



iMerchants Limited

Second Quarterly Report 2011

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 (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 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 herein or this report misleading.

This report will remain on the “Latest Company Announcements” page of the GEM website at www.hkgem.com for at least 7 days from the date of publication and on the website of the Company at <http://www.imerchantsltd.com>.

SUMMARY

The Group's unaudited consolidated profit attributable to owners of the Company for the six months ended 30 September 2011 was approximately HK\$24,429,000, as compared to the unaudited consolidated profit of approximately HK\$57,486,000 of the Group for the corresponding six-month period in 2010. 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\$12,743,000 at the end of the reporting period.

BUSINESS REVIEW

During the six months period ended 30 September 2011, the principal activities of the Company together with its subsidiaries (collectively the “**Group**”) were engaged in provision of management service, investment in financial and investment products as well as manufacturing and trading of ceramic sewage materials. The turnover for the Group was approximately HK\$119,448,000 as compared to approximately HK\$119,548,000 for the corresponding period in 2010.

We continue our objective of enhancing the value of the Company’s shares. The investment strategy is reviewed and monitored frequently and we will take appropriate actions whenever necessary in response to the 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.

The production of the manufacturing and trading of ceramic sewage material has been temporally suspended due to the continuous loss incurred. The Company is still in the process of searching for a new business partner or subcontractor for the operation of this business segment. As a result, no turnover or revenue is recorded during the period under review.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group continues to be in a healthy financial position with current assets totaling approximately HK\$169,090,000 (31 March 2011: approximately HK\$137,407,000). Bank balances and cash and cash held at non-banking financial institutions are approximately HK\$12,743,000.

As of 30 September 2011, most of the Group’s business transactions, assets and liabilities are denominated in Hong Kong dollars and Renminbi. The Group’s exposure to currency is minimal.

The Group’s gearing ratio at 30 September 2011 was 0.69% (31 March 2011: 0.69%), 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 2011 was HK\$4,169,000 (31 March 2011: HK\$4,169,000) and no contingent liabilities as at 30 September 2011 (31 March 2011: nil). As at 30 September 2011, one of the Company’s subsidiaries pledged the land use right under the manufacturing subsidiary in the People’s Republic of China (the “**PRC**”) with carrying value at approximately HK\$2,575,000 to a financial institution in respect of the due and punctual payment of its obligations (31 March 2011: HK\$2,690,000).

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 PRC.

As of 30 September 2011, the Group has no long-term financial investments on hand (31 March 2011: nil). 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 the changes in market situation.

REVENUE, GROSS PROFIT AND ADMINISTRATIVE EXPENSES

During the six-month period ended 30 September 2011, the Group's turnover was approximately HK\$119,448,000 which was comprised of revenue from provision of management service, investments in financial and investment products as well as manufacturing and trading of ceramic sewage products, as compared to a turnover of approximately HK\$119,548,000 for the corresponding six-month period in 2010.

The Group generated a net profit attributable to owners of the Company of approximately HK\$24,429,000 for the six months ended 30 September 2011, as compared to a net profit of approximately HK\$57,486,000 for the corresponding period in 2010. The gain is mainly attributable to management service fee. The gross profit for the six-month period ended 30 September 2011 was approximately HK\$96,867,000 (2010: approximately HK\$86,919,000). The Group's administrative expenses was amounted to approximately HK\$8,279,000 (2010: approximately HK\$5,245,000).

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.

Business segments

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

- (a) Provision of management service;
- (b) Investments in financial and investment products; and
- (c) Manufacturing and trading of ceramic sewage materials.

Details of results by geographical segments are shown in Note 4 to the condensed consolidated interim financial statements.

EMPLOYEES

As of 30 September 2011, the Group had 15 staff (31 March 2010: 80) 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 2011, the total remuneration expenses, including contributions to the Mandatory Provident Fund, were approximately HK\$2,345,000 (2010: approximately HK\$1,151,000). The Group has not granted any share option to the employees under its existing share option scheme.

