

GARRON INTERNATIONAL LIMITED

嘉禹國際有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1226)

Interim Report **2007**

For the six months ended 30 September 2007

*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 2007. 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 2007

		Six months ended	
		30 September	
		2007	2006
		(Unaudited)	(Unaudited)
			(Restated)
	<i>Notes</i>	<i>HK\$</i>	<i>HK\$</i>
Turnover	2	21,461,700	9,061,494
Cost of sales		<u>(18,503,130)</u>	<u>(10,160,435)</u>
Realised gain/(loss) on sale of financial assets at fair value through profit or loss		2,958,570	(1,098,941)
Net unrealised gain/(loss) on financial assets at fair value through profit or loss	3	5,402,994	(2,238,792)
Other revenue	2	139,846	108,234
Administrative expenses		<u>(3,561,792)</u>	<u>(3,689,321)</u>
Profit/(Loss) before taxation	4	4,939,617	(6,918,820)
Taxation	5	<u>–</u>	<u>–</u>
Profit/(Loss) attributable to shareholders		<u><u>4,939,617</u></u>	<u><u>(6,918,820)</u></u>
Dividends	6	<u>–</u>	<u>–</u>
Earnings/(Loss) per share:	7		
Basic		<u><u>0.070</u></u>	<u><u>(0.111)</u></u>
Diluted		<u><u>0.069</u></u>	<u><u>N/A</u></u>

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 September 2007

		As at 30 September 2007 (Unaudited) HK\$	As at 31 March 2007 (Audited) HK\$
Non-current assets			
Property, plant and equipment		202,054	259,783
Current assets			
Financial assets at fair value through profit or loss	8	17,056,282	14,379,448
Prepayments and deposits		3,688,196	258,894
Bank and cash balances		257,137	705,376
		21,001,615	15,343,718
Current liabilities			
Other payables		1,042,389	861,838
Net current assets		19,959,226	14,481,880
Net assets		<u>20,161,280</u>	<u>14,741,663</u>
Capital and reserves			
Share capital	9	14,030,000	5,612,000
Reserves		6,131,280	9,129,663
Shareholders' funds		<u>20,161,280</u>	<u>14,741,663</u>
Net asset value per share		<u>0.29</u>	<u>0.53</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY*For the six months ended 30 September 2007*

	Share capital HK\$	Warrant reserve HK\$	Share premium HK\$	Accumulated loss HK\$	Total HK\$
At 1 April 2007 (Audited)	5,612,000	–	33,958,649	(24,828,986)	14,741,663
Issue of bonus shares	8,418,000	–	(8,418,000)	–	–
Issue of unlisted warrants	–	480,000	–	–	480,000
Net profit for the period	–	–	–	4,939,617	4,939,617
At 30 September 2007 (Unaudited)	<u>14,030,000</u>	<u>480,000</u>	<u>25,540,649</u>	<u>(19,889,369)</u>	<u>20,161,280</u>
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>–</u>	<u>34,013,149</u>	<u>(24,578,467)</u>	<u>15,046,683</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 September 2007

	Six months ended 30 September	
	2007 (Unaudited) HK\$	2006 (Unaudited) HK\$
Net cash used in operating activities	(1,068,086)	(2,236,862)
Net cash generating from investing activities	139,847	1,765,533
Net cash generating from financing activities	480,000	1,400,000
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(448,239)	928,671
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	705,376	3,745,865
CASH AND CASH EQUIVALENTS AT END OF PERIOD	257,137	4,674,536
ANALYSIS OF THE BALANCES OF CASH		
Bank and cash balances	257,137	4,674,536

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2007

1. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated interim financial statements should be read in conjunction with the 2007 audited financial statements.

The accounting policies and method of computation used in the preparation of the unaudited condensed consolidated interim financial statements are consistent with those applied in the Group's audited financial statements for the year ended 31 March 2007.

These condensed consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and accounting principles generally accepted in Hong Kong.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adopted for the current accounting period of the Group. The adoption of these new and revised HKFRSs did not result in significant change to the Group's accounting policies applied on these financial statements for the current and prior period presented. The Group has not applied any new and revised standard or interpretation that is not yet effective for the current accounting period.

