



China Investment Fund Company Limited
中國投資基金有限公司
(Incorporated in the Cayman Islands with limited liability)

Interim Report 2005



INTERIM RESULTS

The Board (the "Board") of Directors (the "Directors") of China Investment Fund Company Limited (the "Company") is pleased to present the unaudited Interim Report and condensed financial statements of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30th June, 2005. The unaudited condensed consolidated interim financial statements (the "Interim Financial Statements") have not been reviewed by the Company's auditors but have been reviewed by the audit committee of the Company.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June, 2005

		Unaudited six months ended	
		30th June,	
	<i>Notes</i>	2005	2004
		HK\$	HK\$
Turnover		699,509	4,680,000
Cost of sales		(1,964,309)	(4,633,661)
Gross (loss)/profit		(1,264,800)	46,339
Interest Income		139,361	69,249
Other Income		-	1,248
Dividend income		370,828	-
Unrealised loss on financial assets at fair value through profit or loss		(1,061,764)	(111,291)
Other operating expenses		(1,698,019)	(1,812,001)
Loss before taxation	4	(3,514,394)	(1,806,456)
Taxation	5	-	-
Net loss for the period		(3,514,394)	(1,806,456)
Loss per share			
Basic	6	(0.73) cents	(0.91) cents
Diluted	6	N/A	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

At 30th June, 2005

	<i>Note</i>	Unaudited 30th June, 2005 HK\$	Audited 31st December, 2004 HK\$
Non-current assets			
Negative goodwill		–	(64,857)
Available-for-sale financial assets		23,500,000	23,500,000
		23,500,000	23,435,143
Current assets			
Prepayments, deposits and other receivables		1,948,226	2,932,302
Cash and cash equivalents		13,668,190	38,259,836
Financial assets at fair value through profit or loss		29,354,834	7,343,050
		44,971,250	48,535,188
Current liabilities			
Accrued liabilities and other payables		185,335	234,879
Net current assets		44,785,915	48,300,309
Net assets		68,285,915	71,735,452
Capital and reserves			
Share capital		4,800,000	4,800,000
Reserves		63,485,915	66,935,452
Total equity		68,285,915	71,735,452
Net Asset Value per share	8	0.14	0.15

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June, 2005

	THE GROUP			Total
	Unaudited			
	Share capital	Share premium	Accumulated losses	
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
At 1st January, 2005				
– as originally stated	4,800,000	79,555,597	(12,620,145)	71,735,452
– Derecognised the negative goodwill arising from acquisition of a subsidiary	–	–	64,857	64,857
At 1st January, 2005				
– as restated	4,800,000	79,555,597	(12,555,288)	71,800,309
Net loss for the period	–	–	(3,514,394)	(3,514,394)
At 30th June, 2005	4,800,000	79,555,597	(16,069,682)	68,285,915
At 1st January, 2004	800,000	35,206,597	(10,515,443)	25,491,154
Shares issued at premium	4,000,000	46,000,000	–	50,000,000
Share issue expenses	–	(1,488,809)	–	(1,488,809)
Net loss for the period	–	–	(1,806,456)	(1,806,456)
At 30th June, 2004	4,800,000	79,717,788	(12,321,899)	72,195,889

CONDENSED CONSOLIDATED CASH FLOW STATEMENTS

For the six months ended 30th June, 2005

	THE GROUP	
	Unaudited six months ended 30th June,	
	2005	2004
	<i>HK\$</i>	<i>HK\$</i>
Net cash outflow from operating activities	(24,591,646)	(17,401,722)
Net cash inflow from investing activities	–	–
Net cash inflow from financing activities	–	48,511,191
(Decrease)/Increase in cash and cash equivalents	(24,591,646)	31,109,469
Cash and cash equivalents at beginning of period	38,259,836	14,505,102
Cash and cash equivalents at end of period	13,668,190	45,614,571
Analysis of the balance of cash and cash equivalents		
Cash and bank balances	11,625,284	45,614,571
Goldman Sachs US\$ Liquid Reserve Fund	2,042,906	–
	13,668,190	45,614,571

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30th June, 2005

1. Basis of preparation and principal accounting policies

The condensed financial statements have been prepared under the historical cost convention except for certain financial instruments, which are measured at fair values.

