

# GARRON INTERNATIONAL LIMITED

## 嘉禹國際有限公司\*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1226)

## Interim Report 2008

For the six months ended 30 September 2008



\* For identification purpose only

## **CORPORATE INFORMATION**

### **STOCK CODE**

1226

### **BOARD OF DIRECTORS**

#### **Executive Directors:**

Dr. POON Ho-man

Mr. Jerry CHIOU

#### **Independent Non-executive Directors:**

Mr. HA Tak-kong

Mr. PENG Feng

Mr. TONG, I Tony

### **REMUNERATION COMMITTEE**

Dr. POON Ho-man

Mr. HA Tak-kong

Mr. PENG Feng

### **REGISTERED OFFICE**

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

### **PRINCIPAL PLACE OF BUSINESS IN HONG KONG**

Suite 4505, 45/F

Far East Finance Centre

16 Harcourt Road

Admiralty, Hong Kong

### **AUDITORS**

HLM & Co.

*Certified Public Accountants*

Room 305, 3/F

Arion Commercial Centre

2-12 Queen's Road West, Hong Kong

### **SHARE REGISTRARS AND TRANSFER OFFICE IN HONG KONG**

Tricor Standard Limited

26th Floor, Tesbury Centre

28 Queen's Road East, Wanchai

Hong Kong

### **PRINCIPAL BANKER**

Standard Chartered Bank

### **GROUP SECRETARY AND QUALIFIED ACCOUNTANT**

Ms. LEE Man Yin, Mary

### **WEBSITE**

<http://www.garroninternational.com>

The board of directors (the “Board”) of Garron International Limited (the “Company”) hereby presents the unaudited interim report and condensed consolidated financial statements of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 September 2008. The unaudited condensed consolidated 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 2008*

	<i>Notes</i>	<b>2008</b> <b>HK\$</b> <b>Unaudited</b>	2007 <b>HK\$</b> Unaudited Restated
<b>Revenue</b>	4	<b>152,670</b>	139,846
Net realised gain on disposal of financial assets at fair value through profit or loss	5	<b>168,663</b>	2,958,570
Net unrealised (loss)/gain on financial assets at fair value through profit or loss	5	<b>(1,801,060)</b>	5,402,994
Administrative expenses		<u><b>(5,189,691)</b></u>	<u>(3,561,792)</u>
<b>(Loss)/Profit before taxation</b>	5	<b>(6,669,418)</b>	4,939,617
Taxation	7	<u>–</u>	<u>–</u>
<b>(Loss)/Profit attributable to shareholders</b>		<u><b>(6,669,418)</b></u>	<u>4,939,617</u>
<b>Dividends</b>	8	<u><b>Nil</b></u>	<u>Nil</u>
<b>(Loss)/Earnings per share</b>	9		
– Basic		<u><b>(0.094)</b></u>	<u>0.070</u>
– Diluted		<u><b>N/A</b></u>	<u>0.069</u>

# CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 September 2008

	<i>Notes</i>	<b>30 September 2008 HK\$ Unaudited</b>	31 March 2008 HK\$ Audited
<b>Non-current assets</b>			
Property, plant and equipment	<i>10</i>	<b>254,911</b>	378,646
Available-for-sale financial assets	<i>11</i>	<b>82,143,880</b>	82,143,880
		<b><u>82,398,791</u></b>	<u>82,522,526</u>
<b>Current assets</b>			
Financial assets at fair value through profit or loss	<i>12</i>	<b>5,251,088</b>	9,278,748
Accounts receivable, prepayments and deposits		<b>964,008</b>	1,233,990
Bank and cash balances		<b>1,106,323</b>	454,731
		<b><u>7,321,419</u></b>	<u>10,967,469</u>
<b>Current liability</b>			
Other payables		<b>5,969,647</b>	3,910,014
<b>Net current assets</b>			
		<b><u>1,351,773</u></b>	<u>7,057,455</u>
<b>Net assets</b>			
		<b><u>83,750,563</u></b>	<u>89,579,981</u>
<b>Capital and reserves</b>			
Share capital	<i>13</i>	<b>14,130,000</b>	14,130,000
Reserves		<b>69,620,563</b>	75,449,981
<b>Shareholders' funds</b>			
		<b><u>83,750,563</u></b>	<u>89,579,981</u>
<b>Net assets value per share</b>			
	<i>15</i>	<b><u>1.19</u></b>	<u>1.27</u>

