



大唐投資國際有限公司*
Grand Investment International Ltd

(Incorporated in Bermuda with limited liability)

ANNUAL REPORT 2004



*For identification purpose only

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Ms Chung Wing Han Wendy

Mr Fong Chi Wah

Mr Chou Ping-chun, Benji

Non-Executive Director

Mr Lee Woo Sing

Independent Non-executive Directors

Dr Wong Yu Hong Philip

Mr Yao Cho Fai Andrew

Dr Zhang Hongru

COMPANY SECRETARY

Ms Chung Wing Han Wendy

AUDIT COMMITTEE

Dr Wong Yu Hong Philip

Mr Yao Cho Fai Andrew

Dr Zhang Hongru

INVESTMENT MANAGER

AVANTA Investment (International) Limited

Unit 1701, Tower Two

Lippo Centre

89 Queensway

Hong Kong

CUSTODIAN

Wing Hang Bank, Limited

161 Queen's Road Central

Hong Kong

PRINCIPAL BANKER

Wing Hang Bank, Limited

161 Queen's Road Central

Hong Kong

REGISTERED OFFICE

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit B, 22nd Floor, Entertainment Building

30 Queen's Road Central

Hong Kong

AUDITORS

BKR Lew & Barr Limited

12th Floor Dina House

Ruttonjee Centre

11 Duddell Street

Hong Kong

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong

Investor Services Limited

Rooms 1901-1905, 19th Floor

Hopewell Centre

183 Queen's Road East

Hong Kong

CHAIRMAN'S STATEMENT

The year 2003 presented great challenges for Hong Kong as the moderate economic recovery had influenced the market conditions for the finance industry. Fortunately, Grand Investment International Ltd. has made substantial progress through the support of our shareholders and strategic partners.

China has become one of the driving forces of the Asian economy since its entrance into the World Trade Organization (WTO). Hong Kong is one of the leading financial center in Asia and it provides a platform for a wide range of services and business to the Mainland China especially through the Closer Economic Partnership Arrangement (CEPA). With positive sentiment and continuous demand, the economic recovery in Hong Kong is expected to accelerate once again.

Our Company will continue to engage principally in investments in Hong Kong and the People's Republic of China ("PRC"). We aim to achieve short to medium term capital appreciation, which we hope to bring desirable return to our shareholders. Our investments target well-established public and private enterprises that possess potential prospects for profit and growth. We also evaluate enterprises based on their management strength, technical expertise and competitive products. Furthermore, we aim to take advantage of the favorable position of Hong Kong within the PRC in order to maximise our profitability.

It is our objective to distribute profit from our investments to our shareholders and enhance their investment value in Grand Investment International Ltd.. May we join together to embark on a new journey of success.

Thank you.

Lee Woo Sing

Chairman

Hong Kong, 27 July 2004

MANAGEMENT DISCUSSION AND ANALYSIS

The board of directors (the "Board") of Grand Investment International Ltd. (the "Company") is pleased to present to the shareholders the annual report for the period from its date of incorporation on 15 April 2003 to 31 March 2004.

BUSINESS REVIEW

The Company is an investment company with the principal investment objective of achieving earnings in the form of short to medium term (i.e. less than one year to five years) capital appreciation through investing in a diversified portfolio of investments in listed or unlisted enterprises incorporated or established and/or conducting business in Hong Kong and the People's Republic of China (the "PRC").

In March 2004, by way of subscription, 4,000,000 ordinary shares were issued raising a sum of HK\$4,000,000 and by a subsequent private placement ("Placing") by the Company, the Company issued 55,000,000 ordinary shares raising a further sum of HK\$55 million.

From its incorporation to 31 March 2004, the Company did not carry on any investing activities. No revenue generating transactions occurred during the period under review.

As at 31 March 2004, total market value of the Company's trading and investment securities amounted to HK\$NIL.

For the financial period under review, the Company recorded a net loss of HK\$74,000. This was entirely attributed to the set up cost of the Company.

As it is intended that the funds raised by way of the Placing be used for investment opportunities, the Board has resolved not to recommend a dividend for the period ended 31 March 2004.

Subsequent to the period under review, at 2 April 2004, the Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2004, the Company was in a healthy liquidity position, with cash and bank balances of HK\$58 million. As all the retained cash was placed in Hong Kong Dollars short-term deposits with a major bank in Hong Kong, exposure to exchange fluctuation is considered minimal. The Board believes that the Company has sufficient financial resources to satisfy its immediate investments and working capital requirements.

