

2002
INTERIM REPORT 2002



China Investment Fund Company Limited

(Incorporated in the Cayman Islands with limited liability)



CONDENSED UNAUDITED FINANCIAL STATEMENTS

The Board of Directors of China Investment Fund Company Limited (the "Company") would like to announce the unaudited interim results of the Company for the six months ended 30th June, 2002 as follows:

CONDENSED INCOME STATEMENT

For the six months ended 30th June, 2002

		Six months ended 30th June, 2002 (unaudited) HK\$	Period from 18th September, 2001 (date of incorporation) to 31st December, 2001 (audited) HK\$
	<i>Notes</i>		
Turnover	3	247,349	18,140
Unrealised loss on revaluation of securities investments		(811,876)	—
Auditors' remuneration		—	(30,000)
Depreciation		(19,865)	—
Staff costs		(1,078,622)	(296,000)
Other operating expenses		(1,216,732)	(1,566)
		<hr/>	<hr/>
Loss from operations		(2,879,746)	(309,426)
Finance costs		(2,219)	—
		<hr/>	<hr/>
Loss before taxation		(2,881,965)	(309,426)
Taxation	4	—	—
		<hr/>	<hr/>
Net loss for the period		<u>(2,881,965)</u>	<u>(309,426)</u>
		<hr/>	<hr/>
Loss per share — basic	5	<u>(3.62) cents</u>	<u>(5.33) cents</u>

The results for the period from 18th September, 2001 to 31st December, 2001 have been used as comparative figures as the Company was incorporated on 18th September, 2001 in the Cayman Islands.

CONDENSED BALANCE SHEET

At 30th June, 2002

	Notes	30th June, 2002 (unaudited) HK\$	31st December, 2001 (audited) HK\$
NON-CURRENT ASSETS			
Property and equipment	6	<u>136,492</u>	<u>—</u>
CURRENT ASSETS			
Other receivables, prepayments and deposits		41,479	163,756
Investments in securities	7	2,350,000	—
Bank balances and cash		<u>30,592,148</u>	<u>36,765,481</u>
		<u>32,983,627</u>	<u>36,929,237</u>
CURRENT LIABILITIES			
Other payables and accrued charges		304,913	57,000
Amount due to a Director		—	275,066
		<u>304,913</u>	<u>332,066</u>
NET CURRENT ASSETS		<u>32,678,714</u>	<u>36,597,171</u>
NET ASSETS		<u><u>32,815,206</u></u>	<u><u>36,597,171</u></u>
CAPITAL AND RESERVES			
Share capital	8	800,000	200,000
Shares to be issued	9	—	26,906,597
Reserves		<u>32,015,206</u>	<u>9,490,574</u>
TOTAL CAPITAL AND RESERVES		<u><u>32,815,206</u></u>	<u><u>36,597,171</u></u>

CONDENSED STATEMENT OF CHANGES IN EQUITY*For the six months ended 30th June, 2002*

	Share capital <i>HK\$</i>	Shares to be issued <i>HK\$</i>	Share premium <i>HK\$</i>	Accumulated losses <i>HK\$</i>	Total <i>HK\$</i>
At 18th September, 2001 (date of incorporation)	—	—	—	—	—
Net loss for the period	—	—	—	(309,426)	(309,426)
Issue of new shares	200,000	—	9,800,000	—	10,000,000
Subscription for shares to be issued under placing and new issue	—	30,000,000	—	—	30,000,000
Share issue expenses	—	(3,093,403)	—	—	(3,093,403)
At 31st December, 2001	200,000	26,906,597	9,800,000	(309,426)	36,597,171
Net loss for the period	—	—	—	(2,881,965)	(2,881,965)
Shares to be issued converted into share capital and share premium on the listing of the shares of the Company on 2nd January, 2002	600,000	(26,906,597)	26,306,597	—	—
Share issue expenses	—	—	(900,000)	—	(900,000)
At 30th June, 2002	<u>800,000</u>	<u>—</u>	<u>35,206,597</u>	<u>(3,191,391)</u>	<u>32,815,206</u>

