

## REPORT OF THE DIRECTORS

The directors (the "Directors") of Grand Investment International Ltd. (the "Company"), have pleasure in presenting their report and the audited financial statements of the Company for the year ended 31 March 2005 which were approved by the board of Directors (the "Board"), on the date of this report.

### **PRINCIPAL ACTIVITIES**

The Company is an investment company incorporated with limited liability as an exempted company in Bermuda on 15 April 2003. The Company is principally engaged in investing in listed or unlisted enterprises established in Hong Kong and in the People's Republic of China with a potential for earnings growth and capital appreciation.

The Company's turnover for the year comprised realised and unrealised gains on investment on listed investments, interest earned from note receivables and other sources.

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").

### **FINANCIAL RESULTS**

The profit and cash flows of the Company and the state of affairs of the Company as at 31 March 2005 are set out in the financial statements on pages 23 to 41.

### **DIVIDENDS**

The Board recommends the payment of a final dividend of HK4.2 cents per share, amounting to HK\$2,520,000, in the forthcoming annual general meeting to shareholders whose names appear on the register of members of the company on 20 July 2005.

### **FINANCIAL SUMMARY**

A summary of the results and assets and liabilities of the Company for the year under review is set out on page 42.

### **RESERVES**

Details of movements in reserves during the year under review are set out in note 13 to the financial statements.

### **SHARE CAPITAL**

Details of movements in share capital during the year under review are set out in note 12 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 year under review.

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### SHARE OPTION SCHEME

There were no share options granted during the year under review, under the share option scheme adopted by the Company. Details of the share option scheme are set out in note 19 to the financial statements.

### DIRECTORS

The Directors who held office during the year under review 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 Lee Tak Lun	(appointed on 1 June 2005)
Ms Lee Wai Tsang, Rosa	(appointed on 1 June 2005)

#### Non-executive Director

Mr Lee Woo Sing (Chairman)	(appointed 22 April 2003)
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#### Independent Non-executive Directors

Mr Yao Cho Fai Andrew	(appointed 13 February 2004)
Dr Zhang Hongru	(appointed 13 February 2004)
Mr Lu Fan	(appointed on 1 June 2005)
Dr Wong Yu Hong Philip	(resigned on 1 June 2005)

In accordance with Bye-Law 113(A) of the Company's Bye-Laws, Mr Fong Chi Wah shall retire and, being eligible, offer himself for re-election at the forthcoming annual general meeting.

In accordance with the Bye-Law 117 of the Company's Bye-Laws of the Company, Mr Lee Tak Lun, Ms Lee Wai Tsang, Rosa and Mr Lu Fan shall retire and, being eligible, offer themselves for the 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.

The Company has received annual confirmations of independence from Mr. Yao Cho Fai Andrew, Dr Zhang Hongru and Mr Lu Fan pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and the Company considers the Independent Non-executive Directors are independent.

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### **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 for an initial term of three years, which will be renewed automatically for successive terms of one year each from 2 April 2004. 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.

Mr Lee Tak Lun and Ms Lee Wai Tsang, Rosa both entered into Service Agreements with the Company on 1 June 2005. Both of them are not appointed for a specific term. The Service Agreements took effect on 1 June 2005. Pursuant to the Service Agreements, either party may at any time after the expiration of the first 3 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, Mr Lee Tak Lun and Ms Lee Wai Tsang, Rosa are entitled to a management bonus in respect of each financial year 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 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).

### **DIRECTORS' INTERESTS IN SHARES**

As at 31 March 2005, none of the Directors 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 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' 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 year or at any time during the year under review.

## REPORT OF THE DIRECTORS

### DIRECTORS' RIGHT TO ACQUIRE SHARES AND DEBENTURES

At no time during the year under review 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

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"):

	<b>Name of Substantial Shareholder</b>	<b>Capacity</b>	<b>Number of Shares</b>	<b>Approximate Percentage of Existing Shareholding</b>
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") (Note 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)*

	<b>Name of Substantial Shareholder</b>	<b>Capacity</b>	<b>Number of Shares</b>	<b>Approximate Percentage of Existing Shareholdings</b>
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>(Note 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>(Note 2 to 4)</i>	Interest of a controlled corporation <i>(Note 2 to 4)</i>	11,000,000 (long position) <i>(Note 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 and 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.
2. Grand Finance is a company incorporated in Hong Kong, the entire issued capital of which is beneficially owned as to 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.

In the event that the Directors 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 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.

### **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 year under review.

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### CONNECTED TRANSACTIONS

#### Investment Management Agreement

Pursuant to the Investment Management Agreement dated 13 February 2004, the Company appointed AVANTA Investment Management 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.

AVANTA Investment Management 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.

During the year under review, the investment management fee paid to the investment manager amounted to HK\$400,000 (2004: NIL). The aggregate investment management fee paid under the Investment Management Agreement fell below the de-minimis threshold under Rule 14A.33(3) under the Listing Rules and would be exempted from the disclosure and the shareholders' approval requirements under the Listing Rules.

#### 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 continues 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 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.

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.

During the year under review, the custody fee and other charges paid to the custodian amounted to HK\$36,000 (2004: NIL). The aggregate custody fee and other charges paid under the Custodian Agreement fell below the de-minimis threshold under Rule 14A.33(3) under the Listing Rules and would be exempted from the disclosure and the shareholders' approval requirements under the Listing Rules.

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.

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### **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 year.

### **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 year, 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 the Bye-Laws of the Company.

### **AUDITORS**

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

On behalf of the Board

**Chung Wing Han Wendy**

*Executive Director*

Hong Kong, 22 June 2005