% (31 March 2009: 0.72%), as calculated by taking the ratio of the Group's total interest-bearing borrowings, divided by its shareholders' funds. The Group has borrowings as at 30 September 2009 was HK\$1,298,000 (31 March 2009: HK\$1,287,000) and no contingent liabilities as at 30 September 2009 (31 March 2009: Nil). As at 30 September 2009, one of the Company's subsidiaries pledged approximately HK\$4,495,000 to a financial institution in respect of the due and punctual payment of its obligations (31 March 2009: HK\$5,178,000).

INVESTMENTS

The Company continues to identify suitable investments in Hong Kong stock equity market as well as any industry with high growth potential in the People's Republic of China (the "PRC").

As of 30 September 2009, the Group's long-term financial investments with fair values of approximately HK\$40,567,000 (31 March 2009: approximately HK\$53,852,000). The management 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

During the six-month period ended 30 September 2009, the Group's turnover was approximately HK\$54,670,000 which was comprised of revenue from investments in financial and investment products as well as manufacture and trading of ceramic sewage products, compared to a turnover of approximately HK\$92,222,000 for the corresponding six-month period in 2008.

The Group generated a net loss of HK\$17,983,000 for the six months ended 30 September 2009, compared to a net profit of HK\$7,131,000 for the corresponding period in 2008. The loss is mainly attributable to the disposal of the Group's financial investments during the last six months. The gross profit of manufacturing and trading of ceramic sewage materials for the period ended 30 September 2009 was approximately HK\$1,759,000 (2008: approximately HK\$955,000). The Group's administrative expenses was amounted to approximately HK\$5,267,000 (2008: approximately HK\$3,437,000).

COMMENTARY ON SEGMENTAL INFORMATION

Geographical segments

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

Business segments

For management purposes, the Group is organized into two operating divisions during the period ended 30 September 2009. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

- (i) investments in financial and investment products;
- (ii) manufacture and trading of ceramic sewage materials

Details of results by geographical segments are shown in Note 3 to the condensed interim financial statements.

EMPLOYEES

As of 30 September 2009, the Group employed 84 staffs (31 March 2009: 85) which mostly located in the factory of a subsidiary in the PRC.

Remuneration for the employees of the Company is typically reviewed once a year by remuneration committee, or as the management deems appropriate. For the six months ended 30 September 2009, the total remuneration expenses, including contributions to the Mandatory Provident Fund, were approximately HK\$1,467,000 (2008: approximately HK\$1,244,000).

The Group has not granted any share option to the employees under its existing share option schemes.

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 2009 together with the comparative unaudited figures for the corresponding periods in 2008 as follows:

Unaudited Condensed Consolidated Income Statement

For the three months and six months ended 30 September 2009

	Notes	Three months ended 30 September		Six months ended 30 September	
		2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
Turnover	2	30,636	17,042	54,670	92,222
Revenue		1,257	2,624	3,900	2,624
Cost of Sales		(414)	(1,669)	(2,141)	(1,669)
Gross Profit		843	955	1,759	955
Investment income		9	54	22	422
Net gain (loss) on disposal of debt securities		11,620	–	(12,840)	1,143
Net fair value change on listed trading securities		–	–	–	3,415
Increase in fair values of financial assets at fair value through profit and loss		–	185	–	2,769
Gain on disposal of convertible notes receivable		–	–	–	1,328
Other income		14	23	31	845
Selling and distribution expenses		(566)	(196)	(1,577)	(196)
Administration expenses		(3,030)	(1,730)	(5,267)	(3,437)
Finance expenses		(38)	(113)	(72)	(113)
Profit (loss) before taxation	4	8,852	(822)	(17,944)	7,131
Taxation	5	(13)	–	(39)	–
Profit (loss) for the period		8,839	(822)	(17,983)	7,131
Attributable to:					
Equity holders of the Company		8,833	(946)	(17,910)	7,007
Minority interests		6	124	(73)	124
		8,839	(822)	(17,983)	7,131
Earnings (loss) per share (restated) – basic and diluted (HK cents)	6	1.56	(0.17)	(3.16)	1.24