CONDENSED CASH FLOW STATEMENT*For the six months ended 30th June, 2002*

	Six months ended 30th June, 2002 (unaudited) HK\$
Net cash outflow from operating activities	(1,955,100)
Net cash outflow from investing activities	<u>(3,318,233)</u>
Net cash outflow before financing	(5,273,333)
Net cash outflow from financing	<u>(900,000)</u>
Decrease in cash and cash equivalents	(6,173,333)
Cash and cash equivalents at the beginning of the period	<u>36,765,481</u>
Cash and cash equivalents at the end of the period Bank balances and cash	<u><u>30,592,148</u></u>

NOTES TO THE CONDENSED UNAUDITED FINANCIAL STATEMENTS

For The Six Months Ended 30th June, 2002

1. Basis of Preparation

The condensed interim financial statements for the six months ended 30th June, 2002 are unaudited and have been reviewed by the Audit Committee of the Company.

The condensed interim financial statements have been prepared in accordance with Statement of Standard Accounting Practice (“SSAP”) No. 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants and with the applicable disclosure requirements of Appendix 16 of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) (the “Listing Rules”).

2. Principal Accounting Policies

The condensed interim financial statements have been prepared under the historical cost convention, as modified for the revaluation of investments in securities.

The accounting policies adopted are consistent with those followed in the preparation of the Company’s annual financial statements for the period from 18th September, 2001 (date of incorporation) to 31st December, 2001, except as described below.

In the current period, the Company has adopted, for the first time a number of revised SSAPs issued by the Hong Kong Society of Accountants which has resulted in the presentation of the following new and revised financial statements.

In accordance with SSAP 1 (Revised) “Presentation of Financial Statements”, the requirement for presenting a statement of recognised gains and losses has changed to presenting a statement of changes in equity.

In accordance with SSAP 15 (Revised) “Cash Flow Statements”, cash flows are classified under three headings only — operating, investing and financing.

Accordingly, the presentation in the current period’s statement of changes in equity and cash flow statement has been modified in order to conform with the requirements of the revised SSAPs.

4. Taxation

No provision for Hong Kong Profits Tax has been made in the financial statements as the Company incurred a tax loss for both periods presented.

No provision for deferred taxation has been recognised in the financial statements as the amount involved is insignificant.

5. Loss Per Share

The calculation of the basic loss per share is based on the net loss for the period of HK\$2,881,965 (period ended 31st December, 2001: HK\$309,426) and the weighted average number of 79,668,508 (period ended 31st December, 2001: 5,810,527) ordinary shares in issue during the period.

No diluted loss per share is presented as there were no dilutive potential ordinary shares in issue during both periods presented.

6. Property and Equipment

	Leasehold improvements <i>HK\$</i>	Furniture, fixtures and office equipment <i>HK\$</i>	Computer equipment <i>HK\$</i>	Total <i>HK\$</i>
COST				
At 1st January, 2002	—	—	—	—
Additions	38,080	62,101	56,176	156,357
At 30th June, 2002	38,080	62,101	56,176	156,357
DEPRECIATION				
At 1st January, 2002	—	—	—	—
Provided for the period	9,550	4,453	5,862	19,865
At 30th June, 2002	9,550	4,453	5,862	19,865
NET BOOK VALUES				
At 30th June, 2002	28,530	57,648	50,314	136,492
At 31st December, 2001	—	—	—	—

7. Investments in Securities

	30th June, 2002 (unaudited) HK\$	31st December, 2001 (audited) HK\$
Other investments, at fair value		
Listed securities in Hong Kong	<u>2,350,000</u>	<u>—</u>
Market value of listed securities in Hong Kong	<u>2,350,000</u>	<u>—</u>

