



GARRON INTERNATIONAL LIMITED

嘉禹國際有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1226)

06

Interim Report

For The Six Months Ended
30 September 2006

*For identification purpose only

The board of directors (the “Board”) of GARRON INTERNATIONAL LIMITED (the “Company”) hereby presents the unaudited interim report and condensed financial statements of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 September 2006. The unaudited condensed consolidated interim financial statements (the “Interim Financial Statements”) have not been reviewed by the Company’s auditors but have been reviewed by the audit committee of the Company.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September 2006

		Six months ended	
		30 September	
		2006	2005
		(Unaudited)	(Unaudited)
	<i>Note</i>	HK\$	HK\$
Turnover	2	9,061,494	907,730
Cost of sales		<u>(10,160,435)</u>	<u>(933,300)</u>
Realised loss on sale of financial assets at fair value through profit or loss/trading securities		(1,098,941)	(25,570)
Net unrealised loss on financial assets at fair value through profit or loss/trading securities	3	(2,238,792)	(134,002)
Other revenue	2	108,234	12,700
Administrative expenses		<u>(3,689,321)</u>	<u>(2,274,737)</u>
Loss before taxation		(6,918,820)	(2,421,609)
Taxation	4	<u>-</u>	<u>-</u>
Loss attributable to shareholders		<u><u>(6,918,820)</u></u>	<u><u>(2,421,609)</u></u>
Loss per share:	6		
Basic		<u><u>(0.261)</u></u>	<u><u>(0.604)</u></u>
Diluted		<u><u>N/A</u></u>	<u><u>N/A</u></u>

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 September 2006

		As at 30.9.2006 (Unaudited) HK\$	As at 31.3.2006 (Audited) HK\$
Non-current assets			
Property, plant and equipment		317,513	375,342
Current assets			
Financial assets at fair value through profit or loss	7	9,421,688	14,416,720
Prepayments and deposits		1,276,578	2,899,410
Bank and cash balances		4,674,536	3,745,865
		<u>15,372,802</u>	<u>21,061,995</u>
Current liabilities			
Other payables		<u>643,632</u>	<u>871,735</u>
Net current assets		14,729,170	20,190,260
Net assets		<u>15,046,683</u>	<u>20,565,502</u>
Capital and reserves			
Share capital	8	5,612,000	4,812,000
Reserves		9,434,683	15,753,502
Shareholders' funds		<u>15,046,683</u>	<u>20,565,502</u>
Net asset value per share	9	<u>0.567</u>	<u>0.855</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY*For the six months ended 30 September 2006*

	Share capital <i>HK\$</i>	Share premium <i>HK\$</i>	Accumulated loss <i>HK\$</i>	Total <i>HK\$</i>
At 1 April 2006 (Audited)	4,812,000	33,413,149	(17,659,647)	20,565,503
Placing of new shares	800,000	600,000	–	1,400,000
Net loss for the period	–	–	(6,918,820)	(6,918,820)
At 30 September 2006 (Unaudited)	<u>5,612,000</u>	<u>34,013,149</u>	<u>(24,578,467)</u>	<u>15,046,683</u>
At 1 April 2005 (Audited)	802,000	33,413,149	(21,821,713)	12,393,436
Net loss for the period	–	–	(2,421,609)	(2,421,609)
At 30 September 2005 (Unaudited)	<u>802,000</u>	<u>33,413,149</u>	<u>(24,243,322)</u>	<u>9,971,827</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 September 2006

	Six months ended 30 September	
	2006 (Unaudited) HK\$	2005 (Unaudited) HK\$
Net cash used in operating activities	(2,236,862)	(2,140,177)
Net cash (used in)/generating from investing activities	1,765,533	(31,810)
Net cash generating from financing activities	<u>1,400,000</u>	<u>—</u>
NET (DECREASE)INCREASE IN CASH AND CASH EQUIVALENTS	928,671	(2,171,987)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>3,745,865</u>	<u>2,420,110</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u><u>4,674,536</u></u>	<u><u>248,123</u></u>
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank and cash balances	<u><u>4,674,536</u></u>	<u><u>248,123</u></u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended 30 September 2006

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with Hong Kong Accounting Standard (the "HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

2. TURNOVER AND OTHER REVENUE

	Six months ended 30 September	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$	HK\$
Proceeds from sale of financial assets at fair value through profit or loss	<u>9,061,494</u>	<u>907,730</u>
Other revenue		
Interest income	19,595	6,535
Other income	-	2,170
Dividend income from financial asset of fair value through profit or loss	88,639	-
Dividend income from trading securities	<u>-</u>	<u>3,995</u>
	<u>108,234</u>	<u>12,700</u>
Total revenue	<u>9,169,728</u>	<u>920,430</u>

No segment information is presented as all of the 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.