The accounting policies used in the condensed financial statements are consistent with those adopted in the preparation of the Group's annual financial statements for the year ended 31st December, 2004, except as described below.

In the current period, the Group has applied, for the first time, a number of new HKFRSs, and Interpretations issued by HKICPA that are effective for accounting periods beginning on or after 1st January, 2005 (hereinafter collectively referred to as the "new HKFRSs"). The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. The changes in presentation have been applied retrospectively.

Although, the adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas described in principal accounting policies that have an effect on how the results for the current or prior accounting periods are prepared and presented, the adoption does not have any material effect on the results and financial position of the Group in the current or prior period.

Business Combinations

In the current period, the Group has applied HKFRS 3 "Business Combinations" which is effective for business combinations for which the agreement date is on or after 1st January, 2005. The principal effects of the application of HKFRS 3 to the Group are summarised below:

Excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as "negative goodwill").

In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition ("discount on acquisition") is recognised immediately in profit or loss in the period in which the acquisition takes place. In previous periods, negative goodwill arising on acquisitions was presented as a deduction from assets and released to income based on an analysis of the circumstances from which the balance resulted. In accordance with the relevant transitional provisions in HKFRS 3, the Group has derecognised its negative goodwill of HK\$64,857 at 1st January, 2005, which was previously presented as a deduction from assets, with a corresponding decrease to accumulated losses.

Financial instruments

In the current period, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1st January, 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are as follows:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

Debt and equity securities

By 31st December, 2004, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 ("SSAP 24"). Under SSAP 24, investments in debt or equity securities are classified as "investment securities", "other investment" or "held-to-maturity investments" as appropriate. "Investment securities" are carried at cost less impairment losses (if any) while "other investments" are measured at fair value, with unrealised gains or losses included in the income statement. Held-to-maturity investments are carried at amortised cost less impairment losses (if any). From 1st January, 2005 onwards, the Group classifies and measures its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loan and receivables", or "held-to-maturity financial assets". The classification depends on the purpose for which the assets are acquired. "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in the income statement and equity respectively. Available-for-sale financial assets of which the fair value cannot be measured reliably are stated at cost less impairment. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method.

On 1st January, 2005, the Group classified and measured its debt and equity securities in accordance with the requirements of HKAS 39. The Group reclassified its investment securities as available-for-sale financial assets, other investments and other marketable securities as financial assets at fair value through profit or loss, and held-to-maturity investments as held-to-maturity financial assets. This change has had no material effect on the results for the current or prior periods.

Financial assets and financial liabilities other than debt and equity securities

From 1st January, 2005 onwards, the Group classifies and measures its financial assets and financial liabilities other than debt and equity securities in accordance with the requirements of HKAS 39. Financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "financial liabilities other than financial liabilities at fair value through profit or loss (other financial liabilities)". "Other financial liabilities" are carried at amortised cost using the effective interest method. This change has had no material effect on the results for the current or prior periods.

2. Turnover

The Group is principally engaged in investing in listed and unlisted securities. Turnover represents proceeds from sales of investments.

	THE GROUP	
	Unaudited six months ended	
	30th June,	
	2005	2004
	HK\$	HK\$
Proceeds from sales of investments	699,509	4,680,000

3. Business and geographical segments

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

Business segment

The Group's main business segment is investing in listed and unlisted securities.

The following tables present revenue, results and expenditure information for the Group's business segment.

