



GR INVESTMENT INTERNATIONAL LIMITED
金源投資國際有限公司

(Incorporated in Bermuda with limited liability)



Interim Report 2004

Unaudited Interim Results

The Board of Directors (the "Board") of GR Investment International Limited (the "Company") announces the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2004 (the "Period"), together with the comparative figures for the corresponding period in 2003, as follows:

Condensed Consolidated Income Statement

	Notes	For the six months ended 30 June	
		2004 Unaudited HK\$	2003 Unaudited HK\$
Turnover	2	1,245,423	1,442,854
Other revenues		523,924	368,713
		1,769,347	1,811,567
Investment management fee		(1,836,796)	(1,644,211)
Staff costs		(392,119)	(383,156)
Depreciation		(44,587)	(44,175)
Other operating expenses		(1,947,475)	(1,414,906)
Total operating expenses		(4,220,977)	(3,486,448)
Operating loss	3	(2,451,630)	(1,674,881)
Finance costs	4	(928,499)	—
Share of net profits/(losses) of jointly controlled entities		1,132,963	(1,808,104)
Share of net profits/(losses) of associates		1,765,702	(3,305,104)
Gain on disposal of interest in a jointly controlled entity		—	5,583,473
Loss on disposal of interest in associates		(1,407,961)	—
Loss before taxation		(1,889,425)	(1,204,616)
Taxation	5	(310,869)	(541,128)
Loss attributable to shareholders		(2,200,294)	(1,745,744)
Loss per share	6	(0.51) cent	(1.50) cents

Condensed Consolidated Balance Sheet

	Notes	30 June 2004 Unaudited HK\$	31 December 2003 Audited HK\$
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		90,288	123,904
Investments in associates		13,562,305	19,032,227
Interests in jointly controlled entities		30,057,544	31,568,928
Investment securities		116,270,401	98,222,947
Held-to-maturity debt securities		23,400,000	—
Other asset		150,000	150,000
		183,530,538	149,098,006
Current assets			
Held-to-maturity debt securities		5,040,000	5,040,000
Other receivables	7	17,647,690	20,741,917
Amount due from Sinox Fund Management Limited		1,440,103	2,547,897
Cash with brokers		214,336	190,138
Cash and bank balances		56,440,703	97,544,558
		80,782,832	126,064,510
Current liabilities			
Other payables	8	16,265,182	24,839,426
Provision for taxation		13,315,445	13,390,053
		29,580,627	38,229,479
Net current assets		51,202,205	87,835,031
Net assets		234,732,743	236,933,037
CAPITAL AND RESERVES			
Share Capital	9	43,195,200	43,195,200
Reserves	10	191,537,543	193,737,837
Shareholders' funds		234,732,743	236,933,037
Net asset value per share	11	0.54	0.55

Condensed Consolidated Statement of Changes in Equity

	Reserves						Total HK\$
	Share capital HK\$	Share premium HK\$	Capital reserve on consolidation HK\$	Contributed surplus HK\$	Exchange fluctuation reserve HK\$	Accumulated losses HK\$	
At 1 January 2003	8,999,000	166,327,220	468,163	80,991,000	(4,194,214)	(35,044,264)	217,546,905
Shares issued during the year	34,196,200	3,237,490	—	5,761,510	—	—	43,195,200
Realisation of exchange fluctuation on disposal of a jointly controlled entity	—	—	—	—	972,797	—	972,797
Loss for the year	—	—	—	—	—	(24,781,865)	(24,781,865)
At 31 December 2003 and 1 January 2004	43,195,200	169,564,710	468,163	86,752,510	(3,221,417)	(59,826,129)	236,933,037
Loss for the Period	—	—	—	—	—	(2,200,294)	(2,200,294)
At 30 June 2004	43,195,200	169,564,710	468,163	86,752,510	(3,221,417)	(62,026,423)	234,732,743

Condensed Consolidated Cash Flow Statement

	For the six months ended	
	30 June	
	2004	2003
	Unaudited	Unaudited
	HK\$	HK\$
NET CASH INFLOW/(OUTFLOW) FROM:		
OPERATING ACTIVITIES	419,271	(21,170,571)
INVESTING ACTIVITIES	(41,498,929)	30,445,810
FINANCING ACTIVITIES	—	10,798,800
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(41,079,658)	20,074,039
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	97,734,697	42,498,674
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	56,655,039	62,572,713
ANALYSIS OF THE BALANCE OF CASH AND CASH EQUIVALENTS		
Cash with brokers	214,336	907
Cash and bank balances	56,440,703	62,571,806
	56,655,039	62,572,713

Notes to the Condensed Financial Statements

For the six months ended 30 June 2004

1. Basis of presentation and accounting policies

The condensed financial statements of the Group are 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 ("Listing Rules") and the Hong Kong Statements of Standard Accounting Practice ("SSAP") No.25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants.