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2008

	Share capital HK\$	Share premium HK\$	Share option reserve HK\$	Warrant reserve HK\$	Investment revaluation reserve HK\$	Accumulated losses HK\$	Total HK\$
At 1 April 2007 (Audited)	5,612,000	33,958,649	-	-	-	(24,828,986)	14,741,663
Bonus shares issued	8,418,000	(8,418,000)	-	-	-	-	-
Issue of unlisted warrants	-	-	-	480,000	-	-	480,000
Profit for the six months ended 30 September 2007 (Unaudited)	-	-	-	-	-	4,939,617	4,939,617
<b>At 30 September 2007 (Unaudited)</b>	<b>14,030,000</b>	<b>25,540,649</b>	<b>-</b>	<b>480,000</b>	<b>-</b>	<b>(19,889,369)</b>	<b>20,161,280</b>
Issue of new shares upon exercise of warrants (Note a)	100,000	300,000	-	(50,000)	-	-	350,000
Equity-settled share option arrangements	-	-	1,384,719	-	-	-	1,384,719
Share issue expenses	-	(80,676)	-	-	-	-	(80,676)
Changes in fair value of available-for-sale financial assets	-	-	-	-	78,143,880	-	78,143,880
Loss for the six months ended 31 March 2008	-	-	-	-	-	(10,379,222)	(10,379,222)
<b>At 31 March 2008 (Audited)</b>	<b>14,130,000</b>	<b>25,759,973</b>	<b>1,384,719</b>	<b>430,000</b>	<b>78,143,880</b>	<b>(30,268,591)</b>	<b>89,579,981</b>
Issue of unlisted warrants	-	-	-	840,000	-	-	840,000
Loss for the six months ended 30 September 2008 (Unaudited)	-	-	-	-	-	(6,669,418)	(6,669,418)
<b>At 30 September 2008 (Unaudited)</b>	<b>14,130,000</b>	<b>25,759,973</b>	<b>1,384,719</b>	<b>1,270,000</b>	<b>78,143,880</b>	<b>(36,938,009)</b>	<b>83,750,563</b>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 September 2008

	<b>2008</b> <b>HK\$</b> <b>Unaudited</b>	2007 <i>HK\$</i> Unaudited
Net cash used in operating activities	<b>(341,078)</b>	(1,068,086)
Net cash generated from investing activities	<b>152,670</b>	139,847
Net cash generated from financing activities	<b>840,000</b>	480,000
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	<b>651,592</b>	(448,239)
CASH AND CASH EQUIVALENTS AT 1 APRIL	<b>454,731</b>	705,376
CASH AND CASH EQUIVALENTS AT 30 SEPTEMBER	<b>1,106,323</b>	257,137
ANALYSIS OF THE BALANCES OF CASH		
Bank and cash balances	<b>1,106,323</b>	257,137

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Six months ended 30 September 2008

### 1. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated interim 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”), the Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” and other applicable HKASs and Interpretations and the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

The condensed consolidated interim financial statements should be read in conjunction with the 2008 audited consolidated financial statements. The accounting policies and basis of preparation used in the preparation of condensed consolidated interim financial statements are consistent with those applied in the Group’s audited consolidated financial statements for the year ended 31 March 2008. The condensed consolidated interim financial statements have been prepared on the historical cost basis except for financial instruments, which are measured at fair values or revalued amounts, as appropriate.

