

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 year ended 31 March 2005.

BUSINESS REVIEW

The Company was listed on the Hong Kong Stock Exchange on 2 April 2004. Net proceeds from the Company's offer for subscription of an aggregate of 55 million ordinary shares having a nominal value of HK\$0.10 each at a placing price of HK\$1.00 by way of private placements to professional investors in Hong Kong and institutional, professional, corporate or individual investors outside Hong Kong amounted to approximately HK\$51 million. As at 31 March 2005, the investment portfolio of the Company consisted of listed securities in Hong Kong with a total market value of HK\$11,542,000 (2004: HK\$NIL) and unlisted securities of HK\$19,825,000 (2004: HK\$NIL); the balance of the net proceeds of about HK\$25,479,000 was held as cash at a bank and a financial institution. The investment portfolio of unlisted securities is comprised of convertible notes receivable, bearing interest from 0.8% to 1.5% per month, and convertible redeemable preference shares. These unlisted investments are stated at cost less any impairment loss that is other than temporary.

For the year under review, the Company recorded a net profit of HK\$2,890,000 (2004: loss of HK\$74,000) which was attributable to realised gain of HK\$2,313,000 (2004: HK\$NIL) arising from the disposal of trading securities and unrealised holding gain of HK\$1,917,000 (2004: HK\$NIL) arising from the Company's investment in listed securities.

In the year under review, the Hong Kong economy continued on its recovery with a real GDP growth of 8.1% in 2004 and a first quarter growth of 6.0% for 2005. On a seasonally adjusted quarter-to-quarter comparison, GDP expanded for the seventh straight quarter, by 1.5% in real terms. This economic upturn has stimulated strong performance in the local securities market. The Board is optimistic of the future investment prospects and expects healthy growth for the Company in the coming year.

In line with the principal investment objective of achieving earnings from short to medium term capital appreciation, the Company traded in a variety of securities principally in Hong Kong, and made profits from these securities trading. The Company's investment policy is to trade in securities in diversified industries in both Hong Kong and the People's Republic of China (the "PRC") that are capable of yielding gain in short to medium holding period. In the year under review, the Company was able to invest in a number of securities that performed well. As at 31 March 2005, the Company continued to hold a portfolio of Hong Kong listed and unlisted securities. These investments in unlisted securities were made with a view that the investees would have potential of seeking listing of their securities in due course. The Board is confident that the investment holding will generate attractive return on the investment.

DIVIDENDS

The Board recommends the payment of a final dividend of HK4.2 cents per share, amounting to HK\$2,520,000 for the year ended 31 March 2005. (2004: NIL)

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LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2005, the Company was in a healthy liquidity position, with cash and bank balances of approximately HK\$25.5 million. As all the retained cash was placed in Hong Kong Dollars short-term deposits with major banks and financial institutions 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\$57.8 million (2004: HK\$55 million) and no borrowings or long-term liabilities as at 31 March 2005, which put the Company in an advantageous position to pursue its investment strategies and investment opportunities. As the Company did not have any material borrowings or liabilities, the gearing ratio is not presented (2004: N/A).

CHARGE ON COMPANY'S ASSETS AND CONTINGENT LIABILITIES

As at 31 March 2005, there were no charges on the Company's assets or any significant contingent liabilities (2004: NIL).

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 year under review, the Company did not make any capital expenditures or commitments.

CAPITAL STRUCTURE

As at 31 March 2005, the authorised share capital of the Company was HK\$20 million, of which HK\$6 million was issued and fully paid. There has been no change in the Company's capital structure during the year under review.

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

As at 31 March 2005, none of the Directors or Chief Executive of the Company was interested in the equity and debt securities of the Company or any associated corporations (within the meaning of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Director of the Company is taken or deemed to have under such provisions of the SFO); or (b) were required pursuant to section 352 of the SFO to be entered in the register referred to therein; or (c) were required pursuant to the Model Code to be notified to the Company and the Stock Exchange.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

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SHARE OPTIONS

The Company has adopted a share option scheme under which the directors of the Company and certain selected classes of participants may, at the directors' discretion, be granted options to subscribe for ordinary shares of the Company, subject to the stipulated terms and conditions. No options were granted under the share option scheme during the year ended 31 March 2005.

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2005, as far as the Directors are aware:

- (a) save as disclosed below, no person or entity was, directly or indirectly, interested in 10% or more of the voting power of any general meeting of the Company or otherwise interested in 10% or more of the issued share capital of the Company;
- (b) the following entity/person had 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 Division 2 and 3 of Part XV of the Securities and Futures Ordinance (Cap 571 of the Laws of Hong Kong) (the "SFO"):

	Name of Substantial Shareholder	Capacity	Number of Shares	Approximate Percentage of Existing Shareholdings
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%
	(Notes 2 to 4)	Interest of a controlled corporation (Notes 2 to 4)	11,000,000 (long position) (Notes 2 to 4)	18.33%
				26.66%
3.	Grand Finance Group Company Limited ("Grand Finance") (Notes 2 to 5)	Registered and beneficial owner (Notes 2 to 5)	11,000,000 (long position) (Notes 2 to 5)	18.33%

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SUBSTANTIAL SHAREHOLDERS *(continued)*