The following new and revised HKFRSs that affect the Group and are adopted for the first time in the current period's financial statements:

HKAS 1	Amendment Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 7	Applying the restatement approach under HKAS 29 financial reporting in hyperinflationary economies
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of embedded derivatives
HK(IFRIC)-Int 10	Interim financial reporting and impairment

The adoption of these new and revised HKFRSs has no material impact on the accounting policies of the Group and the methods of computation in the Group's condensed consolidated financial statements.

2. TURNOVER AND OTHER REVENUE

An analysis of turnover and other revenue is as follows:

	Six months ended	
	30 September	
	2007	2006
	(Unaudited)	(Unaudited)
	HK\$	HK\$
Turnover		
Proceeds from sale of financial assets at fair value through profit or loss	21,461,700	9,061,494
Other revenue		
Interest income	7,712	19,595
Dividend income from financial asset at fair value through profit or loss	132,134	88,639
	139,846	108,234
Total revenue	21,601,546	9,169,728

No segment information is presented as all of the revenue, 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 GAIN/(LOSS) ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

4. PROFIT/(LOSS) BEFORE TAXATION

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

	Six months ended	
	30 September	
	2007	2006
	(Unaudited)	(Unaudited)
	HK\$	HK\$
Depreciation	57,730	57,730

5. TAXATION

No provision for Hong Kong profits tax is required since the Group has no assessable profits arising from Hong Kong for the period under review (2006: Nil).

	Six months ended	
	30 September	
	2007	2006
	(Unaudited)	(Unaudited)
	HK\$	HK\$
Profit/(loss) before taxation	4,939,617	(6,918,820)
Tax at the domestic income tax rate of 17.5%	864,433	(1,210,794)
Tax effect of expenses/(income) that are not deductible/(taxable) in determining taxable profit, net	(939,600)	395,633
Tax effect of tax losses not recognised	75,167	815,161
Taxation charge	<u> -</u>	<u> -</u>

At the balance sheet date the Group has unused tax losses of approximately HK\$28,524,332 (31 March 2007: HK\$28,449,165) available for offset against future profits. Tax losses, which are subject to agreement with the Hong Kong Inland Revenue Department, will be carried forward indefinitely.

A deferred tax asset of approximately HK\$4,046,234 (31 March 2007: HK\$4,915,306) comprising unrealised gain on financial assets at fair value through profit or loss of HK\$945,524 (31 March 2007 unrealised loss of: HK\$63,298) and tax losses of HK\$4,991,758 (31 March 2007: 4,978,604) has not been recognised in the financial statements of the Group in respect of tax losses available to offset future profits as it is not certain whether the tax losses will be utilised in the foreseeable future.

6. DIVIDEND

The Board does not recommend the payment of any interim dividend for the period during review (2006: Nil).

7. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the Group's profit/(loss) attributable to ordinary equity holders of the Company for the period under review of HK\$4,939,617 (2006: loss of HK\$6,918,820) and the weighted average of 70,150,000 (2006(restated): 62,499,727) ordinary shares in issue during the period under review after adjusting for the effects of the bonus issues of new shares on 3 September 2007.

The calculation of diluted earnings per share amounts for the six months ended 30 September 2007 is based on Group's profit attributable to ordinary equity holders of the Company for the period under review of HK\$4,939,617, adjusted to reflect the interest on the unlisted warrants, where applicable. The weighted average number of 70,150,000 ordinary shares used in the calculation is the number of ordinary shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average number of 1,167,568 ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

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

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 30 September 2007 (Unaudited) HK\$	As at 31 March 2007 (Audited) HK\$
Equity securities, at market value		
– Listed in Hong Kong	<u>17,056,282</u>	<u>14,379,448</u>

9. SHARE CAPITAL

	Number of ordinary shares	Amount HK\$
Authorised:		
At 30 September 2007	<u>100,000,000</u>	<u>20,000,000</u>
Issued and fully paid		
At 31 March 2007	28,060,000	5,612,000
Increase by bonus issues	<u>42,090,000</u>	<u>8,418,000</u>
At 30 September 2007	<u>70,150,000</u>	<u>14,030,000</u>

10. 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 2007 of HK\$20,161,280 (31 March 2007: HK\$14,741,663) and the 70,150,000 (31 March 2007: 28,060,000) ordinary shares in issue at that date.