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

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

HK(IFRIC) – Int 12	Service Concession Agreements
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The Group has not applied the following new and revised HKFRSs and HKASs, that have been issued but are not yet effective, in these interim financial statements:

HKAS 1 (Revised)	Presentation of Financial Statements <sup>1</sup>
HKAS 23 (Revised)	Borrowing Cost <sup>1</sup>
HKAS 27 (Revised)	Consolidated and Separate Financial Statements <sup>2</sup>
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation <sup>1</sup>
HKFRS 2 (Amendments)	Vesting Conditions and Cancellations <sup>1</sup>
HKFRS 3 (Revised)	Business Combinations <sup>2</sup>
HKFRS 8	Operating Segments <sup>1</sup>
HK(IFRIC) – Int 13	Customer Loyalty Programmes <sup>3</sup>
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate <sup>1</sup>
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation <sup>4</sup>

- <sup>1</sup> Effect for annual periods beginning on or after 1 January 2009  
<sup>2</sup> Effect for annual periods beginning on or after 1 July 2009  
<sup>3</sup> Effect for annual periods beginning on or after 1 July 2008  
<sup>4</sup> Effect for annual periods beginning on or after 1 October 2008

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of these new and revised HKFRSs may result in new or amended disclosures, they are unlikely to have a significant impact on the Group's results of operations and financial position.

### 3. SEGMENT INFORMATION

During the six months ended 30 September 2008 and 2007, the Group's turnover and operating results were mainly derived from the interest income and dividend income from investment holding. The Directors consider that these activities constitute one business segment since these transactions are subject to common risks and returns. Given the nature of the Group's operation is investment holding, it is not considered meaningful to provide a business segment analysis of operating results.

The Group's segment assets and liabilities, analysed by geographical market, are as follows:

	PRC (except Hong Kong)		Hong Kong		Total	
	30 September 2008 HK\$ Unaudited	31 March 2008 HK\$ Audited	30 September 2008 HK\$ Unaudited	31 March 2008 HK\$ Audited	30 September 2008 HK\$ Unaudited	31 March 2008 HK\$ Audited
Segment assets	<u>82,143,880</u>	<u>82,143,880</u>	<u>7,576,330</u>	<u>11,346,115</u>	<u>89,720,210</u>	<u>93,489,995</u>
Segment liabilities	<u>-</u>	<u>-</u>	<u>5,969,647</u>	<u>3,910,014</u>	<u>5,969,647</u>	<u>3,910,014</u>

### 4. REVENUE

An analysis of revenue is as follows:

	2008 HK\$ Unaudited	2007 HK\$ Unaudited
Interest income	1,343	7,712
Dividend income from financial assets at fair value through profit or loss	<u>151,327</u>	<u>132,134</u>
	<u>152,670</u>	<u>139,846</u>



## 5. (LOSS)/PROFIT BEFORE TAX

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

	<b>2008</b>	2007
	<i>HK\$</i>	<i>HK\$</i>
	<b>Unaudited</b>	Unaudited
Directors' remunerations		
– Fees	–	–
– Other remunerations	<b>1,320,000</b>	848,000
– Provident fund contributions	<b>6,000</b>	6,000
	<hr/>	<hr/>
Total directors' remunerations	<b>1,326,000</b>	854,000
	<hr/>	<hr/>
Staff costs		
Salaries	<b>653,484</b>	763,593
Provident fund contributions	<b>15,083</b>	13,400
	<hr/>	<hr/>
Total staff costs (excluding directors' remunerations)	<b>666,567</b>	776,993
	<hr/>	<hr/>
Depreciation	<b>123,735</b>	57,730
Investment manager fee	<b>494,895</b>	315,708
Rent and rates	<b>1,237,407</b>	144,125
Net unrealised loss/(gain) on financial assets at fair value through profit or loss	<b>1,801,060</b>	(5,402,994)
Net realised gain on disposal of financial assets at fair value through profit or loss	<b>(168,663)</b>	(2,958,570)
	<hr/> <hr/>	<hr/> <hr/>

## 6. DIRECTORS' REMUNERATION

The summary of directors' remuneration is as follows:

