



iMerchants Limited

Second Quarterly Report 2010

Stock Code : 8009

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

SUMMARY

The Group's unaudited consolidated profit attributable to owners of the Company for the six months ended 30 September 2010 was approximately HK\$57,486,000, compared to the unaudited consolidated loss of approximately HK\$17,910,000 of the Group for the corresponding six-month period in 2009. 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\$174,823,000 at the period end date.

BUSINESS REVIEW

During the period ended 30 September 2010, 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\$10,628,000 as compared to approximately HK\$54,670,000 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.

PENDING LITIGATION

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**”) and the period from 1 June 2009 to 30 May 2010 (“**Second 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 and RMB10,000,000 respectively (the “**Guaranteed Profit**”). In the event that the Net Profit during the First and Second 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**”).

On 28 July 2010, Plenty One Limited and the Vendor had come to an settlement which the Vendor agreed to procure the transfer of the 20% interested in the registered and paid-up capital of PRC Co. from the minority shareholder to Plenty One Limited as a compensation to the inability to fulfill the commitments on the Guaranteed Profit (the “**Share Transfer**”). The management of the Company had also considered that the Company may have to engage in lengthy litigation progress in order to recover damages from the Vendor. Upon obtaining opinion from legal advisor and reviewing of the current financial status of the Vendor, the prospect of recovering the full amount of the Guaranteed Profit as damages is low. The management of the Company is still in the consideration of accepting the said settlement proposal.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group continues to be in a healthy financial position with current assets totaling approximately HK\$174,823,000 (31 March 2010: approximately HK\$53,658,000). Bank balances and cash and cash held at non-bank financial institutions are approximately HK\$3,192,000.

As of 30 September 2010, 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 2010 was 0.44% (31 March 2010: 0.47%), 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 2010 was HK\$3,990,000 (31 March 2010: HK\$3,990,000) and no contingent liabilities as at 30 September 2010 (31 March 2010: nil). As at 30 September 2010, one of the Company's subsidiaries pledged approximately HK\$2,622,000 to a financial institution in respect of the due and punctual payment of its obligations (31 March 2010: HK\$2,636,000).

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 2010, the Group has disposed of all the long-term financial investments on hand (31 March 2010: approximately HK\$6,312,000). 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 2010, the Group's turnover was approximately HK\$10,628,000 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\$54,670,000 for the corresponding six-month period in 2009.

The Group generated a net profit of HK\$56,980,000 for the six months ended 30 September 2010, compared to a net loss of HK\$17,983,000 for the corresponding period in 2009. The gain is mainly attributable to the accrued income arising from the signed management contract between Supreme Luck International Limited with Shenzhen Careall Capital Investment Co., Ltd. (深圳市康沃資本創業投資有限公司) ("Careall") dated 19 August 2009. Based on the information available to the management as at the announcement date, the management of the company believed that such accrual is adequate. The exact amount yet to be finalised after completion of the special audit conducted on the result of according to the cause 3.1 in the management contract. The gross profit of manufacturing and trading of ceramic sewage materials for the period ended 30 September 2010 was approximately HK\$3,750,000 (2009: approximately HK\$1,759,000). The Group's administrative expenses was amounted to approximately HK\$36,098,000 (2009: approximately HK\$5,267,000) which includes the amortization of intangible assets.

COMMENTARY ON SEGMENTAL INFORMATION

Geographical segments

The geographical location of the Group's financial and investment products can be categorised into the PRC and Hong Kong. Details of results by geographical segments are shown in Note 3 to the condensed interim financial statements.

Business segments

The Group's operating and reportable segments are as follows:

- (a) Investments in financial and investment products
- (b) 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 2010, the Group employed 43 staffs (31 March 2010: 80) 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 2010, the total remuneration expenses, including contributions to the Mandatory Provident Fund, were approximately HK\$1,151,000 (2009: approximately HK\$1,467,000).