11. RELATED PARTY TRANSACTIONS

	Six months ended 30 September 2007 HK\$	Six months ended 30 September 2006 HK\$
Friedmann Pacific Asset Management Limited (<i>note a</i>) to which the following expenses were paid:		
Investment management fee (<i>note b</i>)	180,928	163,229
Friedmann Pacific Securities Limited (<i>note c</i>) to which the following expenses were paid:		
Financial adviser fee (<i>note d</i>)	30,000	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>69,200</u>	<u>72,000</u>

Notes:

- (a) During the period ended 30 September 2007, Dr. POON Ho-man and Mr. Jerry CHIOU are common directors of Friedmann Pacific Asset Management Limited (“FPAML”) and the Company.

An executive director of the Company, Dr. POON Ho-man, has beneficial interests in FPAML at 30 September 2007.

- (b) The Company entered into an investment management 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) During the period ended 30 September 2007, Dr. POON Ho-man is a common director of Friedmann Pacific Securities Limited (“FPSL”) and has beneficial interests FPSL at 30 September 2007.
- (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 renewed automatically 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) During the period ended 30 September 2007, Dr. POON Ho-man is a common director of Friedmann Pacific Securities Limited (“FPFSL”) at the balance sheet.
- (f) The Company entered into a License 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 License Agreement can also be terminated at any time by either party serving not less than three month’s prior notice in writing. Pursuant to License Agreement, FPFSL is entitled to receive a monthly licence fee of HK\$12,000 for granting the Company use of an office premises. The License Agreement was terminated following the relocation of the office on 29 October 2007.

BUSINESS REVIEW

During the period under review, the Group continued its on-going investment strategy that focuses on listed investment opportunities in Hong Kong. As at 30 September 2007, the investment portfolio of the Group consisted of listed securities in Hong Kong with a total market value of HK\$17,056,282 (31 March 2007: HK\$14,379,448).

The Group reported a net profit of HK\$4,939,617 for the period under review, comparing to the net loss of HK\$6,918,820 recorded for the corresponding period last year. Proceeds from sale of financial assets at fair value through profit or loss increased by approximately 137% to HK\$21,461,700 as compared with HK\$9,061,494 recorded last period.

Liquidity and Financial Resources

As at 30 September 2007, the Group had no borrowing and no credit facilities obtained from financial institutions. The Group had bank balances and cash on hand of HK\$257,137 (31 March 2007 HK\$705,376), which was mainly placed in bank as call deposits. Since the Group has made no borrowing as at 30 September 2007, the calculation of gearing ratio was not applicable.

Capital Structure

Effective from 3 September 2007, the issued share capital of the Company has been increased from 28,060,000 shares to 70,150,000 by issuing bonus shares of 42,090,000 new shares to the shareholders on the basis of 2 existing shares for 3 bonus shares.

On 27 September 2007, the Company placed a total of 4,800,000 unlisted warrants (“Warrants”) to certain independent third parties (“Placees”) at an issue price of HK\$0.1 each. Each Warrant carries the right to subscribe for one share of the Company at a subscription price of HK\$0.7 per share for a period of 36 months commencing from the date of issue of the warrants, of which 500,000 Warrants had been exercised subsequent to the balance sheet date and 500,000 new shares of the Company had been issued and allotted on 3 December 2007.

The Company received a gross amount of HK\$480,000 from the placing of Warrants as mentioned above. The net proceeds of approximately HK\$400,000 had been fully applied for general working capital.