The Company had net assets of HK\$55 million and no borrowings or long-term liabilities as at 31 March 2004, which put the Company in an advantageous position to pursue its investment strategies and investment opportunities.

CHARGE ON COMPANY'S ASSETS AND CONTINGENT LIABILITIES

As at 31 March 2004, there were no charges on the Company's assets or any significant contingent liabilities.

The calculation of debt to equity ratio (expressed as a percentage of bank and other borrowings over total net assets of the Company) is not applicable.

CAPITAL EXPENDITURES AND COMMITMENTS

During the period under review, the Company made no capital expenditures nor any other commitments.

CAPITAL STRUCTURE

On 13 February 2004, the authorised share capital of the Company was increased from HK\$100,000 to HK\$20 million by the creation of a further 199 million shares of HK\$0.10 each. Details of the movements in share capital of the Company during the period under review are set out in note 10 to the financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS

PURCHASE, SALE OR REDEMPTION

During the period under review, the Company has not purchased, sold or redeemed any of its shares.

USE OF PROCEEDS

The net proceeds of the Placing (together with the net tangible assets of the Company) will be applied in investments in accordance with the investment objective and policies of the Company, subject to the investment restrictions, the requirements of the Memorandum of Association and the bye-laws of the Company, the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") and the investment management agreement. Any proceeds not deployed will be placed on deposits in Hong Kong dollars or any currency with financial institutions in Hong Kong or may be invested in debt securities, money market instruments, bonds, treasury securities or other instruments in any currency.

EMPLOYEES

As at 31 March 2004, the Company had 7 employees, including the executive and non-executive directors of the Company. Total staff cost for the period under review amounted to HK\$NIL. The Company's remuneration policies are in line with the prevailing market practice and are determined on the basis of the performance and experience of the individual employees. The size of the Company is expected to remain more or less the same in the coming year.

During the period under review, no option has been granted or agreed to be granted under the share option scheme and no rights to subscribe for securities of the Company were granted or agreed to be granted.

PROSPECTS

In May 2004, the Company began investing in several Hong Kong and PRC opportunities. The Company will continue identifying and pursuing investment opportunities in Hong Kong and the PRC in accordance with the Company's investment objectives and policies.

The remarkable economic growth in the PRC is expected to continue in the coming years. Direct foreign investments in the PRC will also be strong and positive. The Board believes that Hong Kong can take advantage of the booming economy of the PRC to sustain a strong rebound of domestic economy in the coming years. The Company will closely monitor its underlying investment portfolio and make further investments and/or divestments to capture the opportunities that arise in Hong Kong and/or the PRC.

The Company has an optimistic view on Hong Kong's economic prospect, and will work closely with its investment manager to identify suitable investment targets and to continue to make investments with substantial growth potential in short to medium term in order to maximise return to the shareholders. We are of the opinion that any short-term turbulence in the capital market may actually represent opportunities to acquire profitable investment.

APPRECIATION

On behalf of the Board, I would like to express my appreciation to the shareholders for their continued support and to the investment manager for their dedicated efforts in helping to launch the Company and facilitate the Company's listing on the Stock Exchange.

On behalf of the Board

Lee Woo Sing

Chairman

Hong Kong, 21 July 2004

BIOGRAPHICAL DETAILS OF DIRECTORS

EXECUTIVE DIRECTORS

Ms. Chung Wing Han Wendy, is an executive Director and the company secretary to the Company. Ms. Chung holds a master's degree in business administration majoring in management information systems from University of Wollongong, Australia. Ms. Chung joined the Stock Exchange during the period from 1987 to 1993. From 1995 onwards, she has been involved in the securities industry with primary duties of overseeing the management and administrative functions of the company she has served. She is a licensed person for the regulated activities of dealing in securities, dealing in futures contracts and advising on securities under the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong ("SFO"). Ms. Chung is also a fellow member of The Association of Chartered Certified Accountants, an associate member of Hong Kong Society of Accountants and a member of Hong Kong Securities Institute.

Mr. Fong Chi Wah, is an executive Director. Mr. Fong holds a bachelor's degree majoring in management sciences (economics) from Lancaster University in the United Kingdom and holds three master's degrees, including a master's degree in business administration from Warwick University, United Kingdom, a master's degree in investment management from Hong Kong University of Science and Technology, and a master's degree in practising accounting from Monash University, Australia. Mr. Fong is a Chartered Financial Analyst, a Certified Practising Accountant (Australia), a member of the Institute of Certified Management Accountants, Australia, the Hong Kong Institute of Directors and the Institute of Management Consultants Hong Kong. He is a licensed person for the regulated activity of asset management under the SFO.