	THE GROUP			
	Unaudited six months ended		30th June,	
	Securities investment		Consolidated	
	2005	2004	2005	2004
	HK\$	HK\$	HK\$	HK\$
Segment revenue	699,509	4,680,000	699,509	4,680,000
Dividend income	370,828	–	370,828	–
Interest income	139,361	69,249	139,361	69,249
Unrealised loss on financial assets at fair value through profit or loss	(1,061,764)	(111,291)	(1,061,764)	(111,291)
Allocated expenses	(2,899,309)	(5,443,961)	(2,899,309)	(5,443,961)
Segment results	(2,751,375)	(806,003)	(2,751,375)	(806,003)
Unallocated income			–	1,248
Unallocated expenses			(763,019)	(1,001,701)
Loss from operations			(3,514,394)	(1,806,456)
Net loss for the period attributable to shareholders			(3,514,394)	(1,806,456)

	THE GROUP			
	Securities investment		Consolidated	
	30th June, 2005	31st December, 2004	30th June, 2005	31st December, 2004
	Unaudited HK\$	Audited HK\$	Unaudited HK\$	Audited HK\$
Segment assets	68,471,250	71,970,331	68,471,250	71,970,331
Unallocated assets			-	-
Total assets			68,471,250	71,970,331
Unallocated liabilities			185,335	234,879
Total liabilities			185,335	234,879

	THE GROUP			
	Unaudited six months ended 30th June,			
	Securities investment		Consolidated	
	2005	2004	2005	2004
	HK\$	HK\$	HK\$	HK\$
Other segment information:				
Depreciation	-	32,961	-	32,961

Geographical segment

The following table presents revenue and certain assets for the Group's geographical segments.

	THE GROUP									
	For the six months ended 30th June,									
	Hong Kong		United Kingdom		United States of America		Others		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	
HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	
Segment revenue:										
Proceeds from sales of investments	699,509	-	-	4,680,000	-	-	-	-	699,509	4,680,000
	Hong Kong		United Kingdom		United States of America		Others		Consolidated	
	30th	31st	30th	31st	30th	31st	30th	31st	30th	31st
	June,	December,	June,	December,	June,	December,	June,	December,	June,	December,
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	Unaudited	Audited
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Segment assets	54,412,633	48,737,985	-	-	14,058,617	13,993,760	-	9,238,586	68,471,250	71,970,331
Unallocated assets									-	-
Total assets									68,471,250	71,970,331

There are no inter-segment transaction during both periods.

4. Loss before taxation

	THE GROUP	
	2005	2004
	Unaudited	Audited
	30th June,	30th June,
	2005	2004
	HK\$	HK\$
Staff costs (including directors):		
Salaries and other benefits	398,750	150,000
Contributions to mandatory provident fund scheme	12,438	4,500
	411,188	154,500
Loss before taxation has been arrived at after charging:		
Depreciation	-	32,961
Interest expense	-	14,063
Loss on disposal of financial assets at fair value through profit or loss	1,264,800	-
and after crediting:		
Gain on disposal of financial assets at fair value through profit or loss	-	46,339

5. Taxation

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group has no assessable profit for both periods presented. No provision for deferred taxation has been recognised in the financial statements for both periods as the amount involved were insignificant.

The charge for the year can be reconciled to the loss per consolidated income statement as follows:

	THE GROUP	
	Unaudited six months	
	ended 30th June,	
	2005	2004
	HK\$	HK\$
Loss before taxation	<u>(3,514,394)</u>	<u>(1,806,456)</u>
Tax at the Hong Kong Profits Tax rate of 17.5%	(615,019)	(316,130)
Tax effect of non-deductible expenses and non-taxable income in determining taxable profit	(275,439)	(50,190)
Tax effect of tax losses not recognised	<u>890,458</u>	<u>366,320</u>
Taxation	<u>-</u>	<u>-</u>

6. Loss per share

The calculation of basic loss per share for the period is based on the net loss for the period of HK\$3,514,394 (loss for the six months period ended 30th June, 2004: HK\$1,806,456) and on the weighted average number of 480,000,000 (six months ended 30th June, 2004: 198,681,319) ordinary shares during the period. No diluted loss per share is presented since the Company has no dilutive potential ordinary shares in both periods presented.

7. Dividend

The Board of Directors resolved not to pay an interim dividend for the period (six months ended 30th June, 2004: nil).