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 2011 together with the comparative unaudited figures for the corresponding periods in 2010 as follows:

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months and six months ended 30 September 2011

	Notes	Three months ended 30 September		Six months ended 30 September	
		2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Turnover	3	119,448	114,000	119,448	119,548
Cost of sales		(11,291)	(15,426)	(22,581)	(32,629)
Gross profit		108,157	98,574	96,867	86,919
Net gain on disposal of available-for-sale investments		–	–	–	3,220
Other (expenses) income		13	6	16	(3)
Impairment loss on intangible asset		(28,342)	–	(28,342)	–
Selling and distribution expenses		–	–	–	(781)
Administrative expenses		(5,225)	(3,250)	(8,279)	(5,245)
Finance expenses		(5,544)	(7,024)	(5,971)	(7,130)
Profit before taxation	5	69,059	88,306	54,291	76,980
Taxation	6	(29,862)	(19,999)	(29,862)	(20,000)
Profit for the period		39,197	68,307	24,429	56,980
Other comprehensive (expenses) income for the period, net of tax					
Exchange difference arising on translation		(6)	–	(6)	5
Release of investment revaluation reserve upon disposal of available-for-sale investments		–	–	–	(4,452)
Total comprehensive income for the period, net of tax		39,191	68,307	24,423	52,533

	Three months ended 30 September		Six months ended 30 September	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Notes				
Profit for the period attributable to:				
Owners of the Company	39,197	68,268	24,429	57,486
Non-controlling interests	–	39	–	(506)
	39,197	68,307	24,429	56,980
Total comprehensive income for the period attributable to:				
Owners of the Company	39,191	68,268	24,423	53,039
Non-controlling interests	–	39	–	(506)
	39,191	68,307	24,423	52,533
Earnings per share	7			
– basic (HK cents)	0.27	1.60	0.17	1.35
– and diluted (HK cents)	0.24	0.30	0.15	0.26

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

For the six months ended 30 September 2011

	<i>Notes</i>	30 September 2011 (Unaudited) HK\$'000	31 March 2011 (Audited) HK\$'000
Non-current assets			
Property, plant and equipment		6,216	6,170
Prepaid lease payments		2,514	2,627
Intangible asset	9	555,166	606,089
		563,896	614,886
Current assets			
Trade and other receivables	10	156,286	135,703
Loan receivables		–	700
Prepaid lease payments		61	63
Cash held at non-banking financial institutions		–	598
Bank balances and cash		12,743	343
		169,090	137,407
Current liabilities			
Trade and other payables		14,989	9,104
Secured other loans		4,169	4,169
Amount due to a non-controlling shareholder of a subsidiary		2,531	2,645
Income tax payables		58,623	28,777
		80,312	44,695
Net current assets		88,778	92,712
Total assets less current liabilities		652,674	707,598
Non-current liability			
Convertible bonds	11	46,693	101,819
Net assets		605,981	605,779
Capital and reserves			
Share capital	12	763,251	477,403
Non-redeemable convertible preference shares		–	285,848
Reserves		(157,297)	(157,499)
Equity attributable to owners of the Company		605,954	605,752
Non-controlling interests		27	27
Total equity		605,981	605,779

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2011

	Six months ended 30 September	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Net cash generated from (used in) operating activities	97,014	(26,563)
Net cash generated from (used in) investing activities	338	(17,800)
Net cash used in financing activities	(85,000)	(142)
Net increase (decrease) in cash and cash equivalents	12,352	(44,505)
Cash and cash equivalents at beginning of period	343	47,636
Effect of foreign exchange rate changes	48	61
Cash and cash equivalents at end of period	12,743	3,192
Analysis of balances of cash and cash equivalents represented by bank balances and cash	12,743	3,192