Unaudited Condensed Consolidated Balance Sheet

As at 30 September 2009

	Notes	30 September 2009 (Unaudited) HK\$'000	31 March 2009 (Audited) HK\$'000
Non-current assets			
Property, plant and equipment		7,267	6,412
Prepaid lease payments		2,624	2,604
Goodwill		49,569	49,569
Available-for-sale investments		40,567	53,852
Deposit paid for acquisition of subsidiaries		97,890	–
		197,917	112,437
Current assets			
Inventories		771	141
Trade and other receivables	8	5,490	34,463
Prepaid lease payments		60	60
Cash held at non-bank financial institutions		10,507	8,903
Bank balances and cash		7,377	28,765
		24,205	72,332
Current liabilities			
Trade and other payables		7,048	1,935
Other loans	9	1,298	1,287
Amount due to a minority shareholder of a subsidiary		2,758	2,896
		11,104	6,118
Net current assets		13,101	66,214
		211,018	178,651
Capital and reserves			
Share capital	10	113,251	113,251
Reserves		96,680	64,249
Equity attributable to equity holders of the Company		209,931	177,500
Minority interests		1,087	1,151
		211,018	178,651

Unaudited Condensed Consolidated Cash Flow Statement

For the six months ended 30 September 2009

	Six months ended 30 September	
	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
Net cash (used in) from operating activities	(18,763)	739
Net cash used in investing activities	(849)	(54,600)
Net cash used in financing activities	(210)	(673)
Net decrease in cash and cash equivalents	(19,822)	(54,534)
Cash and cash equivalents at beginning of period	37,668	94,643
Effect of foreign exchange rate changes	38	–
Cash and cash equivalents at end of period	17,884	40,109
Analysis of balances of cash and cash equivalents		
Represented by bank balances and cash and cash held		
at non-bank financial institutions	17,884	40,109

Unaudited Consolidated Statement of Changes in Equity

For the six months ended 30 September 2009

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

	Equity attributable to equity holders of the Company									
	Capital		Investment		Special	Accumulated		Sub-total	Minority interests	Total
	Share capital	redemption reserve	Merger reserve	revaluation reserve	capital reserve	Translation reserve	Profits/ (losses)			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2009	113,251	3,297	45,918	(54,073)	60,592	(104)	8,619	177,500	1,151	178,651
Exchange differences arising on translation of foreign operations	-	-	-	-	-	38	-	38	9	47
Gain on fair value changes of available-for-sales investments and net expenses recognized directly in equity	-	-	-	50,303	-	-	-	50,303	-	50,303
Loss for the period	-	-	-	-	-	-	(17,910)	(17,910)	(73)	(17,983)
At 30 September 2009	113,251	3,297	45,918	(3,770)	60,592	(66)	(9,291)	209,931	1,087	211,018

Notes to the condensed interim financial statements

1. BASIS OF PREPARATION

The Board is responsible for the preparation of the Group's unaudited condensed interim financial statements. The unaudited condensed consolidated interim financial information have been prepared under the historical cost basis except for certain financial instruments, which are measured at fair values.

The accounting policies used in the preparation of the condensed consolidated interim financial information for the six months ended 30 September 2009 are consistent with those used in the Group's annual financial statements for the year ended 31 March 2009, except as described below.

In the current interim period, the Group has applied, for the first time, a number of new and revised standards, amendments and interpretations ("**new HKFRSs**") issued by the HKICPA, which are effective for the Group's financial year beginning on 1 April 2009.