Significant Investments

The investment portfolio of the Group mainly comprises of listed securities in Hong Kong during the period. As a whole, the portfolio was carefully managed and being fully diversified to minimise commercial risk resulting from over concentration of the investment of the Group in any single industry.

During the period under review, the listed investment portfolio of the Group is focused in Hong Kong listed securities and covered various industry sectors.

Taking advantage of the booming in the equity market of the period under review, the Group disposed certain of its listed securities to realise certain profit and to diversify the exposure in different equities.

Foreign Exchange Risk

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 in Hong Kong Dollar, its exposure to fluctuations in exchange rates and any related hedges was minimal.

Material acquisition and disposal of subsidiary

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

Employees

As at 30 September 2007, the Company had retained four employees (2006: four employees). Total staff costs of the Company, excluding directors' remuneration, for the period under review amounted to approximately HK\$1,236,383 (2006: HK\$ 760,000). 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 2007, 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 will be turbulent 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 and capitalise the opportunities emerged in the turmoil of the stock market.

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.

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

As at 30 September 2007, 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
Dr. POON Ho-man	Interest in controlled corporation	12,940,000	18.45%

Note: Dr. 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

The Company's share option scheme (the "Scheme") was adopted by the sole shareholder of the Company by way of written ordinary resolution and written resolution 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 maximum number of shares in respect of which options may be granted under the Schemes 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 adoption of the Scheme. The Scheme Mandate Limit may be renewed by the approval of shareholders provided that the number of shares under outstanding options shall not exceed 30% of shares in issue from time to time. At the extraordinary general meeting of the Company held on 19 April 2006, the resolution for the refreshment of the 10% Scheme Mandate Limit was passed and the maximum number of shares in respect of which options may be granted under the refreshed Scheme Mandate Limit shall not exceed 2,406,000 shares.

Since the adoption of the Scheme, no share options have been granted, exercised, cancelled or lapsed up to the balance sheet as of 30 September 2007.

Subsequent to the balance sheet date, on 5 November 2007, the Company granted 280,000 options to certain directors and their respective associates of the Company under the share option scheme of the Company adopted on 31 August 2002. Each option carries the right to subscribe for one share of the Company at a subscription price of HK\$1.24 per share for a period of 36 months commencing from the date of grant.

On 5 November 2007, the Company also granted 1,720,000 options to certain employees and consultants of the Company under the share option scheme of the Company adopted on 31 August 2002. Each option carries the right to subscribe for one share of the Company at a subscription price of HK\$1.24 per share for a period of 36 months commencing from 6 November 2008.

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2007, 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
Planters Universal Limited (Note 1)	Beneficial owner	12,940,000	18.45%
Dr. POON Ho-man	Interest in controlled corporation	12,940,000	18.45%
CHEN Jui-yang	Beneficial owner	10,000,000	14.26%
GO-Long Mining Holdings Limited	Beneficial owner	6,252,000	8.91%
Linkasia Investment Limited (Note 2)	Beneficial owner	10,028,000	7.88%
BUDMIAN Leo	Interest in controlled corporation	10,028,000	7.88%
Li Kai Ning	Beneficial owner	3,600,000	5.13%

Notes:

1. Planter Universal Limited, a company incorporated in the British Virgin Islands, is wholly and beneficially owned by Dr. POON Ho-man, an executive director of the Company.
2. Linkasia Investment Limited, a company incorporated in the British Virgin Islands, is wholly and beneficially owned by Mr. BUDMIAN 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 of 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 to A.2.3, 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 officers should be separate and should not be performed by the same individual.

No chairman or chief executive officer had been appointed by the Company during the year. This constitutes a deviation from the code provision A.2.1 to A.2.3 of the Code. In view of the simple structure of the Company, all significant decision making is carried out by all executive directors of the Company while the day-to-day investment decision is based on the professional recommendation of the investment manager. The Board considers that this structure will not impair the balance of power and authority between the management of the Board and the management of its business.

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-existing directors of the Company is appointed for a specific term. This constitutes a deviation from the 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 conducting 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 2007.

BOARD OF DIRECTORS

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

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

Hong Kong, 18 December 2007