8. Net asset value per share

Net asset value per share is computed based on the net assets of HK\$68,285,915 (31st December, 2004: HK\$71,735,452) and the number of issued and fully paid up shares of 480,000,000 (31st December, 2004: 480,000,000) as at 30th June, 2005.

9. Commitments

No capital commitment for investments in investment securities has been authorized or contracted as at both periods presented.

10. Related party and connected transactions

During the period, the Group had the following significant related party and connected transactions:

		Unaudited six months ended 30th June,	
		2005	2004
	<i>Notes</i>	HK\$	<i>HK\$</i>
Investment management fees paid to Baron Asset Management Limited	<i>(i)</i>	210,000	210,000
Rental expenses paid to Baron International Investment Holdings Limited	<i>(ii)</i>	18,000	–
Commission fee for underwriting paid to Baron Capital Limited		–	1,149,938

Notes:

- (i) Pursuant to the investment management agreement dated 12th December, 2001 (the "Fund Management Agreement") entered into between the Company and Baron Asset Management Limited (the "Fund Manager"), the Fund Manager has agreed to provide the Company with investment management services commencing on the date of agreement. The Fund Management Agreement will continue for successive periods unless be terminated at any time by either the Company or the Fund Manager serving not less than six month's prior notice in writing. Under the Fund Management Agreement, the fund manager is entitled to an annual management fee of HK\$500,000.

Under the Supplementary Agreement entered into between the Company and the Fund Manager on 30th September, 2003, the annual management fee is revised to HK\$420,000 effective from 1st October, 2003. The Fund Management Agreement was entered into with reference to normal commercial terms.

- (ii) Pursuant to a tenancy agreement signed on 20th March, 2004 between the Company and Baron International Investment Holdings Limited (the "Baron International"), Baron International has leased office premises to the Company commencing on 1st April, 2004 for a monthly rental of HK\$3,000. The tenancy agreement will continue for successive period unless terminated at any time by either the Company or the lessor by notice in writing. The tenancy agreement was negotiated between the parties with reference to the normal commercial terms. Baron International is a fellow subsidiary of the Fund Manager.

11. Contingent Liabilities

At 30th June, 2005, the Group had no significant contingent liabilities.

MANAGEMENT DISCUSSION AND ANALYSIS

Operation Review

The principal activity of the Group is investing in both listed and unlisted securities. During the six months ended 30th June, 2005, the Group has deployed approximately HK\$24.5 million in listed securities.

Operating Results

During the six months ended 30th June, 2004, the Group reported a loss of approximately HK\$3.5 million (six months ended 30th June, 2004: approximately HK\$1.8 million). The cost of sales during the period was mainly attributable to a loss of approximately HK\$1.4 million from the expiration of worthless call options on Goldman Sachs Non-Energy Excess Return Index. The loss was mainly attributable to the Group's operating expenses in Hong Kong, the unrealized loss on investments in securities and the realized loss on investments in securities.

Financial Position and Working Capital

As at 30th June, 2005, the Group had cash and cash equivalents of approximately HK\$13.6 million (31st December, 2004: HK\$38.3 million) with no borrowings. The decrease in cash and cash equivalents was mainly due to the application of funds to purchase listed investments. Cash and cash equivalents represented approximately 20.0% of the Group's total asset as at 30th June, 2005.

Prospect

Given the robust economic growth in China and the recent improvement in market sentiment of the worldwide financial markets, the Directors believe that ample investment opportunities will emerge. The Directors adopt cautious and prudent approach in managing the portfolio of investments of the Group and developing the investment strategies. The Group is continually looking for investment opportunities which offer outstanding returns and within the acceptable risk profile of the Group.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS

As at the 30th June, 2005, none of the Directors, chief executive of the Company or their associated had any interests and short positions in the Shares, debentures or underlying Shares of the Company or its associated corporations (within the meaning of Part XV of the SFO) which had 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 he was taken or deemed to have under such provisions of the SFO) or which were required pursuant to section 352 of the SFO, to be entered in the register referred therein or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules.