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2011

	Equity attributable to owners of the Company												
	Non-redeemable convertible							Equity component of Accumulated				Non-controlling	
	Share preference capital	Share share	Share premium	Capital redemption reserve	Merger reserve	Investment revaluation reserve	Special capital reserve	Translation reserve	convertible bonds	Profits/ (losses)	Sub-total	interest	Total
	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 2011	477,403	285,848	40,095	3,297	45,918	-	50,587	40,258	63,034	(400,688)	605,752	27	605,779
Total comprehensive income (expenses) for the period	-	-	-	-	-	-	-	(6)	-	24,429	24,423	-	24,423
Redemption of convertible bonds	-	-	11,498	-	-	-	-	-	(35,719)	-	(24,221)	-	(24,221)
Conversion of non-redeemable preference shares (Note c)	285,848	(285,848)	(10,005)	-	-	-	10,005	-	-	-	-	-	-
At 30 September 2011	763,251	-	41,588	3,297	45,918	-	60,592	40,252	27,315	(376,259)	605,954	27	605,981

	Equity attributable to owners of the Company												
	Non-redeemable convertible							Equity component of Accumulated				Non-controlling	
	Share preference capital	Share share	Share premium	Capital redemption reserve	Merger reserve	Investment revaluation reserve	Special capital reserve	Translation reserve	convertible bonds	Profits/ (losses)	Sub-total	interest	Total
	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 (expenses) 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 the 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

For the six months ended 30 September 2011

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of GEM Listing Rules and with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at revalued amounts or fair values, as appropriate.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 September 2011 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 March 2011 except as described below.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

In the current interim period, the Group has applied, for the first time, the following new or revised standards and interpretations (the “**new HKFRSs**”) issued by the HKICPA, which are or have become effective for the financial year beginning on 1 April 2011:

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010 except for the amendments to HKFRS 3 (as revised in 2008), HKFRS 7, HKAS 1 and HKAS 28
HKFRS 1	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters
HKFRS 3	Business Combination (2008) – Improvements to HKFRSs (2010)
HKAS 1 (Amendments)	Presentation of Financial Statements – Improvements to HKFRSs (2010)
HKAS 24 (as revised in 2009)	Related Party Disclosures
HK (IFRIC) – Int 13 (Amendments)	Customer Loyalty Programmes – Improvements to HKFRSs (2010)
HK (IFRIC) – Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement
HK (IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments

HKAS 24 Related Party Disclosures (as revised in 2009) modifies the definition of a related party and simplifies disclosures for government-related entities. The disclosure exemptions introduced in HKAS 24 (as revised in 2009) do not affect the Group because the Group is not a government-related entity.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

The amendments to HK (IFRIC) – Int 14 require entities to recognise as an economic benefit any prepayment of minimum funding requirement contributions. As the Group has no defined benefit scheme, the amendments are unlikely to have any financial impact on the Group.

HK (IFRIC) – Int 19 clarifies that equity instruments issued to a creditor to extinguish a financial liability are “consideration paid” in accordance with paragraph 41 of HKAS 39. As a result, the financial liability is derecognised and the equity instruments issued are treated as consideration paid to extinguish that financial liability. The interpretation states that equity instruments issued in a debt for equity swap should be measured at the fair value of the equity instruments issued, if this can be determined reliably. If the fair value of the equity instruments issued is not reliably determinable, the equity instruments should be measured by reference to the fair value of the financial liability extinguished as of the date of extinguishment.

Any difference between the carrying amount of the financial liability that is extinguished and the fair value of the equity instruments issued is recognised immediately in profit or loss.

Save as described above, there is no material effect on the unaudited condensed consolidated financial statements of the Group for the current or prior accounting periods by adopting the new HKFRSs. Thus no prior period adjustment has been required.

The Group has not early applied the following new HKFRSs that have been issued but are not yet effective:

HKFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters ¹
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets ¹
HKFRS 9 (Revised)	Financial Instruments ⁴
HKFRS 10	Consolidated Financial Statements ⁴
HKFRS 11	Joint Arrangements ⁴
HKFRS 12	Disclosures of Interests in Other Entities ⁴
HKFRS 13	Fair Value Measurement ⁴
HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income ³
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets ²
HKAS 19 (as revised in 2011)	Employee Benefits ⁴
HKAS 27 (as revised in 2011)	Separate Financial Statements ⁴
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures ⁴

¹ Effective for annual periods beginning on or after 1 July 2011.

² Effective for annual periods beginning on or after 1 January 2012.

³ Effective for annual periods beginning on or after 1 July 2012.

⁴ Effective for annual periods beginning on or after 1 January 2013.