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 2010 together with the comparative unaudited figures for the corresponding periods in 2009 as follows:

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months and six months ended 30 September 2010

	Notes	Three months ended 30 September		Six months ended 30 September	
		2010	2009	2010	2009
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	2	–	30,636	10,628	54,670
Revenue		–	1,257	5,526	3,900
Cost of Sales		–	(414)	(1,776)	(2,141)
Gross Profit		–	843	3,750	1,759
Income from Management					
Contract		114,000	–	114,000	–
Investment income		–	9	22	22
Net gain (loss) on disposal of debt securities		–	11,620	3,220	(12,840)
Other (expenses) income		6	14	(3)	31
Selling and distribution expenses		–	(566)	(781)	(1,577)
Administration expenses		(18,676)	(3,030)	(36,098)	(5,267)
Finance expenses		(7,024)	(38)	(7,130)	(72)
Profit (loss) before taxation	4	88,306	8,852	76,980	(17,944)
Taxation	5	(19,999)	(13)	(20,000)	(39)
Profit (loss) for the period		68,307	8,839	56,980	(17,983)

	Notes	Three months ended 30 September		Six months ended 30 September	
		2010	2009	2010	2009
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Other comprehensive (expense) income for the period, net of tax					
Exchange difference arising on translation		–	148	5	47
Change in fair value of available-for-sale investments		–	(45,042)	–	51,074
Release of investment revaluation reserve upon disposal of available-for-sale investments		–	–	(4,452)	(771)
Total comprehensive income/(expense) for the period, net of tax		68,307	(36,055)	52,533	32,367
Profit/(Loss) for the period attributable to:					
Owners of the Company		68,268	8,833	57,486	(17,910)
Minority interests		39	6	(506)	(73)
		68,307	8,839	56,980	(17,983)
Total comprehensive income/(expense) for the period attributable to:					
Owners of the Company		68,268	(36,090)	53,039	32,431
Minority interests		39	35	(506)	(64)
		68,307	(36,055)	52,533	32,367
Earnings (loss) per share (restated)					
– basic (HK cents)	6	1.60	0.31	1.35	(0.63)
– and diluted (HK cents)		0.30	0.31	0.26	(0.63)

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 September 2010

	<i>Notes</i>	30 September 2010 (Unaudited) HK\$'000	31 March 2010 (Audited) HK\$'000
Non-current assets			
Property, plant and equipment		6,868	6,875
Prepaid lease payments		2,465	2,576
Goodwill		16,950	16,952
Available-for-sale investments		–	6,312
Intangible asset		869,021	899,874
		895,304	932,589
Current assets			
Inventories		317	799
Trade and other receivables	8	171,253	5,163
Prepaid lease payments		61	60
Cash held at non-bank financial institutions		593	25,711
Bank balances and cash		2,599	21,925
		174,823	53,658
Current liabilities			
Trade and other payables		9,934	3,989
Amount due to a minority shareholder of a subsidiary		–	2,542
Income tax payables		21,320	364
		31,254	6,895
Net current assets			
		143,569	46,763
		1,038,873	979,352

	<i>Notes</i>	30 September 2010 (Unaudited) HK\$'000	31 March 2010 (Audited) HK\$'000
Capital and reserves			
Share capital	11	182,507	125,555
Non-redeemable convertible preference shares		530,744	587,696
Reserves		192,979	139,940
Equity attributable to owners of the Company		906,230	853,191
Minority interests		5	511
Total equity		906,235	853,702
Non-current liabilities			
Other loans – due after one year	9	3,990	3,990
Convertible bonds	10	128,648	121,660
		132,638	125,650
		1,038,873	979,352

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 September 2010

	Six months ended 30 September	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Net cash used in operating activities	(26,563)	(18,763)
Net cash used in investing activities	(17,800)	(849)
Net cash used in financing activities	(142)	(210)
Net decrease in cash and cash equivalents	(44,505)	(19,822)
Cash and cash equivalents at beginning of period	47,636	37,668
Effect of foreign exchange rate changes	61	38
Cash and cash equivalents at end of period	3,192	17,884
Analysis of balances of cash and cash equivalents		
Represented by bank balances and cash and cash held at non-bank financial institutions	3,192	17,884