3. NET UNREALISED LOSS ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS/TRADING SECURITIES

The amount represents net unrealized loss arising from changes in fair values of financial assets at fair value through profit or loss during the period under review.

4. TAXATION

No provision for Hong Kong profits tax is required since the Group has no assessable profit for the period under review (2005: Nil).

5. DIVIDENDS

The Board does not recommend payment of any interim dividend for the period under review (2005: Nil).

6. LOSS PER SHARE

The calculation of basic loss per share is based on the Group's loss attributable to shareholders for the period under review of HK\$6,918,820 (2005: HK\$2,421,609) and the weighted average of 26,536,712 (2005: 4,010,000) ordinary shares in issue during the period under review after adjusting for the effects of the placing of new shares on 2 August 2006.

Diluted loss per share for the six months ended 30 September 2006 and 2005 were not disclosed as there were no dilutive potential ordinary shares.

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 30.9.2006 (Unaudited) HK\$	As at 31.3.2006 (Audited) HK\$
Equity securities, at market value		
– Listed in Hong Kong	<u>9,421,688</u>	<u>14,416,720</u>

Following the adoption of HKAS 39, all financial assets of the Company were redesignated as financial assets through profit or loss on 1 April 2006. There was no such redesignation for the year ended 31 March 2006 as retrospective application of HKAS 39 is not permitted.

8. SHARE CAPITAL

	Number of ordinary shares	Amount HK\$
Authorised:		
At 30 September 2006	<u>100,000,000</u>	<u>20,000,000</u>
Issued and fully paid:		
At 31 March 2006	24,060,000	4,812,000
Increased by share placing	<u>4,000,000</u>	<u>800,000</u>
At 30 September 2006	<u>28,060,000</u>	<u>5,612,000</u>

9. NET ASSET VALUE PER SHARE

The calculation of net asset value per share is based on the net assets value of the Group as at 30 September 2006 of HK\$15,046,683 (31 March 2006: HK\$20,605,502) and the weighted average of 26,536,712 (31 March 2006: 24,060,000) ordinary shares in issue at that date.

10. RELATED PARTY TRANSACTIONS

During the period under review, the Group had involved in the following significant related party transactions which were carried out in the normal commercial terms and in the ordinary course of the Group's business:

	Six months ended 30.9.2006 HK\$	Six months ended 30.9.2005 HK\$
Friedmann Pacific Asset Management Limited (<i>note a</i>) to which the following expenses were paid:		
Investment management fee (<i>note b</i>)	163,229	110,445
Friedmann Pacific Securities Limited (<i>note c</i>) to which the following expenses were paid:		
Financial adviser fee (<i>note d</i>)	30,000	-
Friedmann Pacific Financial Services Limited (<i>note e</i>) to which the following expenses were paid:		
Rental and building management fee (<i>note f</i>)	<u>72,000</u>	<u>72,000</u>

Notes:

- (a) Mr. POON Ho-man and Mr. Jerry CHIOU are common directors of Friedmann Pacific Asset Management Limited ("FPAML") and the Company.

Mr. POON Ho-man, an executive director of the Company, has beneficial interests in FPAML at 30 September 2006.

- (b) The Company entered into an investment management agreement with FPAML on 14 June 2005 for a period of one year with effect from 16 June 2005 and shall continue for successive periods of one year each unless terminated at any time by serving on the other party not less than three months prior notice in writing. FPAML was entitled to receive an investment management fee on a quarterly basis at a rate of 2% per annum of the net asset value of the Company as at the valuation date as defined in the agreement. FPAML was also entitled to receive an incentive fee at a rate of 10% of the surplus net asset of the Company as at the last valuation date in a financial year as a defined in the agreement but the maximum aggregate annual value of the fee shall not be more than HK\$440,000.

- (c) Mr. POON Ho-man is a common director of Friedmann Pacific Securities Limited ("FPSL") and the Company.

Mr. POON Ho-man, an executive director of the Company, has beneficial interests in FPSL at 30 September 2006.