HKAS 1 (Revised 2007)	Presentation of Financial Statements
HKAS 23 (Revised 2007)	Borrowing Cost
HKAS 32 & HKAS 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIC)-INT 9 and HKAS 39 (Amendments)	Embedded Derivatives
HK(IFRIC)-INT 13	Customer Loyalty Programmes
HK(IFRIC)-INT 15	Agreements for the Construction of Real Estate
HK(IFRIC)-INT 16	Hedges of a Net Investment in a Foreign Operation
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning on or after 1 July 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39

HKAS 1 (Revised 2007) has introduced a number of terminology changes, including revised titles for the condensed consolidation financial statements, and has resulted in a number of changes in presentation and disclosure.

HKFRS 8 is a disclosure standard that requires the identification of operating segments to be performed on the same basis as financial information that is reported internally for the purpose of allocating resources between segments and assessing their performance. The predecessor standard, HKAS 14 "Segment Reporting", required the identification of two sets of segments (business and geographical) using a risks and returns approach. In the past, the Group's primary reporting format was business segments.

The application of HKFRS 8 has resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14 (see Note 3).

The adoption of the new and revised HKFRSs has had no material effect on the reported results and financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs issued in 2008 ¹
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 ²
HKAS 27 (Revised 2008)	Consolidated and Separate Financial Statements ¹
HKAS 32 (Amendment)	Financial Instruments: Presentation-Classification of Rights Issues ⁵
HKAS 39 (Amendment)	Eligible Hedged Items ¹
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters ³
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions ³
HKFRS 3 (Revised 2008)	Business Combinations ¹
HK(IFRIC)-INT 17	Distributions of Non-cash Assets to Owners ¹
HK(IFRIC)-INT 18	Transfers of Assets from Customers ⁴

¹ Effective for annual periods beginning on or after 1 July 2009.

² Amendments that are effective for annual periods beginning on or after 1 July 2009 or 1 January, 2010, as appropriate.

³ Effective for annual periods beginning on or after 1 January 2010.

⁴ Effective for transfers on or after 1 July 2009.

⁵ Effective for annual periods beginning on or after 1 February 2010.

The adoption of HKFRS 3 (Revised 2008) may affect the Group's accounting for business combinations for which the acquisition dates are on or after 1 January 2010. HKAS 27 (Revised 2008) will affect the accounting treatment for changes in a Group's ownership interest in a subsidiary.

The Directors anticipate that the application of other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

2. TURNOVER

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

	2009 HK\$'000	2008 HK\$'000
Turnover from sales of sewage material	3,900	2,624
Interest income from debt securities	–	47
Dividends from listed securities	22	321
Proceeds from debt securities	50,748	19,184
Proceeds from held-for-trading investments	–	64,801
Proceeds from financial assets at fair value through profit or loss	–	5,245
Turnover	54,670	92,222

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

	2009 HK\$'000	2008 HK\$'000
The PRC and Hong Kong	54,648	2,717
North America	22	43,469
Europe	–	14,014
Australia	–	10,580
Japan	–	10,904
Asia Pacific (other than Japan)	–	7,963
Other	–	2,575
	54,670	92,222

Business segments

For management purposes, the Group is organised into two operating divisions during the period ended 30 September 2009. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

- (i) investments in financial and investment products;
- (ii) manufacture and trading of ceramic sewage materials

The following tables present turnover, results and certain asset, liability and expenditure information for the Group's business segments for the both period ended 30 September 2009 and 2008.

	Investment in financial and investment products		Manufacture and trading of ceramic sewage materials		Total	
	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
SEGMENT TURNOVER:						
Sales to external customers	<u>50,770</u>	<u>89,598</u>	<u>3,900</u>	<u>2,624</u>	<u>54,670</u>	<u>92,222</u>
SEGMENT RESULTS						
Interest income					2	845
Net unallocated expenses					(4,833)	(3,408)
Finance costs					<u>(72)</u>	<u>(113)</u>
(Loss)/profit before taxation					<u>(17,944)</u>	7,131
Income tax expense					<u>(39)</u>	<u>—</u>
(Loss)/profit for the year					<u>(17,983)</u>	<u>7,131</u>