Mr. Fong started his career as an accountant at KPMG, Peat Marwick in 1986. From January 1989, he joined AIA Capital Corporation Limited as an accountant and subsequently became an analyst in January 1990 and was responsible for preparing financial analyses for the evaluation of various projects and assisting in the evaluation of investment opportunities. From September 1993 to May 1996, he was the general manager of ING Consultants Co. Ltd. in Beijing. His duties included proposing credit structures for financing requirements of enterprises and joint ventures operating in the PRC; providing financial advisory services related to foreign companies' investments. Mr. Fong was an assistant vice president at ING Barings, Hong Kong from May 1996 to October 1998, whose responsibility was to develop business with multinational clients and their subsidiaries operating in the Greater China Region, propose credit structures and financial packages to meet the needs of clients. From July 1999 to December 2002, he was a director of Baring Capital (China) Management Limited.

Mr. Chou Ping-chun, Benji, is an executive Director. Mr. Chou holds a master's degree in business administration from Anderson Graduate School of Management at University of California Los Angeles, USA and a bachelor's degree in statistics from Cheng-Chi University, Taiwan. He is a licensed person for the regulated activities of advising on securities and asset management under the SFO. Mr. Chou has been a director of the AVANTA Investment (International) Limited ("AVANTA") since January 1999 and is responsible for identifying target companies for investments, negotiating appropriate terms and conditions, performing valuation and execution, monitoring the investments and providing investment and disposition recommendations. Mr. Chou has approximately ten years' experience in investment management. As an executive director of AVANTA, he participated in the management of the investment fund with fund size of approximately HK\$32 million as of 31 March 2003 for Everest International Investments Limited (stock code: 204) (of which Mr. Chou was an ex-executive director), which was a client of AVANTA from April 2000 to April 2003.

BIOGRAPHICAL DETAILS OF DIRECTORS

NON-EXECUTIVE DIRECTOR

Mr. Lee Woo Sing, is a non-executive Director and the Chairman of the Company. He is currently a non-executive Director of Qin Jia Yuan Media Services Co. Ltd. (stock code: 2366). Mr. Lee has over 54 years' experience in the securities and finance industry. During the period from 1956 to 2003, Mr. Lee took up senior management position in the securities/finance industry and was responsible for supervising the daily operations, formulating the business objective and strategies, and monitoring the investment performance of securities companies with which he was in charge. During the period from 1995 to March 2003, Mr. Lee was registered as a dealer with the Securities and Futures Commission of Hong Kong under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong) (which was replaced and repealed by the SFO) and a dealing director with the Stock Exchange respectively. He was also one of the Founding Committee Members of the Stock Exchange, the Financial Securities Advisor of Tianjin, the PRC and a member of the China National Committee of Pacific Economic Cooperation Business Forum. Mr. Lee is currently the Honorary Advisor to the Chinese Gold & Silver Exchange Society, the Honorary President of the Institute of Securities Dealers Limited, a member of the Board of Trustee for Chinese University of Hong Kong, the Honorary Citizen of Tianjin, PRC, the Honorary Chairman of the Native Friendship Association of Zhejiang Province, the Honorary Professor of Zhejiang University, the Chairman of Shanghai Fraternity Association and the Honorary Chairman of Ning Po Residents Association.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Wong Yu Hong Philip, is an independent non-executive Director. He also holds a doctor's degree in law from Southland University, USA and a doctor's degree in engineering from California Coast University, USA. He is currently a non-executive director and chairman of Qin Jia Yuan Media Services Co. Ltd. (stock code: 2366), an independent non-executive director of Hop Hing (Holdings) Limited (stock code: 47), Asia Financial Holdings Limited (stock code: 662), Goldlion Holdings Limited (stock code: 533) respectively, which are companies listed on the Main Board of the Hong Kong Stock Exchange. Dr. Wong is also a Deputy of the National People's Congress of the PRC, a member of the Hong Kong Legislative Council (the Chairman of the Finance Committee) and a member of the Hong Kong Trade Development Council.

Mr. Yao Cho Fai Andrew, is an independent non-executive Director. Mr. Yao graduated from the University of California, Berkeley with a bachelor's degree in finance and holds a master's degree in business administration from Harvard University Graduate School of Business Administration, USA. He is currently the chairman and chief executive officer of Van Shung Chong Holdings Limited (stock code: 1001), which is a company listed on the Main Board in Hong Kong and an executive director and the chairman of iSteelAsia.com Limited (stock code: 8080), which is a company listed on GEM in Hong Kong.