- (d) The Company entered into a financial adviser agreement with FPSL for a period commencing from 1 December 2005 and ending on 30 November 2006 and each party shall have the right to terminate this agreement by giving not less than one month written notice to the other party. The fee will be HK\$5,000 per month payable on the first day of every calendar month.

- (e) Mr. POON Ho-man is a common director of Friedmann Pacific Financial Services Limited ("FPFSL") and the Company.

Mr. POON Ho-man, an executive director of the Company, has beneficial interests in FPFSL at 30 September 2006.

- (f) The Company entered into a Licence Agreement with FPFSL commencing from 1 December 2005 and ending on 30 November 2008 or the date that the Principal Agreement being terminated. The Principal Agreement is the tenancy agreement made between FPFSL and the landlord dated 24 November 2005. The Licence Agreement can also be terminated at any time by either party serving not less than three months' prior notice in writing. Pursuant to the Licence Agreement, FPFSL is entitled to receive a monthly licence fee of HK\$12,000 for granting the Company the use of an office premises.

BUSINESS REVIEW

During the period under review, the Group continued its on-going investment strategy that focuses on listed and unlisted investment opportunities in the People's Republic of China, Hong Kong and Taiwan. As at 30 September 2006, the investment portfolio of the Group consisted of listed securities in Hong Kong with a total market value of HK\$9,421,688 (31 March 2006: HK\$14,416,720).

The Group reported a net loss of HK\$6,918,820 for the period under review, comparing to the net loss of HK\$2,421,609 recorded for the corresponding period last year. Proceeds from sale of financial assets at fair value through profit or loss increased by approximately 898% to HK\$9,061,494 as compared with HK\$907,730 recorded last period.

Liquidity and Financial Resources

As at 30 September 2006, the Group had no borrowing and no credit facilities obtained from financial institutions. The Group had bank balances and cash on hand of approximately HK\$4,674,536 (31 March 2006: HK\$3,745,865), which was mainly placed in bank as call deposits. Since the Group has made no borrowing as at 30 September 2006, the calculation of gearing ratio was not applicable.

As all transactions of the Group during the period under review were conducted in Hong Kong and the reporting currency of its financial statements was Hong Kong Dollar, its exposure to fluctuations in exchange rates and any related hedges was minimal.

Capital Structure

Effective from 18 August 2006, the issued share capital of the Company has been increased to 28,060,000 through shares placing of 4,000,000 new shares.

Significant Investments

The investment portfolio of the Company only comprises of financial assets at fair value through profit or loss for the current period. As a whole, the portfolio was carefully managed and being fully diversified to minimize commercial risk resulting from over concentration of the investment of the Company in any single industry.

During the period under review, the investment portfolio of the Company mainly included investments in quoted securities of locally listed companies whose business principally focuses on ports operation in the worldwide, provision of wireless telecommunications services in the world, toll roads operation in the PRC, broad range of petroleum-related activities, airline operation in the PRC, the manufacture and sale of leather, production and sale of power generating equipment, designs, manufactures of digital TV reception equipment, securities brokerage, commodities trading and corporate finance business, and provision of high-precision polishing technology, manufacture and sale of synthetic sapphire watch crystals and optoelectronic products and watches distribution, etc.

Material acquisition and disposal of subsidiary

No material acquisition or disposal of subsidiary during the current period.

Employees

As at 30 September 2006, the Company had retained four employees (2005: three employees). Total staff costs of the Company, excluding directors' remuneration, for the period under review amounted to approximately HK\$760,000 (2005: HK\$699,683). Staff remuneration packages were in line with the prevailing market practice and were determined on the basis of the performance and experience of individual employee.

Charges on assets

Throughout the six months period ended 30 September 2006, assets of the Company were free from any form of legal charge. In addition, the Company did not have any significant contingent liabilities.

Future developments

Expecting capital markets in the region to be stable in the second half of the year, the Company will exercise prudently in managing its investment portfolio so as to strive for the best long term interest of its shareholders.

PURCHASE, SALE AND REDEMPTION OF SHARES

During the period under review, neither the Company nor its subsidiary had purchased, sold or redeemed any of the Company's shares.

CONTINUING CONNECTED TRANSACTIONS

The related party transactions disclosed in note 10(b), note 10(d) and note 10(f) to the condensed consolidated financial statements constituted continuing connected transactions under the Listing Rules.