3. TURNOVER

Turnover represents gross proceeds from sale of investments, management service fee income, dividend and interest income from investments as well as revenue generated from manufacturing and trading of ceramic sewage materials, and is analysed as follows:

	Six months ended 30 September	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Management service fee income	119,448	114,000
Dividends from listed available-for-sale investments	–	22
Revenue from manufacturing and trading of ceramic sewage materials	–	5,526
	119,448	119,548

4. SEGMENT INFORMATION

The Group's operating segments, based on information reported to the board of Directors, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focus on types of goods or services delivered or provided.

In order to better evaluate the nature and financial effects of the business activities on which the Group engages and the economic environments in which the Group operates, the Group has changed the composition of the reportable segments in the current year. The business segment for the comparable period has been restated accordingly.

Before the change of composition of the reportable segments, the operating segments operated by the Group was (a) investment in financial and investment products; and (b) manufacturing and trading of ceramic sewage materials.

After the change of composition of business segments, the Group's operating and reportable segments under HKFRS8 are as follows:

- (a) Provision of management services;
- (b) Investments in financial and investment products; and
- (c) Manufacturing and trading of ceramic sewage materials.

Information regarding the above segments is reported below.

4. SEGMENT INFORMATION (Continued)

Segment Revenue and Results

For the six months ended 30 September 2011

	Provision of management service		Investment in financial and investment products		Manufacturing and trading of ceramic sewage materials		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
SEGMENT TURNOVER								
External sales	119,448	114,000	-	-	-	5,526	119,448	119,526
Investment income	-	-	-	22	-	-	-	22
	119,448	114,000	-	22	-	5,526	119,448	119,548
SEGMENT RESULTS	68,525	83,147	-	22	(460)	3,750	68,065	86,919
Interest income							10	1
Net gain on disposal of available-for-sale investments							-	3,220
Net unallocated income (expenses)							(8,431)	(6,030)
Finance costs							(5,353)	(7,130)
Profit before taxation							54,291	76,980
Income tax expenses							(29,862)	(20,000)
Profit for the period							24,429	56,980

4. SEGMENT INFORMATION *(Continued)*

Segment Assets and Liabilities

At 30 September 2011

	Provision of management service		Investment in financial and investment products		Manufacturing and trading of ceramic sewage materials		Total	
	30 Sept 2011 (Unaudited)	31 Mar 2011 (Audited)	30 Sept 2011 (Unaudited)	31 Mar 2011 (Audited)	30 Sept 2011 (Unaudited)	31 Mar 2011 (Audited)	30 Sept 2011 (Unaudited)	31 Mar 2011 (Audited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
ASSETS								
Segment assets	710,141	720,811	-	598	9,798	10,236	719,939	731,645
Unallocated segment assets							13,047	20,648
Total assets							732,986	752,293
LIABILITIES								
Segment liabilities	11,708	5,736	-	-	5,410	5,410	17,118	11,146
Unallocated segment liabilities							109,887	135,368
Total liabilities							127,005	146,514

4. SEGMENT INFORMATION *(Continued)*

Geographical segments

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 Six months ended 30 September		Non-current assets Six months ended 30 September	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
The PRC	119,448	119,526	563,533	895,239
Hong Kong	–	22	363	65
	119,448	119,548	563,896	895,304

Information about major customers

Revenue from customer of the corresponding period contributing over 10% of the total revenue of the Group is as follows:

	Six months ended 30 September	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Customer A	119,448	114,000

5. PROFIT BEFORE TAXATION

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

	Six months ended 30 September	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Staff costs		
Salaries and allowances	2,345	1,116
Net contributions to retirement benefits schemes	–	35
	2,345	1,151
Operating lease charges in respect of rented premises	468	630
Amortisation of intangible assets	22,581	30,853
Depreciation expense	64	130
Interest income from bank deposits	(10)	(1)

6. TAXATION

	For the three months ended 30 September		For the six months ended 30 September	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Current Tax				
The PRC	29,862	19,999	29,862	20,000
Taxation Attributable to the Group	29,862	19,999	29,862	20,000

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.