### For the six months ended 30 September 2008

	Directors' fee <i>HK\$</i> Unaudited	Salaries, allowances and benefits in kind <i>HK\$</i> Unaudited	Retirement scheme contributions <i>HK\$</i> Unaudited	Share-based payments <i>HK\$</i> Unaudited	Total <i>HK\$</i> Unaudited
Executive directors	–	1,320,000	6,000	–	1,326,000
Independent non-executive directors	–	–	–	–	–
	<u>–</u>	<u>1,320,000</u>	<u>6,000</u>	<u>–</u>	<u>1,326,000</u>

### For the six months ended 30 September 2007

	Directors' fee <i>HK\$</i> Unaudited	Salaries, allowances and benefits in kind <i>HK\$</i> Unaudited	Retirement scheme contributions <i>HK\$</i> Unaudited	Share-based payments <i>HK\$</i> Unaudited	Total <i>HK\$</i> Unaudited
Executive directors	–	848,000	6,000	–	854,000
Independent non-executive directors	–	–	–	–	–
	<u>–</u>	<u>848,000</u>	<u>6,000</u>	<u>–</u>	<u>854,000</u>

## 7. TAXATION

No provision for Hong Kong profits tax has been made as the companies comprising the Group have no estimated assessable profits arising in Hong Kong for the six months ended 30 September 2008 (2007: Nil).

	<b>2008</b> <b>HK\$</b> <b>Unaudited</b>	2007 HK\$ Unaudited
(Loss)/Profit before taxation	<u><b>(6,669,418)</b></u>	<u>4,939,617</u>
Tax at the domestic income tax rate of 16.5% (2007:17.5%)	<b>(1,100,454)</b>	864,433
Tax effect of expenses/(income) that are not deductible/(taxable) in determining taxable profit, net	<b>271,984</b>	(939,600)
Tax losses not recognized	<u><b>828,470</b></u>	<u>75,167</u>
Taxation charge	<u><b>-</b></u>	<u>-</u>

At the balance sheet date the Group has unused tax losses of approximately HK\$40.4 million (31 March 2008: HK\$35.4 million) 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\$6.7 million (31 March 2008: HK\$6.2 million) 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 utilized in the foreseeable future.

## 8. DIVIDENDS

The Board does not recommend the payment of any interim dividends for the six months ended 30 September 2008 (2007: Nil).

## 9. (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share is based on the Group's loss attributable to ordinary equity holders of the Company for the period under review of HK\$6,669,418 (2007: profit of HK\$4,939,617) and the weighted average of 70,650,000 (2007: 70,150,000) ordinary shares in issue during the period under review.

Diluted loss per share for the six months ended 30 September 2008 was not disclosed as there was no dilutive potential shares.

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.

## 10. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvement HK\$	Office equipment HK\$	Motor vehicle HK\$	Total HK\$
COST				
At 31 March 2008 and 1 April 2008	247,685	40,840	384,864	673,389
Additions	—	—	—	—
At 30 September 2008	<u>247,685</u>	<u>40,840</u>	<u>384,864</u>	<u>673,389</u>
DEPRECIATION AND IMPAIRMENT				
At 1 April 2007	—	—	125,081	125,081
Depreciation for the year	<u>51,601</u>	<u>2,602</u>	<u>115,459</u>	<u>169,662</u>
At 31 March 2008 and 1 April 2008	51,601	2,602	240,540	294,743
Depreciation for the period	<u>61,921</u>	<u>4,084</u>	<u>57,730</u>	<u>123,735</u>
At 30 September 2008	<u>113,522</u>	<u>6,686</u>	<u>298,270</u>	<u>418,478</u>
NET BOOK VALUE				
At 30 September 2008	<u>134,163</u>	<u>34,154</u>	<u>86,594</u>	<u>254,911</u>
At 31 March 2008	<u>196,084</u>	<u>38,238</u>	<u>144,324</u>	<u>378,646</u>

## 11. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Particulars of available-for-sale financial assets are as follows:

Name of investee company	Note	Place of incorporation	Percentage of interest held	Unlisted equity	Fair value adjustment HK\$	Carrying value HK\$
				securities, at cost HK\$		
Southwest Mining Investments Limited ("Southwest Mining)	(i)	The British Virgin Islands	30%	4,000,000	78,143,880	82,143,880

Available-for-sale financial assets are denominated in Renminbi 74,088,852.