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2010

	Equity attributable to owners of the Company													
	Non-redeemable convertible		Capital		Investment		Special		Equity component		Accumulated		Minority interests	Total
	Share preference	Share	reemption	Merger	revaluation	Special	Translation	of convertible	Profits/	Sub-total				
	Capital	shares	premium	reserve	reserve	reserve	reserve	reserve	bonds	(losses)	HK\$'000	HK\$'000	HK\$'000	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Note b)		(Note a)								
At 1 April 2009	113,251	-	-	3,297	45,918	(54,073)	60,592	(104)	-	8,619	177,500	1,151	178,651	
Total comprehensive income (expense) for the period	-	-	-	-	-	50,203	-	38	-	(17,910)	32,431	(64)	32,367	
At 30 September 2009	113,251	-	-	3,297	45,918	(3,770)	60,592	(66)	-	(9,291)	209,931	1,087	211,018	

	Equity attributable to owners of the Company													
	Non-redeemable convertible		Capital		Investment		Special		Equity component		Accumulated		Minority interests	Total
	Share preference	Share	reemption	Merger	revaluation	Special	Translation	of convertible	Profits/	Sub-total				
	Capital	shares	premium	reserve	reserve	reserve	reserve	reserve	bonds	(losses)	HK\$'000	HK\$'000	HK\$'000	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Note b)		(Note a)								
At 1 April 2010	125,555	587,696	46,142	3,297	45,918	4,452	40,022	(52)	84,045	(83,884)	853,191	511	853,702	
Total comprehensive income (expense) for the period	-	-	-	-	-	(4,452)	-	5	-	57,486	53,039	(506)	52,533	
Conversion of non-redeemable Preference shares (Note c)	56,952	(56,952)	-	-	-	-	-	-	-	-	-	-	-	
At 30 September 2010	182,507	530,744	46,142	3,297	45,918	-	40,022	(47)	84,045	(26,398)	906,230	5	906,235	

Notes:

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

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

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

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

These unaudited condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of the GEM Listing Rules.

These unaudited condensed consolidated financial statements should be read in conjunction with the annual financial statements of the Group for the year ended 31 March 2010. The accounting policies and method of computation used in the preparation of these unaudited condensed consolidated financial statements are consistent with those followed in the preparation of the annual financial statements of the Group for the year ended 31 March 2010.

2. TURNOVER

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

	2010 HK\$'000	2009 HK\$'000
Turnover from sales of sewage material	5,526	3,900
Dividends from listed securities	22	22
Proceeds from debt securities	5,080	50,748
Turnover	10,628	54,670

3. SEGMENT INFORMATION

Geographical information

The Group's revenue from external customers and information about its non-current assets by geographical location of the assets are disclosed below:

	Revenue from external customers		Non-current assets	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
The PRC	5,526	3,900	895,239	926,206
Hong Kong	5,102	50,770	65	6,383
	10,628	54,670	895,304	932,589

Business segments

For management purposes, the Group is organised into two operating divisions during the period ended 30 September 2010. 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 periods ended 30 September 2010 and 2009.

	Investment in financial and investment products		Manufacture and trading of ceramic sewage materials		Total	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
SEGMENT TURNOVER:						
Sales to external customers	5,102	50,770	5,526	3,900	10,628	54,670
SEGMENT RESULTS	3,242	(12,643)	3,750	(398)	6,992	(13,041)
Interest income					1	2
Net unallocated income/(expenses)					77,117	(4,833)
Finance costs					(7,130)	(72)
Profit/(loss) before taxation					76,980	(17,944)
Income tax expense					(20,000)	(39)
Profit/(loss) for the period					56,980	(17,983)