SUBSTANTIAL SHAREHOLDERS

As at 30th June, 2005, the following person or corporations interest in 5% or more in the shares and underlying shares of the Company have been notified to the Company and recorded in the register of substantial shareholders' interest in shares and short positions required to be kept under section 336 of Part XV of the SFO:

Long Position in Shares

Name	Notes	Number of Shares	Type of interest	Approximately percentage of issued share capital of the Company
Cosmopolitan International Holdings Limited	1	126,412,000	Interest of controlled corporation	26.34%
Wan Chuen Chung, Joseph	2	95,976,000	Interest of controlled corporation	19.99%
Kenfair International (Holdings) Limited	3	92,616,000	Interest of controlled corporation	19.30%
Lam Sai Mann	4	45,600,000	Interest of controlled corporation	9.50%
Cheng Fat Ning, Lenda	5	44,164,000	Interest of controlled corporation	9.20%

Notes:

1. Cosmopolitan International Holdings Limited is deemed to be interested in 126,412,000 Shares held by Core Success Limited. Core Success Limited is wholly-owned by Cosmopolitan International Holdings Limited, whose shares are listed on the Stock Exchange.
2. Wan Chuen Chung, Joseph is deemed to be interested in 95,976,000 shares held by International Securities Investment Limited. International Securities Investment Limited is indirectly wholly-owned by Wan Chuen Chung, Joseph.
3. Kenfair International (Holdings) Limited is a company, whose shares are listed on the Stock Exchange.
4. Lam Sai Mann is deemed to be interested in 45,600,000 shares held by Joint Success Limited. Joint Success Limited is wholly owned by Lam Sai Mann.
5. Cheng Fat Ning, Lenda is deemed to be interested in 44,164,000 shares held by Best News Investments Limited. Best News Investments Limited is wholly-owned by Cheng Fat Ning, Lenda.

Save as disclosed above, the Directors are not aware of any person who has an interest or short position in the shares or underlying shares of the Company (which is discloseable under Divisions 2 and 3 of the Part XV of the SFO), or is directly or is indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group (which is discloseable under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")).

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

During the six months ended 30th June, 2005, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors by Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules. Upon enquiry by the Company, all Directors of the Company have confirmed that they have complied with the required standards set out in the Model Code throughout the six months ended 30th June, 2005.

CODE OF CORPORATE GOVERNANCE PRACTICES

None of the Directors is aware of any information which would reasonably indicate that the Company is not, or was not, during the period, in compliance with the Code of Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules except that the independent non-executive Directors are not appointed for a specific terms as they are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's Articles of Association.

AUDIT COMMITTEE

The audit committee of the Company currently comprises three independent non-executive Directors. The principal duties of the audit committee are the review and supervision of the financial reporting process and internal controls of the Group. The audit committee has reviewed the accounting policies and practices adopted by the Group and discussed internal controls and financial reporting matters with management. The Group's unaudited condensed consolidated interim financial statements for the six months ended 30th June, 2005 have been reviewed by the audit committee.

REMUNERATION COMMITTEE

A Remuneration Committee was established by the Company on 28th July, 2005, in accordance with the requirement of the Code. The Remuneration Committee, comprising three independent non-executive Directors, namely, Mr. Lo Wah Wai, Mr. Yan Mou Keung, Ronald and Mr. Cheng Wing Keung, Raymond, which meets at least once a year. The principal responsibilities of the Remuneration Committee include formulation of the remuneration policy, review and recommending to the Board the annual remuneration policy, and determination of the remuneration of the Executive Director and members of the Senior Management. Remuneration and the employment contracts of new appointing directors have to be reviewed and approved by the remuneration committee. Compensation of removal or dismissal of directors has to be reviewed and approved by the remuneration committee in accordance with relevant contractual terms and any compensation payment is otherwise reasonable and appropriate.

By Order of the Board
Wong Wai Kwok
Director

Hong Kong, 9th September, 2005