Dr. Zhang Hongru, is an independent non-executive Director. Dr. Zhang is an executive director and general manager of Tianjin Development Holdings Limited (stock code: 882), which is a company listed on the Main Board in Hong Kong. Dr. Zhang is also a director and general manager of Tsinlien Group Company Limited. He is qualified as a senior economist and an attorney in the PRC. He is also a part-time professor of Nankai University, the PRC.

REPORT OF THE DIRECTORS

The Directors have pleasure in presenting their first report and the audited financial statements of the Company for the period from 15 April 2003 (Date of Incorporation) to 31 March 2004 (the "Period").

PRINCIPAL ACTIVITY

The Company was incorporated on 15 April 2003 as an exempted Company with limited liability in Bermuda. The Company is an investment company and is principally engaged in investments in listed or unlisted enterprises established in Hong Kong and in the People's Republic of China.

The shares of the Company are listed on the Main Board of The Stock Exchange of Hong Kong Limited with effect from 2 April 2004 (the "Listing Date"). The Company had not commenced any operation or business before the Listing Date.

FINANCIAL RESULTS

The loss and cash flows of the Company for the Period and the state of affairs of the Company at 31 March 2004 are set out in the financial statements on pages 14 to 17.

DIVIDENDS

The Directors do not recommend the payment of any dividends for the Period.

FINANCIAL SUMMARY

A summary of the results and assets and liabilities of the Company for the Period is set out on page 24.

RESERVES

Details of the movements in reserves during the Period are set out in note 11 to the financial statements.

SHARE CAPITAL

Details of the movements in share capital during the Period are set out in note 10 to the financial statements.

PURCHASE, SALE OR REDEMPTION OF OWN SHARES

The Company has not purchased, sold or redeemed any of its shares during the Period.

SHARE OPTION SCHEME

There were no share options granted under the share option scheme adopted by the Company during the Period. Details of the share option scheme are set out in note 13 to the financial statements.

DIRECTORS

The Directors who held office during the Period and up to the date of this report were:

Executive Directors

Ms. Chung Wing Han Wendy	(Appointed on 22 April 2003)
Mr. Fong Chi Wah	(Appointed on 13 February 2004)
Mr. Chou Ping-chun, Benji	(Appointed on 13 February 2004)
Mr. Huang Zhonghe Brad	(Appointed on 13 February 2004 and resigned on 27 February 2004)

REPORT OF THE DIRECTORS

DIRECTORS *(continued)*

Non-executive Director

Mr. Lee Woo Sing (Chairman) *(Note)* (Appointed on 22 April 2003)

Independent non-executive Directors

Dr. Wong Yu Hong Philip (Appointed on 13 February 2004)

Mr. Yao Cho Fai Andrew (Appointed on 13 February 2004)

Dr. Zhang Hongru (Appointed on 13 February 2004)

In accordance with Bye-law 113(A) of the Company's Bye-laws, Ms. Chung Wing Han Wendy and Mr. Chou Ping-chun, Benji, shall retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The term of office for all Directors of the Company is subject to retirement by rotation and re-election at the annual general meeting in accordance with the Bye-Laws of the Company.

Note: The appointment of Mr. Lee Woo Sing was changed from an Executive Director of the Company to a Non-executive Director of the Company with effect from 27 February 2004.

DIRECTORS' SERVICE CONTRACTS

Executive Directors

Ms. Chung Wing Han Wendy, Mr. Fong Chi Wah and Mr. Chou Ping-chun, Benji all entered into Service Agreements with the Company on 13 February 2004. The Service Agreements took effect on 2 April 2004 ("Commencement Date") for an initial term of three years, which will be renewed automatically for successive terms of one year each from the Commencement Date. Either party may at any time after the expiration of the first 24 months of the term be entitled to terminate the Service Agreement, provided that not less than three months' prior written notice be given to the other party.

Each Executive Director is entitled to a basic salary, subject to an annual increment of not more than 10% of the annual salary at the time of the relevant review at the discretion of the Directors, provided that the salary will not be adjusted prior to 31 March 2005. The Executive Directors may, at the discretion of the Board, be granted share options entitling them to subscribe for shares in the Company under the share option scheme, if any, from time to time adopted by the Company in accordance with the terms and conditions of such share option scheme. Ms. Chung Wing Han Wendy is entitled to a management bonus in respect of the financial year ending 31 March 2005 and each financial year thereafter of the Company in an amount to be determined by the Directors in their absolute discretion (provided that the total amount of bonuses payable to her and all the Executive Directors in respect of any financial year of the Company shall not exceed 5% of the audited net profit of the Company in respect of that financial year of the Company).