4. PROFIT (LOSS) BEFORE TAXATION

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

	Six months ended 30 September	
	2009 HK\$'000	2008 HK\$'000
Operating lease charges in respect of rented premises	444	321
Staff costs		
Salaries and allowances	1,430	1,187
Net contributions to retirement benefits schemes	37	57
	1,467	1,244
Depreciation expense	81	87
Interest income from bank deposits	(2)	(254)

5. TAXATION

	For the three months ended 30 September		For the six months ended 30 September	
	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
Current Tax				
The PRC	13	-	39	-
Taxation Attributable to the Group	13	-	39	-

Hong Kong Profits Tax has not been provided as the Group had no estimated assessable profit in Hong Kong for the period.

Tax arising in the PRC is calculated at the rates of tax prevailing in the PRC.

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 2009 is based on the profit of approximately HK\$8,833,000 (2008: loss of approximately HK\$946,000) and loss of approximately HK\$17,910,000 (2008: profit of approximately HK\$7,007,000), respectively, and on the weighted average number of ordinary shares of 566,255,000 (2008: 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 2009 (2008: Nil).

8. TRADE AND OTHER RECEIVABLES

	30 September 2009 HK\$'000	31 March 2009 HK\$'000
Trade receivables	1,158	770
Prepayments, deposits and other receivables	4,332	33,693
	5,490	34,463

The Group allows an average credit period of 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 2009	31 March 2009
	HK\$'000	HK\$'000
Current to 180 days	1,158	136
181 to 365 days	-	634
	1,158	770

9. OTHER LOANS

Other loans as at 30 September 2009 with an aggregate amount of approximately HK\$1,298,000 (31 March 2009: approximately HK\$1,287,000).

10. SHARE CAPITAL

	Number of ordinary shares	Amount
		HK\$'000
Authorized:		
Ordinary shares of HK\$0.20 each at 31 March and 30 September 2009	4,000,000,000	800,000
Issued and fully paid:		
Ordinary shares of HK\$0.20 each at 31 March and 30 September 2009	566,255,000	113,251

During the period, neither the Company nor its subsidiaries had purchase, sell or redeem any of the Company's listed securities.

11. 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 2009 HK\$'000	31 March 2009 HK\$'000
Within one year	1,159	432
In the second to fifth year inclusive	966	436
	2,125	868

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 two years.

12. CAPITAL COMMITMENTS

At 30 September 2009, the Group had no capital commitment (31 March 2009: approximately HK\$229,000).

13. RELATED PARTY DISCLOSURES

During the period, the Group had no transactions with a related party.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY OF ITS ASSOCIATED CORPORATIONS

At 30 September 2009, 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

No long positions of Directors in the shares 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 the shares of associated corporation

Name of Director	Name of associated corporation	Number of shares held in the associated corporation	Approximate percentage of shareholding
Yang Bin	China Water Industry Group Limited ("China Water")	450,479,000 (Note)	16.65%

Note: These shares are held by Boost Skill Investments Limited (as to 265,479,000 shares of China Water) and its wholly owned subsidiaries, Favor Jumbo Investments Limited (as to 130,000,000 shares of China Water) and Sure Ability Limited (as to 55,000,000 shares of China Water). Mr. Yang Bin is interested in 60% of the equity interest in Boost Skill Investments Limited.

Save as disclosed above, no long positions of the Directors in the shares of the associated corporations of the Company was 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 of the Company

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 2009, 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 2009, the following persons (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 of HK\$0.2 each of the Company

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	Beneficial owner	481,223,500	84.98%
China Water Industry Group Limited (Note)	Interest of a controlled corporation	481,223,500	84.98%

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

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 of the Company

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 2009, 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, namely 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 2009 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.

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 Practice and the Rules on Corporate Governance Report as set out in the GEM Listing Rules Appendix 15 and Appendix 16, 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 September 2009, 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
iMerchants Limited
Yau Yan Ming Raymond
Chairman

Hong Kong
10 November 2009

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