The accounting policies adopted in these condensed financial statements are consistent with those followed in the preparation of the Group's audited annual financial statements for the year ended 31 December 2003.

2. Turnover and segmental information

An analysis of the Group's unaudited turnover and operating loss by principal activity and geographical segment is as follows:

	Turnover for the six months ended 30 June		Operating loss for the six months ended 30 June	
	2004 HK\$	2003 HK\$	2004 HK\$	2003 HK\$
By principal activity:				
Management fees from jointly controlled entities	213,831	376,529	(3,483,222)	(2,741,206)
Dividend income from investment securities	1,031,592	1,066,325	1,031,592	1,066,325
	1,245,423	1,442,854	(2,451,630)	(1,674,881)
			Turnover for the six months ended 30 June	
			2004 HK\$	2003 HK\$
By geographical segment:				
The People's Republic of China:				
Hong Kong			1,031,592	1,066,325
Other regions			213,831	376,529
			1,245,423	1,442,854

Given the nature of the Group's operations as investment holding and the way in which costs are allocated, it is not considered meaningful to provide geographical analysis of operating loss.

3. Operating loss

	For the six months ended 30 June	
	2004 HK\$	2003 HK\$
Unaudited operating loss is arrived at after charging/(crediting):		
Amortization of goodwill	—	91,494
Interest income	(76,980)	(328,559)

4. Finance Costs

	For the six months ended 30 June	
	2004 HK\$	2003 HK\$
Interest on amount due to a related company	928,499	—

5. Taxation

Taxation in the unaudited consolidated income statement represents:

	For the six months ended 30 June	
	2004 HK\$	2003 HK\$
Company and subsidiaries		
Hong Kong profits tax	—	—
Overseas taxation	4,969	203,577
Jointly controlled entities and associated companies		
Share of taxation attributable to jointly controlled entities	305,900	337,551
Share of taxation attributable to associated companies	—	—
	310,869	541,128

Hong Kong profits tax has not been provided as the individual companies comprising the Group do not have assessable profit arising in Hong Kong during the Period.

Taxation of other jurisdiction is calculated at the rates prevailing in the relevant jurisdictions.

No deferred tax has been provided in the condensed financial statements as there is no material timing difference.

6. Loss per share

The calculation of the loss per share is based on the following data:

	For the six months ended 30 June	
	2004 HK\$	2003 HK\$
Loss attributable to shareholders	(2,200,294)	(1,745,744)
Weighted average number of ordinary shares	431,952,000	116,042,354

Weighted average number of ordinary shares in 116,042,354 for the six months ended 30 June 2003 was adjusted for the effects of open offer and consolidation of shares for that period.

7. Other receivables

The ageing analysis of the other receivables is as follows:

	30 June 2004 Unaudited HK\$	31 December 2003 Audited HK\$
Within 3 months	500,000	1,924,743
3 to 6 months	—	—
6 to 12 months	—	16,000,000
Over 1 year	13,311,645	—
	13,811,645	17,924,743
Others	3,836,045	2,817,174
	17,647,690	20,741,917

8. Other payables

The ageing analysis of the other payables is as follows:

	30 June 2004 Unaudited HK\$	31 December 2003 Audited HK\$
Within 3 months	—	—
3 to 6 months	—	—
6 to 12 months	—	—
Over 1 year	—	—
	—	—
Others	16,265,182	24,839,426
	16,265,182	24,839,426

9. Share capital

	30 June 2004		31 December 2003	
	Number of shares	Nominal Value HK\$	Number of shares	Nominal Value HK\$
Ordinary shares of HK\$0.10 each (2002: HK\$0.01 each)				
Authorized:				
At beginning of the period	3,000,000,000	300,000,000	30,000,000,000	300,000,000
Consolidation of shares	—	—	(27,000,000,000)	—
At end of the period	3,000,000,000	300,000,000	3,000,000,000	300,000,000
Issued and fully paid:				
At beginning of the period	431,952,000	43,195,200	899,900,000	8,999,000
Issue of shares	—	—	179,980,000	1,799,800
Consolidation of shares	—	—	(971,892,000)	—
Issue of consolidated shares	—	—	323,964,000	32,396,400
At end of the period	431,952,000	43,195,200	431,952,000	43,195,200