8. Share Capital

	Number of shares	HK\$
Ordinary shares of HK\$0.01 each		
Authorised:		
On date of incorporation	10,000,000	100,000
Increase during the period	<u>590,000,000</u>	<u>5,900,000</u>
At 30th June, 2002 and 31st December, 2001	<u>600,000,000</u>	<u>6,000,000</u>
Issued and fully paid:		
Allotted and issued on 28th September, 2001	1	—
Issue of shares during the period	<u>19,999,999</u>	<u>200,000</u>
At 31st December, 2001	20,000,000	200,000
Issue of shares during the period	<u>60,000,000</u>	<u>600,000</u>
At 30th June, 2002	<u>80,000,000</u>	<u>800,000</u>

The Company was incorporated on 18th September, 2001 with an authorised share capital of HK\$100,000 divided into 10,000,000 shares of HK\$0.01 each. On 28th September, 2001, one share of HK\$0.01 each was allotted and issued, credited as fully paid, to the initial subscriber, and was transferred to a Director of the Company on the same date.

Pursuant to a written resolution passed by the sole shareholder on 21st November, 2001, the authorised share capital of the Company was increased from HK\$100,000 to HK\$6,000,000 by the creation of an additional 590,000,000 shares of HK\$0.01 each.

On 30th November, 2001, the Company allotted and issued 11,999,999 new ordinary shares of HK\$0.01 each for cash at an aggregate consideration of HK\$6,000,000 to an executive Director, a non-executive Director and a third party.

8. Share Capital *(Continued)*

On 11th December, 2001, the Company allotted and issued 8,000,000 new ordinary shares of HK\$0.01 each for cash at an aggregate consideration of HK\$4,000,000 to an executive Director of the Company.

On 2nd January, 2002, the Company became listed on the Stock Exchange and a total of 60,000,000 new ordinary shares of HK\$0.01 each were issued at a price of HK\$0.5 per share.

All the shares which were issued during both periods presented rank pari passu with the then existing shares in all respects.

9. Shares to be Issued

The amount in previous period represented the proceeds received for subscriptions of shares under placing and new issue after deduction of related share issue expenses of HK\$3,093,403 incurred prior to the previous balance sheet date. The amount was converted into share capital and share premium on the listing of the shares of the Company on 2nd January, 2002.

INTERIM DIVIDEND

The Board of Directors resolved not to pay an interim dividend for the period (period ended 31st December, 2001: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Initial public offering

The Company is an investment company incorporated with limited liability as an exempted company in the Cayman Islands on 18th September, 2001. It was successfully listed on the Stock Exchange on 2nd January, 2002 following an issue of 60,000,000 new shares at an issue price of HK\$0.5 per share. The net proceeds arising from the initial public offering, after deduction of related expenses, amounted to approximately HK\$26,007,000. The listing exercise not only increased the Company's shareholder bases, but also significantly strengthened its capital to capture any investment opportunities arisen in the forthcoming years.

Business and investment review and prospect

For the six months ended 30th June, 2002, the Company recorded a turnover and a net loss of approximately HK\$247,000 (period ended 31st December, 2001: HK\$18,000) and HK\$2,882,000 (period ended 31st December, 2001: HK\$309,000) respectively.

Political environment in the People's Republic of China (the "PRC") remains stable, and economy grows healthily. Research and statistic figures from economists show optimistic scenario in the PRC property market. It is anticipated that PRC's recent entry into the World Trade Organisation (the "WTO") may further boost the property market for commercial and residential premises.

During the financial period under review, the Company made a prudent investment of approximately HK\$3,162,000 in the PRC real estate industry through investment in a Hong Kong listed company, which is principally engaged in the PRC property development and investment. However, the business of the Company has been adversely affected by the depressed and unfavourable investment climate in the Hong Kong stock market. As a result, the Company recorded an unrealised loss on revaluation of securities investments of approximately HK\$812,000. Despite the prevailing poor investment sentiment, Directors believe that investment in the PRC real estate industry will bring profits to the Company in the long run.