Note:

- (i) On 24 December 2007, the Company acquired 30% equity interest of Southwest Mining with consideration of HK\$4,000,000, its principal activities is investment holding. In the opinion of the directors, the Group has not been in a position to exercise any significant influence over the financial and operating policies of Southwest Mining as the Group has no representative in the board of directors of Southwest Mining. Accordingly, Southwest Mining has been accounted for as an available-for-sale financial asset.

Southwest Mining holds 100% equity interest of a wholly owned foreign enterprise 貴州恒昌順投資管理有限公司 (“恒昌順”), which principal activities is investment holding and provision of consultancy and management services. 恒昌順 holds 51% equity interest of 興仁縣昱樟煤業有限公司 (“昱樟煤業”), which principal activities is coal mine exploration and selling. The main assets of 昱樟煤業 is 興仁縣四聯鄉昱樟煤礦 (“昱樟煤礦”). The fair value of 昱樟煤業 were valued by Grant Sherman Appraisal Limited, an independent firm of professional valuers, at approximately RMB469,200,000 through the application of the income approach technique known as discounted cash flow method. No dividend was received or receivable during the six months ended 30 September 2008. The directors considered there was no material changes in the fair value of the investment as at 30 September 2008.

## 12. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<b>30 September 2008 HK\$ Unaudited</b>	31 March 2008 HK\$ Audited
Financial assets at fair value through profit or loss:		
Listed in Hong Kong	<u><b>5,251,088</b></u>	<u>9,278,748</u>
Market value of listed financial assets at fair value through profit or loss	<u><b>5,251,088</b></u>	<u>9,278,748</u>

## 13. SHARE CAPITAL

	<i>Note</i>	<b>Number of ordinary shares of HK\$0.20 each</b>	<i>HK\$</i>
Authorised:			
At 31 March 2008 and 30 September 2008		<u>100,000,000</u>	<u>20,000,000</u>
Issued and fully paid:			
At 1 April 2007		28,060,000	5,612,000
Bonus shares issued	<i>a</i>	42,090,000	8,418,000
Issue of new shares upon exercise of warrants	<i>b</i>	<u>500,000</u>	<u>100,000</u>
At 31 March 2008 and 30 September 2008		<u><b>70,650,000</b></u>	<u><b>14,130,000</b></u>

*Note:*

- (a) On 3 September 2007, 42,090,000 ordinary shares were issued and allotted as fully paid up by way of two for three bonus issue in respect of which an amount of HK\$8,418,000 was charged to the share premium account.
- (b) On 3 December 2007, 500,000 ordinary shares were issued and allotted at the subscription price of HK\$0.7 per share by the exercise of warrants.

## 14. SHARE OPTIONS SCHEME

The Company's share option scheme ("Share Option Scheme") was adopted by an ordinary resolution of the Company on 31 August 2002 for the primary purpose of providing incentives to directors, eligible employees, advisers, consultants and business affiliates.

At 30 September 2008, the number of shares in respect of which options had been granted and remained outstanding under the Share Option Scheme was 9,000,000 (31 March 2008: 9,000,000) representing 12.74% (31 March 2008: 12.74%) of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under both scheme is not permitted to exceed 30% of the shares of the Company in issue at the time of listing.

The exercise price is determined by the Directors, and will not be less than the highest of (i) the closing price of the shares on the date of grant; (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the shares.