10. Reserves

	30 June 2004 Unaudited HK\$	31 December 2003 Audited HK\$
Capital reserve on consolidation	468,163	468,163
Share Premium	169,564,710	169,564,710
Contributed surplus	86,752,510	86,752,510
Exchange fluctuation reserve	(3,221,417)	(3,221,417)
Accumulated losses	(62,026,423)	(59,826,129)
	191,537,543	193,737,837

11. Net asset value per share

Net asset value per share is computed based on the net assets of HK\$234,732,743 (31 December 2003: HK\$236,933,037) and the number of issued and fully paid up shares of 431,952,000 (31 December 2003: 431,952,000) as at 30 June 2004.

Disclosure Pursuant to Rules 13.13 and 13.16 of the Listing Rules**Advance to entities under Rule 13.13 of the Listing Rules**

Details of the relevant advance to entities by the Group as at 30 June 2004 in which individually exceeds the relevant percentage ratios of 8% under Rule 13.13 of the Listing Rules are as follows:

Entities	Attributable interest held by the Group %	Interest bearing advances (A) HK\$'000	Non-interest bearing advances (B) HK\$'000	Guarantees given (C) HK\$'000	Extent of guaranteed facilities utilized HK\$'000	Aggregate of advances and guarantees given (A+B+C) HK\$'000	Notes
Dragon Fortune Limited	18.00%	–	48,140	–	–	48,140	a
Fortune Leader Overseas Chinese (Daiyawan) Real Estate Development Company Limited	14.40%	–	–	13,573	13,573	13,573	b
Fortune Leader Overseas Chinese (Daiyawan) Investment Company Limited	14.40%	–	–	9,855	9,855	9,855	c
Aggregate of Dragon Fortune Limited and its subsidiaries		–	48,140	23,428	23,428	71,568	d
Yuen Loong Steel Company Limited	–	13,312	–	–	–	13,312	e

Notes:

- The advances were made as shareholder's loans to finance the investment made by Dragon Fortune Limited ("Dragon Fortune") and were interest free, unsecured and repayable on demand.
- The entire paid up capital of Fortune Leader Overseas Chinese (Daiyawan) Real Estate Development Company Limited ("FL Real Estate") is owned as to 80% by Fortune Leader Investment Limited ("FLIL"), a direct wholly-owned subsidiary of Dragon Fortune, and as to 20% by an independent third party, who is not connected with any of the directors, chief executive or substantial shareholders of the Company or its subsidiaries or any of their respective associates. The guarantee was given for loan facilities granted to FL Real Estate.

- c. The entire paid up capital of Fortune Leader Overseas Chinese (Daiyawan) Investment Company Limited ("FL Investment") is owned as to 80% by FLIL, a direct wholly-owned subsidiary of Dragon Fortune, and as to 20% by an independent third party, who is not connected with any of the directors, chief executive or substantial shareholders of the Company or its subsidiaries or any of their respective associates. The guarantee was given for loan facilities granted to FL Investment.
- d. Aggregated pursuant to Rule 13.11(2)(c) of the Listing Rules.
- e. The interest bearing advance was made as loan to Yuen Loong Steel Company Limited, it carried interest at Hong Kong dollar prime rate and was unsecured and with maturity date on 9 March 2005.

Financial assistance and guarantees given for facilities granted to affiliated companies under Rule 13.16 of the Listing Rules

Details of the financial assistance and guarantees given for facilities granted to affiliated companies by the Group as at 30 June 2004 in aggregate exceeds the relevant percentage ratios of 8% under Rule 13.16 of the Listing Rules are as follows:

Affiliated Companies	Attributable interest held by the Group %	Interest bearing advances (A) HK\$'000	Non-interest bearing advances (B) HK\$'000	Guarantees given (C) HK\$'000	Extent of guaranteed facilities utilized HK\$'000	Aggregate of advances and guarantees given (A+B+C) HK\$'000	Notes
Luck Point Investments Limited	35.00%	—	5,022	—	—	5,022	a
Happy Online Group Limited	33.75%	—	172	—	—	172	b
Shanghai Tian An Bearing Company Limited	30.00%	—	93	—	—	93	c
Bright Honest Limited	25.00%	—	8,000	—	—	8,000	d
Total		—	13,287	—	—	13,287	e

