

Directors' Report

The Board present their annual report and the audited financial statements of the Company and the Group for the year ended 31 March 2004.

CHANGE OF COMPANY NAME

Pursuant to a special resolution passed in an extraordinary general meeting of the Company held on 19 March 2004, the name of the Company was changed to "GARRON INTERNATIONAL LIMITED" and "嘉禹國際有限公司" was being adopted as the new Chinese name of the Company for identification purpose.

PRINCIPAL ACTIVITIES

The Company is principally engaged in investing in listed and unlisted companies in the PRC, Hong Kong and Taiwan.

SEGMENT INFORMATION

No segment information is presented as all turnover, contribution to operating results, assets and liabilities of the Group are attributable to investment activities which are carried out or originated principally in Hong Kong.

MAJOR CUSTOMERS AND SUPPLIERS

The Group's entire turnover was derived from its investments in trading securities and it is believed that the disclosure of information regarding customers and suppliers would not be meaningful.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 March 2004 are set out in the consolidated income statement on page 16.

The Board do not recommend payment of any dividend for the year ended 31 March 2004 (2003: interim of HK\$4,010,000).

SHARE CAPITAL

Details of the share capital of the Company during the year are set out in note 17 to the financial statements.

RESERVES

Details of the movements in reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 19 of this report and other details of the reserves of the Group and the Company are set out in note 19 to the financial statements.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company at 31 March 2004 are set out in note 19 to the financial statements.

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DIRECTORS

The directors of the Company during the year and to the date of this report are:

Executive Directors:

Mr. LIU Chen-chun	
Mr. SUEN Hoi-wan, Steven	(resigned on 28 July 2003)
Mr. YUEN Man-yiu	(resigned on 12 April 2003)
Mr. LIU Yong	(appointed on 12 April 2003)
Mr. Jerry CHIOU	(appointed on 28 July 2003)

Non-Executive Directors:

Mr. HSIEH Chin-chen	
Mr. LEUNG Koon-sing	(resigned on 29 February 2004)

Independent Non-Executive Directors:

Mr. LEE Hsien-chou	(resigned on 31 May 2004)
Mr. GAO Hong-bing	(resigned on 29 February 2004)
Mr. FU Heng-yang	(appointed on 29 February 2004)
Mr. HA Tak-kong	(appointed on 3 June 2004)

In accordance with the Company's Articles of Association, Mr. Liu Yong, Mr. Jerry Chiou, Mr. Fu Heng-yang and Mr. Ha Tak-kong shall retire and, being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

Mr. Liu Chen-chun, Mr. Suen Hoi-wan, Steven and Mr. Yuen Man-yiu entered into service contracts with the Company respectively for an initial term of three years commencing on 1 September 2002 unless terminated by not less than three months' written notice served by either party or payment in lieu of such notice to the other party.

Both Mr. Suen's and Mr. Yuen's service contracts with the Company had been terminated on 12 April 2003 and 28 July 2003 respectively upon their resignation as directors of the Company with mutual agreement for shorter notice of termination.

Mr. Liu Chen-chun's original service contract with the Company had been cancelled on 18 October 2002 and was superseded by a new service contract for an initial term of three years commencing on 19 October 2002 unless terminated by not less than three months' written notice served by either party or payment in lieu of such notice to the other party.

Mr. Liu Yong entered into a service agreement with the Company date 12 April 2003 for a term of three years unless terminated by not less than three month's written notice served by either party. Mr. Jerry Chiou entered into a service agreement with the Company dated 28 July 2003 for a term of three years unless terminated by not less than three month's written notice served by either party.

Save as disclosed above, no director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTERESTS IN CONTRACTS

Saved as disclosed in the paragraph headed "CONNECTED TRANSACTIONS" in this report and in note 21 to the financial statements, no other contracts of significance in relation to the Company's business to which the Company or its subsidiary was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN EQUITY OR DEBT SECURITIES

Save as disclosed in the section headed "SHARE OPTIONS", none of the directors and chief executives had any interests in equity or debt securities of the Company or of any of its associated corporations which were required to be notified to the Company and the Stock Exchange as defined in the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance").

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed in the section headed "SHARE OPTIONS", at no time during the year was the Company or its subsidiary a party to any arrangements to enable the Company's directors or members of its management to acquire benefits by means of the acquisition of shares in or debt securities (including debentures) of the Company or any other body corporate.

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CONNECTED TRANSACTIONS

Significant related party transactions committed by the Group during the year ended 31 March 2004, which also constitute connected transactions under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules"), are disclosed in note 21 to the financial statements.