The term of office of each non-executive and independent non-executive Director is the period up to his retirement by rotation in accordance with the Company's bye-laws.

Save as disclosed above, no other Director has entered into a service agreement with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN SHARES

None of the Directors of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company.

DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance to which the Company was a party and in which any Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the Period or at any time during the Period.

DIRECTORS' RIGHT TO ACQUIRE SHARES AND DEBENTURES

At no time during the Period was the Company a party to any arrangements to enable the Directors of the Company to acquire benefits by means of acquisition of shares in or debentures of the Company.

SUBSTANTIAL SHAREHOLDERS

At the balance sheet date, as far as the Directors are aware:

- (a) no person or entity will be, directly or indirectly, interested in 10% or more of the voting power of any general meetings of the Company or otherwise interested in 10% or more of the issued share capital of the Company;
- (b) the following entity/person will have an interest or short position in the ordinary shares of the Company and the underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (Cap 571) (the "SFO"):

	Name of Substantial shareholder	Capacity	Number of Shares	Approximate percentage of existing shareholding
1.	Optimize Capital Investments Limited ("Optimize Capital") (Note 1)	Beneficial owner	5,000,000 (long position) (Note 1)	8.33%
2.	Lee Tak Lun (Note 1)	Interest of a controlled corporation (Note 1)	5,000,000 (long position) (Note 1)	8.33%

Note:

1. Optimize Capital is a company incorporated in the British Virgin Islands, and is owned as to 90% by Mr Lee Tak Lun and as to 10% by his daughter, Ms Lee Wai Tsang Rosa. Mr Lee Tak Lun is the son of Mr Lee Woo Sing. Mr Lee Woo Sing is a non-executive Director.

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS *(continued)*

Save as disclosed above, as far as the Directors are aware, no other person had an interest or short position in the shares or the underlying shares of the Company which would fall to be disclosed to the Company under the provisions of the Divisions 2 and 3 of Part XV of the SFO, or which was recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO as at 31 March 2004.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial parts of the business of the Company were entered into or existed during the Period.

CONNECTED TRANSACTIONS

Investment Management Agreement

Pursuant to the Investment Management Agreement dated 13 February 2004, the Company appointed AVANTA Investment (International) Limited as its investment manager to provide the Company with investment management services for an initial term of two years commencing on the Listing Date and renewable automatically for successive terms of one year commencing from the day after the expiry of the initial term. The investment management fee of HK\$400,000 per annum, is payable in 12 equal monthly installments in advance.

As the terms of the Investment Management Agreement did not commence until the Listing Date, no investment management fee was paid by the Company during the Period.

AVANTA Investment (International) Limited is regarded as a connected person of the Company under Rule 21.13 of the Listing Rules. Accordingly, the Investment Management Agreement constituted a connected transaction of the Company.

Custodian Agreement

Pursuant to the Custodian Agreement, the Company appointed Wing Hang Bank, Limited as its custodian on 14 February 2004. The custodian has agreed to provide the Company with custodian services in respect of, among others, the safe custody of cash and document of title, physical settlement of the securities in the investment portfolio of the Company and the collection of dividends and other entitlements in respect of such securities. The Custodian Agreement commences on the Listing Date and will continue to be in force until terminated by either the Company or the custodian by giving to the other not less than three months advance notice in writing.

Pursuant to the Custodian Agreement, a one-off set up fee of HK\$30,000, a monthly fixed custody fee of HK\$3,000 (subject to adjustment) and certain charges at the agreed rates (subject to revision by the custodian from time to time) for the provision of securities are payable by the Company to the custodian.

As the terms of the Custodian Agreement did not commence until the Listing Date, no custodian fee and other charges were paid by the Company during the Period.

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 connected transaction of the Company.

In the opinion of the independent non-executive directors of the Company, the transactions contemplated under the Investment Management Agreement and the Custodian Agreement are on normal commercial terms and were fair and reasonable as far as the shareholders of the Company are concerned.

REPORT OF THE DIRECTORS

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights in respect of the shares of the Company under the Company's Bye-Laws although there are no restrictions against such rights under the laws of Bermuda.