	Name of Substantial Shareholder	Capacity	Number of Shares	Approximate Percentage of Existing Shareholdings
4.	Billion Sky Limited <i>(Notes 2 to 4)</i>	Interest of a controlled corporation <i>(Notes 2 to 4)</i>	11,000,000 (long position) <i>(Notes 2 to 4)</i>	18.33%
5.	Bright Pearl Limited <i>(Notes 2 and 5)</i>	Interest of a controlled corporation <i>(Notes 2 and 5)</i>	11,000,000 (long position) <i>(Notes 2 and 5)</i>	18.33%
6.	Jumbo China Holdings Limited <i>(Notes 2 to 4)</i>	Interest of a controlled corporation <i>(Notes 2 to 4)</i>	11,000,000 (long position) <i>(Notes 2 to 4)</i>	18.33%
7.	Win Key Investments Limited <i>(Notes 2 to 4)</i>	Interest of a controlled corporation <i>(Notes 2 to 4)</i>	11,000,000 (long position) <i>(Notes 2 to 4)</i>	18.33%
8.	Chow Chuen Chung <i>(Notes 2 and 5)</i>	Interest of a controlled corporation <i>(Note 2 and 5)</i>	11,000,000 (long position) <i>(Notes 2 and 5)</i>	18.33%
9.	Ho Kin <i>(Notes 2 and 5)</i>	Interest of a controlled corporation <i>(Note 2 and 5)</i>	11,000,000 (long position) <i>(Notes 2 and 5)</i>	18.33%
10.	Kam Kin Ming <i>(Notes 2 and 5)</i>	Interest of a controlled corporation <i>(Note 2 and 5)</i>	11,000,000 (long position) <i>(Notes 2 and 5)</i>	18.33%

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SUBSTANTIAL SHAREHOLDERS *(continued)*

Notes:

1. Optimize Capital is a company incorporated in the British Virgin Islands, and is owned as to 90% by Mr Lee Tak Lun (Note 6) and as to 10% by his daughter, Ms Lee Wai Tsang, Rosa (Note 6). Mr Lee Tak Lun is the son of Mr Lee Woo Sing. Mr Lee Woo Sing is a non-executive Director.
2. Grand Finance is a company incorporated in Hong Kong, the entire issued capital of which is beneficially owned as 58% by Jumbo China Holdings Limited and 42% by Bright Pearl Limited. Jumbo China Holdings Limited and Bright Pearl Limited are taken to be interested in these Shares.
3. The entire issued share capital of Jumbo China Holdings Limited is beneficially owned as to 79.31% by Billion Sky Limited, 7.76% by Ms Chung Wing Han Wendy, an executive Director and 12.93% by independent third parties. Billion Sky Limited is taken to be interested in these Shares.
4. The entire issued share capital of Billion Sky Limited is beneficially owned as to 52.42% by Win Key Investments Limited (the entire issued share capital of which is beneficially owned by Mr Lee Tak Lun), 23.79% by Lee Woo Sing Holdings Ltd. (which is owned as to 10% by Mr Lee Woo Sing and 90% by his wife, Yao Yuen Yuen), and 23.79% by independent third parties. Win Key Investments Limited and Mr Lee Tak Lun are taken to be interested in these shares.
5. The entire issued share capital of Bright Pearl Limited is beneficially owned as to 33.33% by Mr Chow Chuen Chung, 33.33% by Mr Ho Kin and 33.33% by Mr Kam Kin Ming.
6. Subsequent to the year ended 31 March 2005, Mr Lee Tak Lun and Ms Lee Wai Tsang, Rosa were appointed as Directors of the Company on 1 June, 2005.

In the event that the Directors of the Company should exercise in full the power to repurchase Shares which is proposed to be granted pursuant to the Repurchase Mandate, the interest of each of Optimize Capital, Mr Lee Tak Lun, Grand Finance, Jumbo China Holdings Limited, Billion Sky Limited, Bright Pearl Limited, Win Key Investments Limited, Mr Chow Chuen Chung, Mr Ho Kin and Mr Kam Kin Ming would be increased to approximately 9.26%, 29.63%, 20.37%, 20.37%, 20.37%, 20.37%, 20.37%, 20.37%, 20.37% and 20.37% respectively of the issued share capital of the Company. Such increase would not give rise to an obligation to make a mandatory offer under Rule 26 and Rule 32 of the Takeovers Code or result in the aggregate amount of the share capital of the Company in public hands being reduced to less than 25%, and/or resulted in non-compliance with Rule 21.04 of the Listing Rules.

Save as disclosed above, as far as the Directors of the Company are aware, no other person had an interest or short position in the shares of 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 2005.

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PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

EMPLOYEES

As at 31 March 2005, the Company had 8 employees (2004: 7), including the executive, non-executive and independent non-executive Directors of the Company. Total staff cost for the year under review amounted to HK\$609,000 (2004: 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 year under review, no option has been granted or agreed to be granted under the share option scheme adopted by the Company. No rights to subscribe for securities of the Company were granted or agreed to be granted.

PROSPECTS

Recently, Hong Kong has overtaken London and Tokyo to become the world's fifth largest, and Asia's most important fund raising securities market. With a total of US\$36 billion raised in 2004, and a total market capitalisation of US\$853 billion (as at 12 May 2005), Hong Kong is one of the world's most active and liquid securities market.

Being one of the renowned most "*laissez faire*" economies and an active, liquid overseas market for PRC enterprises, Hong Kong's capital market will play an essential role in funding the current transformation of PRC's historic state-owned enterprises to further the expansion of the private enterprises and its massive infrastructure development programs.

The remarkable economic growth in the PRC experienced in the last couple of years is expected to continue for many years to come. It is expected that direct foreign investments in the PRC will continue to pour in, with the government's dedication to open up to foreign investors. The Board believes that Hong Kong will benefit from the booming economy of its neighbour with the strong rebound of domestic economy in the coming years. The GDP of Hong Kong grew by 8.1% in 2004 alone, with the reported first quarter of 2005 growth of 6.0%.

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 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 investments.

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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.

On behalf of the Board

Chung Wing Han Wendy

Executive Director

Hong Kong, 22 June 2005