4. PROFIT (LOSS) BEFORE TAXATION

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

	Six months ended 30 September	
	2010 HK\$'000	2009 HK\$'000
Operating lease charges in respect of rented premises	630	444
Staff costs		
Salaries and allowances	1,116	1,430
Net contributions to retirement benefits schemes	35	37
	1,151	1,467
Depreciation of intangible asset	30,853	-
Depreciation expense	130	81
Interest income from bank deposits	(1)	(2)

5. TAXATION

	For the three months ended 30 September		For the six months ended 30 September	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Current Tax				
The PRC Taxation Attributable to the Group	19,999	13	20,000	39
	19,999	13	20,000	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

	For the six months ended 30 September 2010 HK\$'000	For the six months ended 30 September 2009 HK\$'000
Earnings		
Earnings for the purpose of basic earnings per share Profit/(loss) for the period attributable to owners of the Company	57,486	(17,910)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	4,258,721	2,831,275
Effect of dilutive potential ordinary shares:		
Convertible bonds	5,000,000	–
Convertible Preference Shares	13,268,589	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	22,527,310	2,831,275

7. INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 September 2010 (2009: Nil).

8. TRADE AND OTHER RECEIVABLES

	30 September 2010 HK\$'000	31 March 2010 HK\$'000
Trade receivables	9,161	928
Prepayments, deposits and other receivables	162,092	4,235
	171,253	5,163

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 2010 HK\$'000	31 March 2010 HK\$'000
Current to 180 days	6,304	542
181 to 365 days	2,857	386
	9,161	928

9. OTHER LOANS

Other loans as at 30 September 2010 with an aggregate amount of approximately HK\$3,990,000 (31 March 2010: approximately HK\$3,990,000).

10. CONVERTIBLE BONDS

On 23 October 2009, the Company issued zero-coupon convertible bonds ("CB") with an aggregate principal amount of HK\$200,000,000 to vendor as a partial consideration for the acquisition of an intangible asset through acquisition of a subsidiary. The CB holders are entitled to convert the bonds into ordinary shares of the Company at any time between the date of issue of the bonds and their settlement date on 23 October 2014 in multiples of HK\$1,000,000 at the conversion price of HK\$0.2 (subject to adjustment) per conversion share as subsequently adjusted to HK\$0.04 per share as a result of the Share Subdivision II. No conversion shall be made, if immediately upon such conversion, the bondholder and its parties acting in concert with in aggregate hold more than 9.9% of the issued share capital of the Company from time to time; and/or the public float of the Company' shares is less than 15% of the total issued shares of the Company. The Company has an early redemption option to redeem in whole or in part at par before the maturity date by serving seven days' prior written notice. Any amount of the bonds remains outstanding on the maturity date shall be redeemed at its then outstanding amount. The fair value of such early redemption option at the date of issue and subsequent reporting period was insignificant.

The CB contain two components, liability and equity elements. The equity element is presented in equity heading "equity component of convertible bonds". The effective interest rate of the liability component is 11.52% per annum.

The movement of CB is as follows:

	Liability component HK\$'000	Equity component HK\$'000	Total HK\$'000
At 31 March 2010	121,660	84,045	205,705
Imputed interest charged for the period	6,988	–	6,988

11. SHARE CAPITAL

	Number of ordinary shares	Amount HK\$'000
Authorized:		
Ordinary shares of HK\$0.04 each at 31 March and 30 September 2010	30,000,000,000	1,200,000
Issued and fully paid:		
Ordinary shares of HK\$0.04 each at 31 March 2010	3,138,885,800	125,555
Issued Shares	1,423,800,000	56,952
Balance at 30 September 2010 of HK\$0.04 each	4,562,685,800	182,507

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 2010 HK\$'000	31 March 2010 HK\$'000
Within one year	870	1,159
In the second to fifth year inclusive	–	290
	870	1,449

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.