Details of the Company's Share Option Scheme are summarized as follow:

Date of grant	Outstanding at 1/4/2008	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding at 30/9/2008	Exercise period	Exercise price per share
<b>Category I: Directors</b>							
5/11/2007	210,000	-	-	-	210,000	6/11/2007-5/11/2010	HK\$1.24
22/11/2007	7,000,000	-	-	-	7,000,000	22/11/2007-21/11/2017	HK\$1.082
<b>Category II: Employees</b>							
5/11/2007	1,490,000	-	-	-	1,490,000	6/11/2007-5/11/2010	HK\$1.24
<b>Category III: Consultant</b>							
5/11/2007	300,000	-	-	-	300,000	6/11/2007-5/11/2010	HK\$1.24
	<u>9,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,000,000</u>		

## 15. WARRANTS

The Company has a total of 9,900,000 warrants outstanding at 30 September 2008 and its movements are as follows:

Date of grant	Note	Outstanding at 1/4/2008	Issued during the period	Exercised/ Lapsed during the period	Outstanding at 30/9/2008	Exercise period	Exercise price per share
27 September 2007	a	4,300,000	–	–	4,300,000	27/9/2007- 26/9/2010	HK\$0.70
30 April 2008	b	–	5,600,000	–	5,600,000	30/4/2008- 29/4/2010	HK\$0.60
		<u>4,300,000</u>	<u>5,600,000</u>	<u>–</u>	<u>9,900,000</u>		

*Note:*

- (a) On 27 September 2007, the Company placed a total of 4,800,000 unlisted warrants (“Warrants”) to certain independent third parties at an issue price of HK\$0.1 each of which 500,000 Warrants had been exercised and 500,000 new shares of the Company had been issued and allotted on 3 December 2007.
- (b) On 30 April 2008, the Company placed a total of 5,600,000 unlisted warrants (“Warrants”) to certain independent third parties at an issue price of HK\$0.15 each. No Warrants has been exercised during the six months ended 30 September 2008.

## 16. NET ASSETS VALUE PER SHARE

The calculation of net asset values per share is based on the net assets value of the Group as at 30 September 2008 of HK\$83,750,563 (31 March 2008: HK\$89,579,981) and 70,650,000 (31 March 2008: 70,650,000) ordinary shares in issue at that date.

## 17. RELATED PARTY TRANSACTIONS

During the six months ended 30 September 2008, the Group had entered into the following significant related party transactions which, in the opinion of the directors, were carried out on normal commercial terms and in the ordinary course of the Group's business:

	<b>2008</b> <b>HK\$</b> <b>Unaudited</b>	2007 <i>HK\$</i> Unaudited
Friedmann Pacific Asset Management Limited ( <i>note a</i> ) to which the following expenses were paid:		
Investment management fee ( <i>note b</i> )	<b>494,895</b>	180,928
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>-</u>	<u>69,200</u>

### Notes:

- (a) During the six months ended 30 September 2008, Mr. CHIOU Jerry and Mr. POON Ho-man 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 the balance sheet date.

- (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 defined in the agreement but the maximum aggregate annual value of the fee shall not be more than HK\$390,000.
- (c) During the six months ended 30 September 2008, Dr. POON Ho-man is a common director and has beneficial interests in Friedmann Pacific Securities Limited ("FPSL") at the balance sheet date.
- (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 was HK\$5,000 per month payable on the first day of every calendar month. The agreement has been terminated on 14 October 2007.



- (e) During the six months ended 30 September 2008, Dr. POON Ho-man is a common director and has beneficial interests in Friedmann Pacific Financial services Limited (“FPFSL”) at the balance sheet date.
- (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 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. This agreement has been terminated on 23 September 2007.

Remuneration for key management personnel, amounts paid to the directors of the Company is as follows:

	<b>2008</b>	2007
	<b>HK\$</b>	HK\$
	<b>Unaudited</b>	Unaudited
Directors’ fee	–	–
Salaries, allowance and benefits in kind	<b>1,320,000</b>	848,000
Mandatory Provident Fund Contribution	<b>6,000</b>	6,000
	<u><b>1,326,000</b></u>	<u>854,000</u>

## 18. COMMITMENTS

At the balance sheet date, the Group had outstanding minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	<b>30 September</b>	31 March
	<b>2008</b>	2008
	<b>HK\$</b>	HK\$
	<b>Unaudited</b>	Audited
Within one year	<b>2,527,480</b>	2,577,600
In the second to fifth year inclusive	–	1,238,680
	<u><b>2,527,480</b></u>	<u>3,816,280</u>

Operating leases are negotiated and payments are fixed for an average of 2 years.