AUDIT COMMITTEE

The Company established an Audit Committee on 13 February 2004 with written terms of reference in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules. The principal duties of the Audit Committee are to review and supervise the financial reporting procedures and internal control system of the Company. The Audit Committee, comprising of the three independent non-executive Directors, has reviewed with the management the accounting principles and practices adopted by the Company and has discussed the auditing, internal control and financial reporting matters for the Period.

CODE OF BEST PRACTICE

The Company has complied with the Code of Best Practice as set out in Appendix 14 to the Listing Rules throughout the Period, except that non-executive directors of the Company were not appointed for a specified term but are subject to retirement by rotation and re-election at the annual general meeting of the Company according to the provision of its bye-laws.

AUDITORS

The auditors, BKR Lew & Barr Limited, a corporation of Certified Public Accountants, were appointed as auditors of the Company following the resignation of KPMG on 17 June 2004. BKR Lew & Barr Limited will retire at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Lee Woo Sing

Chairman

Hong Kong, 21 July 2004

REPORT OF THE AUDITORS

劉
白 **BKR Lew & Barr Ltd**

Certified Public Accountants

12th Floor, Dina House
Ruttonjee Centre
11 Duddell Street
Hong Kong

Tel : (852) 2521 2328
Fax : (852) 2525 9890
Email : letters@lew barr.com
Website : www.bkrlewbarr.com

REPORT OF THE AUDITORS TO THE MEMBERS OF
GRAND INVESTMENT INTERNATIONAL LTD
(incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 14 to 23 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company as at 31 March 2004 and of its loss and cash flows for the period from 15 April 2003 (Date of Incorporation) to 31 March 2004 and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

BKR Lew & Barr Limited
So Kwok Keung Keith

Director

Practising Certificate No. P1724

Hong Kong, 21 July 2004

INCOME STATEMENT

*For the period from 15 April 2003
(Date of incorporation) to 31 March 2004*

	<i>Note</i>	<i>HK\$'000</i>
Turnover	3	–
Administrative expenses		<u>(74)</u>
Loss before taxation	4	(74)
Taxation	5	<u>–</u>
Loss for the period		<u><u>(74)</u></u>
Loss per share (cents)	8	<u><u>(0.1)</u></u>

The notes on pages 18 to 23 form an integral part of these financial statements.

BALANCE SHEET

At 31 March 2004

	Note	HK\$'000
CURRENT ASSETS		
Bank balances		58,664
CURRENT LIABILITIES		
Other payable and accrued expenses		2,207
Amount due to a shareholder	9	1,465
		<u>3,672</u>
NET ASSETS		
		<u>54,992</u>
CAPITAL AND RESERVES		
Share capital	10	6,000
Reserves	11	48,992
SHAREHOLDERS' FUNDS		
		<u>54,992</u>
NET ASSET VALUE PER SHARE (CENTS)		
	12	<u>92</u>

Lee Woo Sing
Director

Chung Wing Han, Wendy
Director

The notes on pages 18 to 23 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the period from 15 April 2003
(Date of incorporation) to 31 March 2004

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
Issues of shares (<i>Note 10</i>)	6,000	53,100	–	59,100
Listing expenses	–	(4,034)	–	(4,034)
Net loss for the period	–	–	(74)	(74)
At 31 March 2004	<u>6,000</u>	<u>49,066</u>	<u>(74)</u>	<u>54,992</u>

The notes on pages 18 to 23 form an integral part of these financial statements.

CASH FLOW STATEMENT

For the period from 15 April 2003
(Date of incorporation) to 31 March 2004

HK\$'000

OPERATING ACTIVITIES

Loss before taxation (74)

Operating cash flow before movement in working capital (74)

Increase in other payable and accrued expenses 2,207

Increase in amount due to a shareholder 1,465

NET CASH FROM OPERATING ACTIVITIES 3,598

FINANCING ACTIVITIES

Net proceeds from issues of shares 55,066

NET CASH FROM FINANCING ACTIVITIES 55,066

CASH AND CASH EQUIVALENTS AT END OF THE PERIOD 58,664

ANALYSIS OF THE BALANCE OF CASH AND CASH EQUIVALENTS

Bank balances 58,664

The notes on pages 18 to 23 form an integral part of these financial statements.

1. GENERAL

The Company is a limited company incorporated in Bermuda on 15 April 2003 as an exempted company.

The Company is principally engaged in investments in listed or unlisted enterprises established in Hong Kong and in the People's Republic of China. At the balance sheet date, the Company did not commence any operation or business.

The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 2 April 2004.

2. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with generally accepted accounting principles in Hong Kong and with accounting standards issued by the Hong Kong Society of Accountants. The financial statements are prepared under the historical cost convention.