7. EARNINGS PER SHARE

	For the six months ended 30 September	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Earnings		
Earnings for the purpose of basic earnings per share		
Profit for the period attributable to owners of the Company	24,429	57,486

	For the six months ended 30 September	
	2011 (Unaudited) '000	2010 (Unaudited) '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	14,570,885	4,248,721
Effect of dilutive potential ordinary shares:		
Convertible bonds	1,625,000	5,000,000
Convertible preference shares	–	13,268,589
Weighted average number of ordinary shares for the purpose of diluted earnings per share	16,195,885	22,527,310

8. INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 September 2011 (2010: Nil).

9. INTANGIBLE ASSET

	HK\$'000
COST	
At 1 April 2010	925,584
Exchange realignment	41,408
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At 31 March 2011, 1 April 2011 and 30 September 2011	966,992
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ACCUMULATED AMORTISATION AND IMPAIRMENT	
At 1 April 2010	25,710
Provided for the year	62,875
Impairment loss recognised in the year	271,168
Exchange realignment	1,150
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At 31 March 2011 and 1 April 2011	360,903
Provided for the period	22,581
Impairment loss recognised in the period	28,342
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At 30 September 2011	411,826
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CARRYING VALUES	
At 30 September 2011 (unaudited)	555,166
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At 31 March 2011 (audited)	606,089
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The intangible asset is amortised on straight-line basis over its estimated useful lives of 15 years.

The recoverable amount of the intangible asset has been determined on the basis of value-in-use calculation with reference to a valuation performed by Grant Sherman Appraisal Limited, an independent qualified valuer not connected to the Group. The value-in-use calculations use cash flow projections of 13.5 years (31 March 2011: 14 years) and based on financial budgets approved by management of the Company covering a 3-year period, and a discount rate of 18.32% (31 March 2011: 21.52%). Cash flows beyond the 3-year period have been extrapolated using a steady 3% growth rate. This rate is based on the relevant track record of Shenzhen Careall and does not exceed the average long-term growth rate for the relevant industry. Cash flow projections during the budget period for the intangible asset is based on the budgeted sales and expected realisable profit during the budget period and the similar quality of new investments during the budget period. Expected cash inflows/outflows, which include budgeted sales of listed securities, cost of acquiring new investment portfolio and other direct costs have been determined based on past performance and management's expectations for the market development.

The cash flow projections will be adjusted from time to time to reflect the tax liability forecast based on the tax implication incurred from the result of prior and current period as well as the future profitability. Such tax liability is also affected by relevant tax rate of corporate income tax and business tax. The directors of the Company are of the opinion that the recoverable amount is less than its respective carrying amount as at 30 September 2011, accordingly an impairment loss of approximately HK\$28,342,000 (31 March 2011: HK\$271,168,000) was recognised.

10. TRADE AND OTHER RECEIVABLES

	30 September 2011 (Unaudited) HK\$'000	31 March 2011 (Audited) HK\$'000
Trade receivables	154,796	115,417
Prepayments, deposits and other receivables	1,490	20,286
	156,286	135,703

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

An aged analysis of trade receivables at the end of the reporting period, based on invoice date was as follows:

	30 September 2011 (Unaudited) HK\$'000	31 March 2011 (Audited) HK\$'000
Current to 180 days	125,735	–
181 to 365 days	29,061	115,417
	154,796	115,417

11. CONVERTIBLE BONDS

On 23 October 2009, the Company issued 5-year zero-couple convertible bonds (the “CB”) in the aggregate principal amount of HK\$200,000,000 to Rightshine Holdings Limited as a partial consideration for the acquisition of an intangible asset through the acquisition of a subsidiary. The CB holders are entitled to convert the bonds into ordinary shares of the Company at any time from the date of issue 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 effective on 2 November 2009. No conversion shall be made, if immediately upon such conversion, the bondholder and its parties acting in concert 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’s 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.

11. CONVERTIBLE BONDS *(Continued)*

During the six months ended 30 September 2011, the Company had redeemed part of the CB amounted to HK\$85,000,000.