The proforma combined balance sheet of the above affiliated companies as at 30 June 2004 is as follows:

	HK\$'000
Non-current assets	51,909
Current assets	157,473
Current liabilities	44,975
Net current assets	112,498
Non-current liabilities	57,547
Shareholders' funds	106,860

Notes:

- a. The advances were made as shareholder's loans to finance the investment made by Luck Point Investments Limited and were interest free, unsecured and repayable on demand.
- b. The advances were made as shareholder's loans to finance the investment made by Happy Online Group Limited and were interest free, unsecured and repayable on demand.
- c. The advances were current account balances for management fee receivable from Shanghai Tian An Bearing Company Limited and were interest free, unsecured and repayable on demand.
- d. The advances were made as shareholder's loans to finance the investment made by Bright Honest Limited and were interest free, unsecured and repayable on demand.
- e. Aggregated pursuant to Rule 13.16 of the Listing Rules.

Interim Dividend

The Board resolved not to pay an interim dividend for the six months ended 30 June 2004 (2003: Nil).

Review and Outlook

During the Period under review, information in relation to those matters set out in paragraph 32 of Appendix 16 to the Listing Rules and the performance of the investment projects of the Group have not been changed materially since the most recent published annual report.

The Global and Hong Kong economies seem to be growing steadily in the first-half year of 2004. Result from the macro economic measures implemented for adjusting the Mainland economy begins to show and the likelihood of increasing in interest rates in the United States has also become obvious. These are the factors that have been putting much concern to investors over the first half-year of 2004. Looking ahead, the Board believes that the business environment is going to remain challenging and highly competitive and both the Global and Hong Kong economies will be blooming steadily.

The Group has continued to focus its efforts in rationalizing its investment portfolio. Pursuant to an agreement dated 11 September 2003, the Group committed to dispose its 35% equity interest in Shanghai Foodstuffs Factory Company Limited to a third party for a consideration of RMB4.8 million (approximately HK\$4.5 million). Approval for the sale from relevant government authorities have been issued and the said consideration has been fully received in early September 2004.

On 9 September 2004, GR Investment Holdings Limited ("GRIHL"), an indirect wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with Citydragon Resources Limited, an indirect wholly-owned subsidiary of Golden Resources Development International Limited which is a substantial shareholder of the Company incorporated in Bermuda and listed in Hong Kong, for the sale of the entire equity interest of the paid-up registered capital of Sun Kai Yip (Shanghai) Industrial Investments Limited ("SKY"), a wholly-owned subsidiary of GRIHL incorporated in the People's Republic of China ("PRC"), for a total consideration of approximately HK\$65 million. The said consideration will be received in two instalments, the first instalment of the consideration in a sum of HK\$40 million will be received upon completion of the sale and the second instalment of the consideration in a sum of approximately HK\$25 million should be received within six months after the completion of the sale. The Board believes that the realization of its investment in SKY at a reasonable price is in the best interest of the Group and its shareholders.

With our strong cash flow and solid financial position, the Group will continue to evaluate potential investments with a view of gaining high investment returns and yields for our shareholders.

Liquidity and Financial Resources

Operations of the Group are generally financed through internal cash resources. As at 30 June 2004, cash and bank balances of the Group were approximately HK\$57 million. With cash and other current assets of approximately HK\$81 million as at 30 June 2004, the Group has sufficient financial resources to satisfy its commitments and working capital requirements.

Use of Proceeds

The net proceeds received from the issue of new ordinary shares of the Company on 16 July 2003 by way of an Open Offer to qualifying shareholders on the basis of three offer shares for every one Consolidated Share held were approximately HK\$32 million. The usage of the proceeds up to 30 June 2004 was as follows:

- as to approximately HK\$28 million for the investment in listed securities and other investments in Hong Kong; and
- as to approximately HK\$4 million as general working capital of the Group.

The actual and intended applications of the net proceeds are consistent with the reasons for the Open Offer as set out in the prospectus of the Company dated 25 June 2003.

Capital Structure

During the Period, the share capital structure of the Company remained the same as that as at 31 December 2003.