The net proceeds from the share offer not deployed for daily operation and investments were placed on deposits with financial institutions in Hong Kong. The Company generated a turnover of approximately HK\$247,000 (period ended 31st December, 2001: HK\$18,000) from interest income in the first half of this year.

In addition to making investment in the PRC real estate industry, the Company is actively seeking for other investment opportunities that will bring a steady long-term growth in the Company's performance. China's accession to the WTO and preferential policies for foreign investment in Western China leave huge and far-reaching influences on all industries in the PRC and Hong Kong. In the long run, economic activities will be boosted up and attractive investment opportunities will be brought about.

The Company is open-minded on all investment opportunities. The Directors of the Company will always take a cautious and prudent approach in formulating the Company's overall investment strategies and making investment decisions. With the extensive investment experience of the Directors, the Company has confidence and determination to meet challenges in the new era, with a view to maximising returns for our shareholders.

Liquidity and financial resources

The Company continued to maintain a highly liquid balance sheet. As at 30th June, 2002, the Company was cash-rich and had no long-term borrowing. Bank balances and cash amounted to approximately HK\$30,592,000 (at 31st December, 2001: HK\$36,765,000) and accounted for 92.7% (at 31st December, 2001: 99.6%) of total current assets.

The gearing ratio (total non-current liabilities/total shareholders' funds) for the period was nil (at 31st December, 2001: nil).

There were no capital commitments as at 30th June, 2002 which would require a substantial use of the Company's present cash resources or external funding.

Exchange risk of the Company is minimal as the assets of the Company comprised substantially of bank deposits denominated in Hong Kong currency.

Employees and remuneration policies

As at 30th June, 2002, the Company had 10 employees (including Directors of the Company). Total staff costs amounted to approximately HK\$1,079,000 (period ended 31st December, 2001: HK\$296,000). The Company remunerates its employees based on their performance, experience and prevailing industry practice. Employee benefits provided by the Company include mandatory provident fund scheme, medical scheme, discretionary performance-related bonus and share option scheme.

OTHER INFORMATION

Directors' interests in shares

As at 30th June, 2002, the beneficial interests of the Directors and their associates in the share capital of the Company as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

Name of Directors	Number of shares beneficially held for personal interests	Shareholdings
Mr. Hung Fung, Terry	16,000,000	20%
Mr. Liu Min	2,000,000	2.5%

Other than as disclosed above, none of the Directors nor their associates, had any interests in any securities of the Company as defined in the SDI Ordinance. None of the Directors or their spouse or children under the age of 18 had any right to subscribe for the securities of the Company, or had exercised any such right during the period.

Substantial shareholders

The register of substantial shareholders maintained by the Company under Section 16(1) of the SDI Ordinance discloses that the following shareholder, being the executive Director of the Company, is having an interest of 10% or more of the issued share capital of the Company as at 30th June, 2002:

Name	Number of shares	% of issued shares
Mr. Hung Fung, Terry	16,000,000	20%

Other than as disclosed above, the Company has not been notified of any other interests representing 10% or more of the Company's issued share capital as at 30th June, 2002.

Purchase, sale or redemption of the Company's listed securities

During the six months ended 30th June 2002, the Company had not purchased, sold or redeemed any of its listed securities.

Audit committee

The Audit Committee, comprising two independent non-executive Directors, has reviewed with management the accounting principles and practices adopted by the Company and discussed auditing, internal controls and financial reporting matters including the review of the Company's unaudited interim financial statements for the six months ended 30th June, 2002.

Code of best practice

None of the Directors is aware of any information which would reasonably indicate that the Company is not, or was not, at any time since the Company's shares were listed on the Stock Exchange, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

By Order of the Board
Hung Fung, Terry
Chairman

Hong Kong, 12th September, 2002