The CB contains 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	Equity component	Total
	HK\$'000	HK\$'000	HK\$'000
1 April 2010	121,660	84,045	205,705
Imputed interest charged for the year	13,666	–	13,666
Conversion during the year	(33,507)	(21,011)	(54,518)
At 31 March 2011 and 1 April 2011	101,819	63,034	164,853
Imputed interest charged for the period	5,653	–	5,653
Redemption during the period	(60,779)	(35,719)	(96,498)
At 30 September 2011	46,693	27,315	74,008

12. SHARE CAPITAL

	Number of ordinary shares	Amount
	'000	HK\$'000
At 1 April 2010 and 31 March 2011, 1 April 2011 and 30 September 2011	30,000,000	1,200
At 1 April 2010, HK\$0.04 each	3,138,886	125,555
Conversion of convertible preference shares	7,546,194	301,848
Conversion of convertible bonds	1,250,000	50,000
At 31 March 2011 and 1 April 2011	11,935,080	477,403
Conversion of convertible preference shares	7,146,195	285,848
At 30 September 2011	19,081,275	763,251

13. OPERATING LEASE COMMITMENTS

As lessee

At the end of the reporting period, 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 2011 (Unaudited) HK\$'000	31 March 2011 (Audited) HK\$'000
Within one year	751	294
In the second to fifth year inclusive	500	2
	1,251	296

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.

14. RELATED PARTY DISCLOSURES

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

Compensation of key management personnel

The emoluments of Directors and the key management were as follows:

	For the six months ended 30 September	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Salaries and allowance	2,310	1,008
Retirement benefits scheme contributions	–	30
	2,310	1,038

15. COMPARATIVES FIGURES

Certain comparative figures have been reclassified to conform to current period's presentation.

EVENTS AFTER THE REPORTING PERIOD

Redemption of the CB

A notice dated 26 October 2011 in respect of the proposed redemption of the CB in the principal amount of HK\$10,000,000 was given by the Company to Even Glory Holdings Limited, being the holder of the CB in the principal amount of HK\$100,000,000 issued by the Company on 23 October 2009. Such redemption was completed on 3 November 2011.

Proposed Capital Reorganisation

The Directors proposed to put forward a proposal to the Shareholders at the EGM to effect the Capital Reorganisation pursuant to the Companies Ordinance which will involve:

- (a) the Capital Reduction under which the authorised share capital of the Company will be reduced from HK\$1,200,000,000 divided into 30,000,000,000 Shares of HK\$0.04 each to HK\$120,000,000 divided into 30,000,000,000 Reduced Shares of HK\$0.004 each and that such reduction be effected by cancelling HK\$0.036 of the paid up capital on each issued Share of HK\$0.04 and reducing the nominal value of each issued or unissued share in the capital of the Company from HK\$0.04 per Share to HK\$0.004 per Reduced Share; and
- (b) the Share Consolidation under which every twenty-five(25) Reduced Shares of HK\$0.004 each will be combined into one Adjusted Share of HK\$0.1 each.

Further details and the capitalized terms used in this paragraph were set out in the announcement of the Company dated 24 October 2011 (the "**Announcement**").

Proposed change in board lot size

The Board proposed to change the board lot size for trading in the Shares from 25,000 Shares to 10,000 Adjusted Shares upon the Capital Reorganisation becoming effective. Further details of the change and capitalized terms used in this paragraph were set out in the Announcement and the announcement of the Company dated 31 October 2011.

Proposed increase in authorized capital

The Board proposed to increase the authorized share capital of the Company from HK\$120,000,000 divided into 1,200,000,000 Adjusted Shares to HK\$1,000,000,000 divided into 10,000,000,000 Adjusted Shares by the creation of an additional 8,800,000,000 Adjusted Shares of par value HK\$0.1 each in order to facilitate any future expansion in the share capital of the Company after the completion of the Capital Reorganisation. Further details of such increase and capitalized terms used in this paragraph were set out in the Announcement.