Employees And Remuneration Policy

Total number of employees for the Group is about 8. Remuneration policies are reviewed by the Group from time to time. In addition to salary payments, other fringe benefits for the staff include retirement benefits scheme. The contributions to the retirement benefits scheme for the staff of the Company's subsidiary operating in the PRC are charged to the income statement as they become payable. The only obligation of the Group with respect to the scheme is to make the specified contributions.

Directors' Interests and Short Positions in the Shares, Underlying Shares and Debentures

As at 30 June 2004, none of the directors nor any of their associates had any interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO.

Directors' Rights to Acquire Shares

The Company has adopted a share option scheme on 10 December 2001 which will remain in force for a period of 5 years.

No option was granted, exercised, lapsed or cancelled during the Period or remained outstanding as at 30 June 2004.

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company 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 the chief executive, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company.

Substantial Shareholders

As at 30 June 2004, the following persons had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions in shares of the Company

Name	Personal * Interests	Family + Interests	Corporate # Interests	Total Interests	Percentage of issued share capital of the Company	Notes
Golden Resources Development International Limited	—	—	86,202,000	86,202,000	19.95%	1
Baron Strategic Holdings Limited	—	—	78,261,016	78,261,016	18.12%	2
Wan Chuen Chung, Joseph	—	—	78,261,016	78,261,016	18.12%	2
Aimstar Investments Limited	—	—	34,000,000	34,000,000	7.87%	3
Sze Sun Sun, Tony	—	—	34,000,000	34,000,000	7.87%	3
Cosmopolitan International Holdings Limited	—	—	29,092,084	29,092,084	6.74%	

* Beneficial owner

+ Interests of spouse

Interests beneficially held by the company itself or through companies controlled by it

Notes:

- The corporate interests of Golden Resources Development International Limited were attributable on account through a number of its wholly-owned subsidiaries. Ringo Resources Limited held 86,202,000 shares and was a wholly-owned subsidiary of Better Choice Investments Limited which in turn was a wholly-owned subsidiary of Reo Developments Limited. Reo Developments Limited was a wholly-owned subsidiary of Golden Resources Development International Limited. Accordingly, Better Choice Investments Limited, Reo Developments Limited and Golden Resources Development International Limited were all deemed to be interested in the 86,202,000 shares held by Ringo Resources Limited.
- International Securities Investments Limited held 78,261,016 shares and was a wholly-owned subsidiary of Baron Capital Limited. Baron Capital Limited was a wholly-owned subsidiary of Baron Strategic Holdings Limited, which in turn was wholly-owned by Mr. Wan Chuen Chung, Joseph. Accordingly, Baron Capital Limited, Baron Strategic Holdings Limited and Mr. Wan Chuen Chung, Joseph were all deemed to be interested in the 78,261,016 shares held by International Securities Investments Limited.
- Aimstar Investments Limited was wholly-owned by Mr. Sze Sun Sun, Tony. Mr. Sze Sun Sun, Tony was therefore deemed to be interested in the 34,000,000 shares held by Aimstar Investments Limited.

Save as disclosed above, as at 30 June 2004, the directors were not aware of any other person who had an interest or short position in the shares or underlying shares of the Company as recorded in the register that required to be kept by the Company pursuant to Section 336 of the SFO and/or were directly or indirectly interested in 5% or more of the nominal value of the share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group.

Purchase, Sale or Redemption of Shares of the Company

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the Period.

Audit Committee

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the unaudited consolidated interim financial statements and the interim report for the six months ended 30 June 2004. The audit committee comprises two independent non-executive directors namely Mr. Yan Mou Keung, Ronald and Mr. Chan Fai Yue, Leo so as to ensure that the Code of Best Practice as set out in Appendix 14 of the Listing Rules (the "Code of Best Practice") can be duly compiled with. Meetings of the audit committee will be held at least twice annually.

Code of Best Practice

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not, during the Period, in compliance with the Code of Best Practice except that the independent non-executive directors of the Company are not appointed for a specific term as they are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Company's Bye-Laws.

Board of Directors

As at the date of this report, the Board of the Company comprises two executive directors, namely Mr. Lam Wo and Mr. Cheuk Yuk Lung and two independent non-executive directors, namely Mr. Yan Mou Keung, Ronald and Mr. Chan Fai Yue, Leo.

On behalf of the Board

LAM Wo
Chairman

Hong Kong, 16 September 2004