13. RELATED PARTY DISCLOSURES

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

Compensation of key management personnel

The emoluments of directors of the Company and the key management were as follows:

	2010 HK\$'000	2009 HK\$'000
Salaries and allowance	1,008	948
Retirement benefits scheme contributions	30	30
	1,038	978

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

At 30 September 2010, 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\$0.04 each of the Company (the "Shares")

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

Long positions in the shares of associated corporation

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)	15.15%

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

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 2010, none of the Directors had any interests in any shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

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

At 30 September 2010, the following persons (other than the interests disclosed above in respect of certain Directors) had an interest or short positions in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were 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 (<i>Note 1</i>)	Beneficial owner	2,406,117,500	52.73%
China Water Industry Group Limited (<i>Note 1</i>)	Interest of a controlled corporation	2,406,117,500	52.73%
Will Success Holdings Limited (" Will Success ") (<i>Note 2</i>)	Beneficial owner	5,400	0.00%
Even Glory Holdings Limited (" Even Glory ") (<i>Note 3</i>)	Beneficial owner	153,805,400	3.37%
Chen Lixue (<i>Note 2 & 3</i>)	Interest of a controlled corporation	153,810,800	3.37%
Wang Hongjun (<i>Note 3</i>)	Interest of a controlled corporation	153,805,400	3.37%

Notes:

1. These Shares are registered in the name of Bonus Raider Investments Limited, which is a wholly-owned subsidiary of China Water.
2. Will Success is a company wholly-owned by Mr. Chen Lixue.
3. Even Glory is a company owned by Mr. Chen Lixue and Mr. Wang Hongjun respectively. Each of them holds 50% of the interests of Even Glory.
4. Percentage is based on 4,562,685,800 issued Shares as at 30 September 2010.

Long positions in underlying shares

(a) *Convertible preference shares of HK\$0.04 each of the Company ("Convertible Preference Shares")*

Name of holder	Capacity	Number of Shares entitled pursuant to the full exercise of the Convertible Preference Share held as at 30 September 2010
Will Success (Note 1)	Beneficial Owner	5,922,394,600
Even Glory (Note 2)	Beneficial Owner	7,346,194,600
Chen Lixue (Note 1&2)	Interest of a controlled corporation	13,268,589,200
Wang Hongjun (Note 2)	Interest of a controlled corporation	7,346,194,600

Note:

1. Will Success is a company wholly-owned by Mr. Chen Lixue.
2. Even Glory is a company owned by Mr. Chen Lixue and Mr. Wang Hongjun respectively. Each of them holds 50% of the interests of Even Glory.

(b) *Convertible bonds*

Name of holder	Capacity	Number of Shares entitled pursuant to the full exercise of the Convertible bonds held as at 30 September 2010
Will Success (Note 1)	Beneficial Owner	2,500,000,000
Even Glory (Note 2)	Beneficial Owner	2,500,000,000
Chen Lixue (Note 1&2)	Interest of a controlled corporation	5,000,000,000
Wang Hongjun (Note 2)	Interest of a controlled corporation	2,500,000,000

Note:

1. Will Success is a company wholly-owned by Mr. Chen Lixue.
2. Even Glory is a company owned by Mr. Chen Lixue and Mr. Wang Hongjun respectively. Each of them holds 50% of the interests of Even Glory.

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 2010, 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 which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were 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. Lam Tze Chung

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 2010 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 Practices (the “**Code**”) as set out in Appendix 15 to the GEM Listing Rules, 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 of the Company. 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.

On 21 October 2010, Mr. Chan Wai Keung (“**Mr. Chan**”) was appointed as the executive Director and chief executive officer of the Company. In line with the appointment of Mr. Chan, Mr. Yau ceased to serve as the chief executive officer of the Company. Thus, as at the date of this report, no deviation from the Code has been made.

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 2010, 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 2010

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

Executive Directors

Mr. Yau Yan Ming Raymond

Mr. Chan Wai Keung

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. Lam Tze Chung