Change of auditors

The Board announced that SHINEWING (HK) CPA Limited (“**SHINEWING**”) resigned as auditors of the Group with effect from 1 November 2011 as the Company and SHINEWING could not reach a consensus on the audit fees for the financial year ending 31 March 2012. The Board also announces that HLM & Co. Certified Public Accountants has been appointed as the auditors with effect from 1 November 2011 to fill the casual vacancy in the office of the auditors of the Group arising therefrom and will hold office until the conclusion of the next annual general meeting of the Company. Details of the change were set out in the announcement of the Company dated 1 November 2011.

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

At 30 September 2011, 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

No long positions of the Directors in the shares of the associated corporation 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 underlying shares – share options granted by the Company

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

Long positions in debentures

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

Short positions in the Shares

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

Short positions in the underlying shares

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

Short positions in debentures

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

Save as disclosed above, at 30 September 2011, 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 2011, the following persons (other than the interests disclosed above in respect of the 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 Shares in the Company held	Approximate percentage of issued share capital of the Company (Note 4)
Bonus Raider Investments Limited (" Bonus Raider ")	Beneficial owner	2,406,117,500	12.61%
China Water Industry Group Limited (" China Water ")	Through a controlled corporation	2,406,117,500 (Note 1)	12.61%
Even Glory Holdings Limited (" Even Glory ")	Beneficial owner	1,336,000,000	7.00%
Mr. Wang Hongjun (" Mr. Wang ")	Through a controlled corporation	1,336,000,000 (Note 2)	7.00%
Will Success Holdings Limited (" Will Success ")	Beneficial owner	5,400	0.00%
Mr. Xin Jun (" Mr. Xin ")	Through a controlled corporation	5,400 (Note 3)	0.00%

Notes:

1. These shares were registered in the name of Bonus Raider, a wholly-owned subsidiary of China Water. By virtue of the SFO, China Water was deemed to be interested in the Shares held by Bonus Raider.
2. Even Glory is a company wholly and beneficially owned by Mr. Wang and hence, by virtue of the SFO, Mr. Wang was deemed to be interested in the Shares held by Even Glory.
3. Will Success is a company originally wholly-owned by Mr. Chen Lixue. On 18 July 2011, Mr. Chen Lixue transferred his entire interest in Will Success to Mr. Xin. By virtue of the SFO, Mr. Xin was deemed to be interested in the Shares held by Will Success.
4. The percentage is calculated based on 19,081,275,000 issued Shares as at 30 September 2011.

Long positions in the underlying shares

Convertible bonds

Name of holder	Capacity	Number of Shares entitled pursuant to the full exercise of the CB held as at 30 September 2011	Approximate percentage of issued share capital of the Company (Note 3)
Will Success	Beneficial owner	1,250,000,000	6.55%
Mr. Xin	Through a controlled corporation	1,250,000,000 (Note 1)	6.55%
Even Glory	Beneficial owner	375,000,000	1.97%
Mr. Wang	Through a controlled corporation	375,000,000 (Note 2)	1.97%

Notes:

1. Will Success is a company originally wholly-owned by Mr. Chen Lixue. On 18 July 2011, Mr. Chen Lixue transferred his entire interest in Will Success to Mr. Xin. By virtue of the SFO, Mr. Xin was deemed to be interested in the Shares held by Will Success.
2. Even Glory is a company originally owned by Mr. Chen Lixue and Mr. Wang respectively. Each of them holds 50% of the interests of Even Glory. On 18 July 2011, Mr. Chen Lixue transferred his interest in Even Glory to Mr. Wang. As at 30 September 2011, Even Glory is a company wholly-owned by Mr. Wang. By virtue of the SFO, Mr. Wang was deemed to be interested in the Shares held by Even Glory.
3. The percentage is calculated based on 19,081,275,000 issued Shares as at 30 September 2011.

Short positions in the Shares

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

Short positions in the underlying shares

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

Save as disclosed above, at 30 September 2011, the Directors were not aware of any other person who had an interest or a short position in the Shares or underlying Shares as recorded in the register required to be kept under Section 336 of the SFO.

AUDIT COMMITTEE

The Company has an audit committee ("**Audit Committee**") which was established with written terms of reference in compliance with the GEM Listing Rules. As at the date of this report, the Audit Committee comprises two independent non-executive Directors, namely, Mr. Lam Tze Chung (chairman of the Audit Committee) and Mr. Wu Tak Lung.