(a) Cash equivalents

Cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and which are within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance.

(b) Impairment

At each balance sheet date, the company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

(c) Preliminary Expenses

Preliminary expenses are charged to the income statement in the period as incurred.

3. TURNOVER AND REVENUES

No analysis of the Company's turnover and contribution to operating loss for the period set out by principal activities and geographical market is provided, as the Company did not commence any operation or business during the period ended 31 March 2004.

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 31 March 2004

4. LOSS BEFORE TAXATION

The loss before taxation is arrived at after charging:

	Period from 15/4/2003 (Date of incorporation) to 31/3/2004 HK\$'000
Auditors' remuneration	30
Preliminary expenses	<u>44</u>

5. TAXATION

(a) No provision for Hong Kong profits tax has been made in the accounts as the Company has no assessable profits for the period.

(b) The Company did not have any material unprovided deferred taxation as at 31 March 2004.

6. DIRECTORS' EMOLUMENTS

None of the Directors' fees or emoluments in respect of their services to the Company were paid or are payable during the Period.

7. NET LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders is dealt with in the financial statements of the Company to the extent of the loss of HK\$74,000.

8. LOSS PER SHARE

The calculation of loss per share is based on the net loss attributable to the shareholders for the period of HK\$74,000 and on 60,000,000 ordinary shares in issue during the Period. The Company has no potential dilutive ordinary shares that were outstanding during the Period.

9. AMOUNT DUE TO A SHAREHOLDER

The amount due is unsecured, interest free and has no fixed repayment terms.

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 31 March 2004

10. SHARE CAPITAL

HK\$'000

Authorised:

200,000,000 ordinary shares of HK\$0.10 each 20,000

Issued and fully paid:

60,000,000 ordinary shares of HK\$0.10 each 6,000

The Company was incorporated with an authorised share capital of HK\$100,000, with 1,000,000 ordinary shares of HK\$0.10 each, all of which were allotted and issued at par on 22 April 2003.

By an ordinary resolution passed on 13 February 2004, the authorised share capital was increased to HK\$20 million divided into 200 million ordinary shares of HK\$0.10 each by the creation of a further 199 million ordinary shares of HK\$0.10 each. Such new shares ranked *pari passu* as regards to dividends and in all respects with the existing ordinary capital of the Company.

On 31 March 2004, 59 million ordinary shares with par value of HK\$0.10 each were issued at a price of HK\$1.00 each for cash to broaden the capital base of the Company. These additional shares comprised 55 million ordinary shares offered by way of private placements and 4 million ordinary shares subscribed by a substantial shareholder, Optimize Capital Investments Limited pursuant to the terms of a subscription agreement entered into with the Company on 13 February 2004.

11. RESERVES

	Share premium <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
Issues of shares at premium	53,100	–	53,100
Listing expenses	(4,034)	–	(4,034)
Loss for the period	–	(74)	(74)
At 31 March 2004	<u>49,066</u>	<u>(74)</u>	<u>48,992</u>

12. NET ASSET VALUE PER SHARE

The calculation of net asset value per share is based on the net assets of HK\$54,992,000 and the 60,000,000 ordinary shares in issue as at 31 March 2004.

13. SHARE OPTION SCHEME

The Company had conditionally approved by resolutions in writing of its sole shareholder at the time of Share Option Scheme on 13 February 2004, under which certain selected classes of participants (including, amongst others, full-time employees) may be granted options to subscribe for ordinary shares of the Company (the "Shares"). The Share Option Scheme was not in place on the balance sheet date but was approved by the Stock Exchange of Hong Kong Limited upon the Listing of the Shares on 2 April 2004.

The following is a summary of the pertinent terms of the Share Option Scheme.

The purpose of the Share Option Scheme is to enable the Company to grant options to selected participants as incentives or rewards for their contribution to the Company, if any.

The Directors may, at their absolute discretion, grant options to any employee, any Executive or Non-executive Directors, any persons that provides research, development or other technological support to the Company, any shareholder, any advisor or consultant, and/ any joint venture partner or business alliance that co-operates with the Company.