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

As at 30 September 2006, the interests and short positions of the directors and chief executives in the ordinary shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") (including interest which they are deemed or taken to have under such provisions 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 the Model Code for Securities Transaction by Directors of Listed Issuers (the "Model Code") were as follows:

Name of director	Nature of interest	Number of shares held	Approximate percentage of shareholding
Mr. POON Ho-man	Interest in controlled corporation	5,176,000	18.45%

Note:

Mr. POON Ho-man, an executive director of the Company, is interested by virtue of his 100% interest in Planters Universal Limited, a company incorporated in the British Virgin Islands.

Save as disclosed above, 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 recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notifiable to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTIONS HELD BY DIRECTORS

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.

As at 19 September 2005, all outstanding options formerly granted under the Share Option Scheme were lapsed. No options have been granted, exercised, cancelled or lapsed during the six-months ended 30 September 2006 and no share options were outstanding as at 30 September 2006 and 2005.

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2006, to the best knowledge of the Board and the chief executives of the Company, the following persons, other than being directors or chief executives of the Company, had an interest or short position 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 shareholders	Capacity	Number of shares held	Approximate percentage of shareholdings
CHEN Jui-yang	Beneficial owner	4,000,000	14.26%
Planters Universal Limited (Note 1)	Beneficial owner	5,176,000	18.45%
Mr. POON Ho-man	Interest in controlled corporation	5,176,000	18.45%
Linkasia Investment Limited (Note 2)	Beneficial owner	4,011,200	14.29%
BUDIMAN Leo	Interest in controlled corporation	4,011,200	14.29%
LUI Sik-ying	Beneficial owner	4,145,093	14.77%
WONG Pui-wing	Beneficial owner	1,628,000	5.80%

Notes:

1. Planters Universal Limited, a company incorporated in the British Virgin Islands, is wholly and beneficially owned by Mr. POON Ho-man, an executive director of the Company.
2. Linkasia Investment Limited, a company incorporated in the British Virgin Island, is wholly and beneficially owner by Mr. BUDIMAN Leo

Save as disclosed above, the Company had not been notified of any other person, not being a 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.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules throughout the Period, with deviations from code provisions A.2.1, A.4.1 and A.4.2 of the Code in respect of the service term and rotation of directors.

Code Provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

The roles of chairman and chief executive officer of the Company have been performed by Mr. POON Ho-man. The Board considered that the non-segregation would not result in considerable concentration of power in one person and has the advantage of a strong and consistent leadership which is conducive to making and implementing decisions quickly and consistently. The Board will review the effectiveness of this arrangement from time to time and will consider appointing an individual as chief executive officer when it thinks appropriate.

Under the code provisions A.4.1 and A.4.2 of the Code, (a) non-executive directors should be appointed for a specific term and subject to re-election; and (b) all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment, and every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

None of the existing non-executive Directors of the Company is appointed for a specific term. This constitutes a deviation from code provision A.4.1 of the Code. However, one-third of the Directors of the Company (both executive and non-executive) are subject to the retirement by rotation at each annual general meeting under the Articles of Association of the Company. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are similar to those in the Code.

Under the Articles of Association of the Company, the Chairman of the Board and/or the Managing Director and/or the Deputy Managing Director of the Company are not subject to retirement by rotation or be taken into account on determining the number of Directors to retire in each year. This constitutes a deviation from the code provision A.4.2 of the Code.

MODEL CODE ON SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the model code on securities transactions by directors set out in Appendix 10 of the Listing Rules (the "Model Code") as its own code of conduct regarding director's securities transactions. The Company confirms that, having made specific enquiry of all directors, the Board has complied with the required standard set out in the Model Code.

AUDIT COMMITTEE

The audit committee, which comprises of three independent non-executive directors of the Company, has reviewed with the management the accounting principles and practices adopted by the Group and discussed the internal control and financial reporting matters including the review of the Group's unaudited financial statements for the six months ended 30 September 2006.

BOARD OF DIRECTORS

As at the date of this report, the Board comprises of Mr. POON Ho-man and Mr. Jerry CHIOU as executive directors, and Mr. HA Tak-kong, Mr. HUANG Ching-chung and Mr. PENG Feng as independent non-executive directors.

By Order of the Board of
GARRON INTERNATIONAL LIMITED
POON Ho-man
Executive Director

Hong Kong, 18 December 2006