(a) Investment Management Agreement

Pursuant to the investment management agreement dated 31 August 2002 (the "IM Agreement"), the Company appointed Friedmann Pacific Asset Management Limited (formerly known as "Friedmann Pacific Investment Consultants Limited"), a company which is owned by Mr. POON Ho-man and Mr. LEUNG Koon-sing, a non-executive director of the Company, as to 90% to 10% respectively, as its investment manager to provide investment management services and general administrative services to the Company. In return, Friedmann Pacific Asset Management Limited was entitled to a monthly investment management fee at a rate of 2% per annum of the net asset value of the Group calculated in the way as specified by the Articles of Association of the Company (the "Net Asset Value") as at the immediately preceding last dealing day of the Stock Exchange in each calendar month or such other dealing day as considered appropriate by the Board for the purpose of calculating the Net Asset Value (the "Valuation Date"). The actual fee will, however, be calculated quarterly based on the Net Asset Value as at each Valuation Date. Any overpayment or underpayment relating to the estimated investment management fee will be deducted from or added to (as the case may be) the amount of the fee payable to the investment manager on the next succeeding payment date. In accordance with the IM Agreement, the investment manager will also be entitled to receive from the Company an annual incentive fee payable in Hong Kong dollars equal to 10% of the surplus net asset value as determined in accordance with the provision of the IM Agreement (the "Surplus Net Asset Value"). The annual incentive fee shall be payable annually in arrears within 10 business days after the annual accounts of the Company have been approved by the shareholders of the Company. The investment manager of the Company is regarded as a connected person of the Company under Rule 21.13 of the Listing Rules. Accordingly, the IM Agreement constitutes a connected transaction of the Company. During the year, total investment management fee of HK\$730,221 (2003: HK\$450,130) and annual incentive fee of HK\$187,082 (2003: HK\$Nil) was accrued in the books of the Company.

The Company and Friedmann Pacific Asset Management Limited entered into a termination agreement on 3 March 2004 whereas both party mutually agreed to waive the termination notice requirement as stipulated in the IM Agreement and to terminate the IM Agreement with effect from the close of business on 31 March 2004 with no penalty nor compensation required.

(b) Application For Waiver

The Company has applied to the Stock Exchange for a waiver from strict compliance with the Listing Rules and the waiver has been granted by the Stock Exchange. Details of such waiver are set out in the prospectus of the Company. The independent non-executive directors of the Company have reviewed the connected transactions as set out in the above and confirmed that the transactions contemplated under the IM Agreement have been entered into by the Company:

- (i) in its ordinary and usual course of business;
- (ii) on normal commercial terms and on arm's length basis;

- (iii) on terms that are fair and reasonable so far as the shareholders of the Company and the Company itself are concerned; and
- (iv) the aggregate value of the investment management fee and annual incentive fee payable to the investment manager, Friedmann Pacific Asset Management Limited, did not exceed the relevant caps as set out in the Company's prospectus dated 10 September 2002.

(c) Custodian Agreement

On 23 December 2002, the Company appointed ABN-AMRO Bank as the Custodian. During the year, no custodian fee had paid to ABN-AMRO Bank (2003: Nil). The Custodian is regarded as a connected person of the Company under Rule 21.13 of the Listing Rules. Accordingly, the custodian agreement constitutes a continuing connected transaction of the Company under the Listing Rules. The custodian fee is expected to fall below the de-minimis thresholds of the Listing Rules, and would be exempted from the reporting, announcement and/or shareholders' approval requirements under the Listing Rules.

MANAGEMENT CONTRACTS

Save as disclosed in the paragraph headed "Connected Transactions" in this report and note 21 to the financial statements, no other contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

RETIREMENT BENEFITS SCHEME

Details of the retirement benefits scheme are set out in note 22 to the financial statements.

SHARE OPTIONS

The Company's share option schemes (the "Schemes"), the Pre-IPO and Post-IPO Share Option Schemes were adopted by the sole shareholder of the Company by way of written ordinary resolutions passed on 31 August 2002 for the purposes of providing incentives or rewards to directors and eligible employees for their contribution to the Group. The subscription price for the Shares under the Pre-IPO Share Option Scheme is HK\$0.6 per share. The grantees are permitted to exercise options granted under the Pre-IPO Share Option Scheme during the period commencing from the expiry of six months from the date of listing of Shares on the Stock Exchange and up to 19 September 2004. No further options can be granted under the Pre-IPO Share Option Scheme after the date of listing of the Shares on the Stock Exchange. The Pre-IPO Share Option Scheme is valid for a period of 10 years commencing on 31 August 2002 save as early terminated in accordance with the scheme. The maximum number of shares in respect of which options may be granted under the Post-IPO Share Option Scheme shall not exceed 8,020,000 shares, being 10% (the "Scheme Mandate Limit") of the issued share capital of the Company as at the date of an adoption of the Scheme. The Scheme Mandate Limit may be renewed by the approval of shareholders proposed that the number of shares under outstanding options shall not exceed 30% of shares in issue from time to time.