(i) Maximum number of the Shares

- (a) The maximum number of Shares which may be allotted and issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme(s) of the Company must not in aggregate exceed 30 per cent. of the share capital of the Company in issue from time to time.
- (b) The total number of Shares which may be allotted and issued upon the exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme and any other share option scheme(s) of the Company) to be granted under the Share Option Scheme and any other share option scheme of the Company must not in aggregate exceed 10 per cent. of the Shares in issue ("General Scheme Limit").
- (c) Subject to (a) above and without prejudice to (d) below, the Company may seek approval of the Shareholders in general meeting to refresh the General Scheme Limit provided that the total number of Shares which may be allotted and issued upon the exercise of all options to be granted under the Share Option Scheme and any other share option scheme(s) of the Company must not exceed 10 per cent. of the Shares in issue as at the date of approval of the limit and, for the purpose of calculating the limit, options (including those outstanding, cancelled, lapsed or exercised in accordance with the Share Option Scheme and any other share option scheme(s) of the Company) previously granted under the Share Option Scheme and any other share option scheme(s) of the Company will not be counted.
- (d) Subject to (a) above and without prejudice to (c) above, the Company may seek separate approval of the Shareholders in general meeting to grant options under the Share Option Scheme beyond the General Scheme Limit or, if applicable, the extended limit referred to in (c) above to participants specifically identified by the Company before such approval is sought.

13. SHARE OPTION SCHEME *(continued)***(ii) Maximum entitlement of each participant**

The total number of Shares issued and which may fall to be issued upon the exercise of the options granted under the Share Option Scheme and any other share option scheme(s) of the Group (including both exercised or outstanding options) to each participant in any 12-month period shall not exceed 1 per cent. of the issued share capital of the Company for the time being.

(iii) Grant of options to connected persons

Any grant of options under the Share Option Scheme to a Director, chief executive or substantial shareholder or any of their respective associates must be approved by the independent non-executive Directors.

Certain grant of options to a substantial shareholder or an independent non-executive Director, must be approved by the Shareholders in general meeting.

(iv) Time of acceptance and exercise of option

An option may be accepted by a participant within 21 days from the date of the offer of grant of the option.

The maximum period that an option may be exercised from the time it is granted is 10 years. There is no minimum period required under the Share Option Scheme for the holding of an option before it can be exercised.

(v) Performance targets

No performance targets are specifically stipulated under the Share Option Scheme.

(vi) Subscription price for the Shares

The subscription price for the Shares under the Share Option Scheme shall be a price determined by the Directors but shall not be less than the highest of (aa) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet for trade on the date of the offer of grant which must be a business day; (bb) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of the offer of grant which must be a business day; and (cc) the nominal value of the Shares. A nominal consideration of HK\$1 is payable on acceptance of the grant of an option.

(vii) Restrictions on the time of grant of options

No offer for the grant of options shall be made after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been published in newspapers.

(viii) Period of the Share Option Scheme

The Share Option Scheme will remain in force for a period of 10 years commencing on the date on which the Share Option Scheme becomes unconditional.

13. SHARE OPTION SCHEME *(continued)*

(ix) Adjustments to the subscription price

In the event of a capitalisation issue, rights issue, sub-division or consolidation of the Shares or reduction of capital of the Company whilst an option remains exercisable such corresponding alterations, if any, certified by the auditors for the time being or an independent financial adviser to the Company as fair and reasonable will be made to the number or nominal amount of the Shares the subject matter of the Share Option Scheme and the option granted and so far as granted and unexercised and/or the subscription price.

(x) Termination of the Share Option Scheme

The Company may by resolution at general meeting at any time terminate the operation of the Share Option Scheme and in such event no further options shall be offered.

(xi) Lapse of option

An option shall lapse automatically on the earliest of the expiry of the period referred to in paragraph (iv) and the expiry of the periods or dates of the following:

- Cessation of employment of a grantee;
- Death, ill-health, or retirement of a grantee;
- Dismissal of a grantee;
- Breach of contract by a grantee;
- Holder of the Shares accepting a general offer, a compromise, or arrangement; and
- The Company undergoing a voluntary winding-up.

14. RELATED PARTY TRANSACTIONS

During the period ended 31 March 2004, the Company had not entered into any related party transactions, save for those mentioned under the connected transactions in the Report of the Directors.

15. COMPARATIVE FIGURES

This is the first set of financial statements prepared by the Company and, accordingly, there are no comparative figures.

16. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 21 July 2004.

FINANCIAL SUMMARY

For the period ended 31 March 2004

**Period from
15/4/2003
(Date of incorporation)
to 31/3/2004
HK\$'000**

RESULTS

Turnover	—
Loss before taxation	(74)
Taxation	—
Loss attributable to shareholders	(74)

ASSETS AND LIABILITIES

Total assets	58,664
Total liabilities	(3,672)
Shareholders' funds	54,992
NET ASSET VALUE PER SHARE (CENTS)	92