## 19. COMPARATIVE AMOUNTS

Certain gains or losses from financial assets previously classified as turnover are reclassified and separately disclosed in the income statement in order to better reflect their nature and conform with current period’s presentation.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business and Financial Review

The investment portfolio of the Group mainly comprises of listed securities in Hong Kong and unlisted equity securities in the PRC during the year. 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 Group in any single industry. The Group reported a net loss of HK\$6,669,418 for the period under review, comparing to the net profit of HK\$4,939,617 recorded for the corresponding period last year. The substantial increase in loss during the period was mainly due to the recent extremely turbulent securities market.

With regard to the 30% equity interest in the unlisted equity securities of Southwest Mining Investments Limited (“Southwest Mining”) acquired on 24 December 2007, the 興仁縣四聯昱樟煤礦 (“昱樟煤礦”) in the PRC is still under development stage.

### Future developments

The Group expects that the global financial market will continue to be volatile in the second half of the year. In view this financial turmoil, the Group will prudently manage its investment portfolio for the long-term benefit of its shareholders and capitalize on any arising investment opportunities.

### Liquidity and Financial Resources

As at 30 September 2008, the Group had total assets of HK\$89,720,210 (31 March 2008: HK\$93,489,995), of which the non-current portion and the current portion were HK\$82,398,791 (31 March 2008: HK\$82,522,526) and HK\$7,321,419 (31 March 2008: HK\$10,967,469) respectively which was financed by current liabilities of HK\$5,969,647 (31 March 2008: HK\$3,910,014) and shareholders’ funds of HK\$83,750,563 (31 March 2008: HK\$89,579,981).

The Group’s current ratio, calculated on the basis of the total current assets over total current liabilities was approximately 1.23 (31 March 2008: 2.80) and the gearing ratio, calculated on the basis of the total liabilities over total shareholders’ fund, was approximately 0.07 (31 March 2008: 0.04) as at 30 September 2008. The Company recorded a decrease in current ratio and increase in gearing for the period ended 30 September 2008 as the Company continued to experience a net operating loss throughout the period.

### Capital Structure

There has been no change in the share capital structure during the six months ended 30 September 2008 except on 25 March 2008, the Company entered into a placing agreement with Friedmann Pacific Securities Limited to place a total of 5,600,000 unlisted warrants (“Warrants”) to certain independent third parties (“Placees”) at an issue price of HK\$0.15 each. Each Warrant carries the right to subscribe for one share of the Company at a subscription price of HK\$0.60 per share for a period of 24 months commencing from the date of issue of the Warrants. The placing of Warrants was completed on 30 April 2008 with a proceed of HK\$840,000 which had been fully applied for general working capital.

## **Significant Investments**

The investment portfolio of the Group mainly comprises of listed securities in Hong Kong and unlisted equity securities in the PRC during the 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 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.

With regard to the investment in unlisted equity securities in the PRC, the Group acquired 30% equity interest of Southwest Mining on 24 December 2007 with the consideration of HK\$4,000,000. The principal activities of Southwest Mining is investment holding. In the opinion of the directors, the Group has not been in a position to exercise any significant influence over the financial and operating policies of Southwest Mining as the Group has no representative in the board of directors of Southwest Mining. Accordingly, Southwest Mining has been accounted for as an available-for-sale financial asset. Southwest Mining holds a 100% equity interest in a foreign enterprise incorporated in the PRC, 貴州恒昌順投資管理有限公司, which indirectly holds a 51% equity interest in 興仁縣四聯昱樟煤礦 (“昱樟煤礦”). The fair value of 昱樟煤礦 was valued by an independent firm of professional valuers, at approximately RMB469,200,000 as at 31 March 2008 through the application of the income approach technique known as discounted cash flow method. The Directors considered there was no material changes in the fair value of the investment as at 30 September 2008.