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No eligible employee shall be granted options in any 12-month period up to the date of grant which would result in the total number of shares issued or to be issued upon exercise of the options granted (including both exercised and outstanding options) exceeding 1% of the aggregate number of shares for the time being in issue. Options had been granted to the Executive and Non-Executive Directors under the Pre-IPO Share Option Scheme for a consideration of HK\$1 from each of them and details are as follows:

Name of grantee	Date of grant	Exercisable period (both dates inclusive)	Exercise price at 31 March 2004 HK\$	Number of Share Options outstanding at 1 April 2003	Number of Share Options lapsed during the year	Number of Share Options outstanding at 31 March 2004
Mr. LIU Chen-chun	31.08.02	19/03/03-19/09/04	0.6	800,000	-	800,000
Mr. SUEN Hoi-wan, Steven	31.08.02	19/03/03-19/09/04	0.6	800,000	(800,000)	-
Mr. YUEN Man-yiu	31.08.02	19/03/03-19/09/04	0.6	800,000	(800,000)	-
Mr. HSIEH Chin-chen	31.08.02	19/03/03-19/09/04	0.6	400,000	-	400,000
Mr. LEUNG Koon-sing	31.08.02	19/03/03-19/09/04	0.6	400,000	(400,000)	-
				3,200,000	(2,000,000)	1,200,000

On or before the date of options being granted under the Pre-IPO Share Option Scheme on 31 August 2002, shares in the capital of the Company has not yet started trading on the Stock Exchange. Compared with the initial issue price as per the Company's prospectus dated 10 September 2002, the exercise price for options granted represents a premium of 20%.

At the annual general meeting of the Company held on 19 September 2003, it was resolved to amend the rules of the Pre-IPO Share Option Scheme so as to have all options granted under the scheme lapsed automatically and not be exercisable after the date on which the grantee ceases serving the Company. For that reason, options formerly granted to Mr. SUEN Hoi-wan, Mr. YUEN Man-yiu and Mr. LEUNG Koon-sing respectively were lapsed automatically and no longer exercisable after the date of their respective resignations. Save as disclosed above, no options have been exercised, cancelled or lapsed during the year ended 31 March 2004.

As at 31 March 2004, the number of shares in respect of which options had been granted under the share option scheme was 1,200,000 representing 1.50% of the shares of the Company in issue at that date.

The options granted to directors of the Company are not recognised in the consolidated financial statements until they are exercised. The Board do not consider it appropriate to disclose a theoretical value of the share options granted. In the absence of a readily market value of the share options on the ordinary shares of the Company, the Board believe that any valuation of the share options based on a great number of speculative assumptions would not be meaningful and may be misleading to the shareholders of the Company.

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2004, to the best knowledge of the Board and chief executives of the Company, the following persons, not being directors or chief executives of the Company, had an interest or short positions in 5% or more in the shares and underlying shares of the Company have notified the Company and being recorded in the register of substantial shareholders' interests in shares and short positions required to be kept under Section 336 of Part XV of the Securities and Futures Ordinance.

Name of shareholder	Note	Number of shares held	Approximate percentage of shareholdings
Blaze Holdings Limited	1	14,000,000	17.46%
LT Luckiteam Investment Limited		6,000,000	7.48%
Everest International Investments Limited		6,000,000	7.48%
TIS Securities (HK) Limited		4,380,000	5.46%

Note:

- (1) Blaze Holdings Limited is a company incorporated in the British Virgin Islands and is wholly owned by Ms. Cheng Sui-I who, in turns, being a substantial shareholder of the Company.

Save as disclosed above, at 31 March 2004, the Company had not been notified of any other person, not being an director or chief executive of the Company, who has interest or short positions in the shares of the Company representing 5% or more of the Company's issued share capital.

POST BALANCE SHEET EVENT

Details of events after balance sheet date are set out in note 23 to the financial statements.

PURCHASE, SALE AND REDEMPTION OF SHARES

For the year ended 31 March 2004, neither the Company nor its subsidiary had purchased, sold or redeemed any of the Company's shares.

AUDIT COMMITTEE

The audit committee, which comprises of two independent non-executive directors of the Company, has reviewed with the management the accounting principles and practices adopted by the Group and discussed the auditing, internal control and financial reporting matters including the review of the Group's audited results for the year ended 31 March 2004.

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COMPLIANCE WITH THE CODE OF BEST PRACTICE

In the opinion of the Board, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules during the year under review.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association, or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro-rata basis to the existing shareholders.

FINANCIAL SUMMARY

Details of the financial summary in relation to the Group's business are set out in page 40.

PROPOSAL FOR AMENDMENT OF THE ARTICLES OF THE COMPANY

With reference to recent revisions of the Listing Rules and the Securities and Futures Ordinance in Hong Kong, the Board will submit a proposed resolution, to incorporate certain necessary amendments to the Articles of Association of the Company, at the forthcoming annual general meeting in order to be in compliance with the aforementioned revised legislation. Details of amendments will be set out in the notice of the annual general meeting of the Company.

AUDITORS

A resolution to re-appoint the retiring auditors, RSM Nelson Wheeler, will be put at the forthcoming annual general meeting.

By Order of the Board

LIU Chen-chun

Executive Director

Hong Kong, 23 July 2004