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 2011 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 GEM Listing Rules and other legal requirements and that adequate disclosures have been made.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Board and senior management of the Company are committed to the principles of corporate governance and have dedicated significant effort 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 on Corporate Governance Practices (the "**CG Code**") as set out in Appendix 15 to the GEM Listing Rules except for the following:

Board composition

Note 1 to code provision A.3 refers to rule 5.05 of the GEM Listing Rules, which stipulates that every board of directors of a listed company must include at least three independent non-executive directors.

Following the resignation of Mr. Chang Kin Man as an independent non-executive Director and a member of the audit committee of the Company on 19 September 2011 and up to the date of this report, the number of independent non-executive Directors and audit committee members of the Company fell below the minimum number required under Rules 5.05(1) and 5.28 of the GEM Listing Rules respectively. The Company is in the process of identifying a suitable candidate to fill the vacancy in order to comply with the CG Code and the GEM Listing Rules.

Appointments, re-election and removal

Under code provision A.4.1 of the CG Code, non-executive directors should be appointed for a specific term, subject to re-election. All independent non-executive Directors were not appointed for a specific term but they are subject to retirement by rotation and re-election at the annual general meetings of the Company which is in line with the Company's articles of association. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the CG Code.

DISCLOSURE OF INFORMATION ON DIRECTORS PURSUANT TO RULE 17.50A(1) OF THE GEM LISTING RULES

During the period under review, the updated information on Directors discloseable under Rule 17.50A(1) of the GEM Listing Rules are as follows:

- (a) Mr. Yau Yan Ming, Raymond, an executive Director and chairman of the Company, was appointed as an independent non-executive director of each of Tack Fat Group International Limited (stock code: 928) and Chanceton Financial Group Limited (stock code: 8020) with effect from 15 August 2011 and 21 September 2011 respectively.
- (b) Mr. Wong Ka Chun Carson was appointed as an independent non-executive director of SMI Publishing Group Limited (stock code: 8010) with effect from 4 September 2009 and resigned with effect from 30 June 2010.

- (c) Mr. Wu Tak Lung has resigned as an independent non-executive director of each of Apollo Solar Energy Technology Holdings Limited (stock code: 566) and Finet Group Limited (stock code: 8317) with effect from 13 December 2010 and 23 September 2010 respectively. He was appointed as an independent non-executive director of AKM Industrial Company Limited (stock code: 8298) with effect from 13 January 2010 and has resigned on 17 October 2011.
- (d) Mr. Chang Kin Man has resigned as an independent non-executive director of Birmingham International Holdings Limited (stock code: 2309) and China Energy Development Holdings Limited (stock code: 228) with effect from 31 May 2011 and 30 December 2009 respectively. He has resigned as an independent non-executive Director with effect from 19 September 2011.
- (e) Mr. Li Wen Jun was appointed as an executive director of China Water Industry Group Limited (stock code: 1129) with effect from 3 June 2009 and has resigned with effect from 12 August 2011. He has resigned as executive Director with effect from 19 September 2011.
- (f) Mr. Yang Bin retired as an executive Director at the annual general meeting of the Company held on 16 September 2011.

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

The Board and senior management of the Company are committed to the principles of corporate governance and have dedicated significant effort 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 CG Code as set out in Rules 5.48 to 5.67 of the GEM Listing Rules.

The Company has made specific inquiry with all the Directors and has not been notified of any non-compliance with the required standard of dealing of securities by the Directors.

COMPETING INTERESTS

During the period under review, none of the Directors, the management shareholders of the Company or substantial shareholders of the Company or any of their respective associates (as defined in the GEM Listing Rules) had any interest in a business which causes or may cause any significant competition with the business of the Group.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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, 8 November 2011

As at the date of this report, the executive Directors are Mr. Yau Yan Ming Raymond, Mr. Zha Jian Ping, Ms. Qi Yue, and Mr. Wong Ka Chun Carson; and the independent non-executive Directors are Mr. Wu Tak Lung and Mr. Lam Tze Chung.