## **Foreign Currency Risk**

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to Renminbi (“RMB”). Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations. The Group is mainly exposed to fluctuation in exchange rate of Renminbi (“RMB”) against HK\$. As the exposure to fluctuations in exchange rate of HK\$ is considered to be minimal, no hedging against foreign currency exposure is necessary.

## **Material Acquisition and Disposal of Subsidiary**

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

## **Employees**

As at 30 September 2008, the Company had retained four employees (2007: four employees). Total staff costs of the Company, including directors’ remuneration, for the six months ended 30 September 2008 amounted to approximately HK\$1,993,000 (2007: HK\$1,631,000). 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 and Contingent Liabilities**

Throughout the six months period ended 30 September 2008, assets of the Company were free from any form of legal charge. In addition, the Company did not have any significant contingent liabilities.

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

As at 30 September 2008, 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 Directors	Number of shares the Company	Number of underlying of shares of the Company	Total	Approximate percentage of shareholding
Dr. Poon Ho-man	12,940,000 (Note 1)	7,070,000 (Note 2)	20,010,000	28.32%
Ha Tak-kong	–	70,000 (Note 3)	70,000	0.10%
Tong, I Tony	–	70,000 (Note 3)	70,000	0.10%
Peng Feng	–	70,000 (Note 3)	70,000	0.10%

Notes:

1. Dr. Poon Ho-man, an executive director of the Company, is deemed to be interested in these shares by virtue of his 100% interest in Planters Universal Limited, a company incorporated in the British Virgin Islands.
2. Dr. Poon Ho-man is interested in 7,000,000 share options conferring rights to subscribe for 7,000,000 shares of the Company. Save for which, Dr. Poon Ho-man is deemed to be interested in 70,000 share options held by his spouse, conferring rights to subscribe for 70,000 shares of the Company.
3. Each of Ha Tak-kong, Tong, I Tony and Peng Feng is interested in 70,000 share options conferring rights to subscribe for 70,000 shares of the Company.

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.

## ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the period was the Company, or any of its subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of the Company or any other body corporate and neither the Directors nor any of their spouses or children under 18 years of age, had any right to subscribe for shares or debt securities of the Company, or had exercised any such rights during the period under review.

## SUBSTANTIAL SHAREHOLDERS

As at 30 September 2008, 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 ( <i>Note 1</i> )	Beneficial owner	12,940,000	18.45%
CHEN Jui-yang ( <i>Note 2</i> )	Beneficial owner	7,000,000	9.91%
Linkasia Investment Limited ( <i>Note 3</i> )	Beneficial owner	5,528,000	7.82%
BUDIMAN Leo ( <i>Note 3</i> )	Interest in controlled corporation	5,528,000	7.82%

### Notes:

1. Planters Universal Limited is beneficially interested in 12,940,000 shares of the Company as at 30 September 2008. The entire shares in Planters Universal Limited are beneficially owned by Dr. Poon Ho Man. The interests of Dr. Poon Ho Man in the Company are stated under the section headed "Directors' and Chief Executives' Interests in Equity or Debt Securities".
2. Mr. Chen Yui Yang, is interested in 7,000,000 shares as at 30 September 2008. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Mr. Chen Yui Yang has no relationship with any Directors, senior management or other substantial or controlling Shareholders.
3. To the best of Directors' knowledge, information and belief, having made all reasonable enquiries, the 5,528,000 Shares are beneficially owned by Linkasia Investment Limited as at 30 September 2008. The entire shares in Linkasia Investment Limited are beneficially owned by Mr. Budiman Leo, an independent third party, and Mr. Budiman Leo is therefore deemed to be interested in 5,528,000 Shares.

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.

## **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.

## **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 2008.

## **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**  
**Dr. POON Ho-man**  
*Executive Director*

Hong Kong, 24 December 2008