

# Management Discussion and Analysis

The board of directors (the “Board”) of China Financial Industry Investment Fund Limited (formerly known as First Asia Capital Investment Limited) (“the Company”) is pleased to present to the shareholders the annual report of the Company for the year ended 31 December 2004.

## ***BUSINESS REVIEW***

The Company is principally engaged in investing in listed and unlisted companies in Hong Kong and in the People’s Republic of China (the “PRC”). There was no change in the nature of the Company’s principal activity during the year. As at 31 December 2004, total market value of the Company’s trading securities amounted to HK\$171,000 (2003: HK\$6,675,000) and investment securities amounted to HK\$3,900,000 (2003: HK\$5,000,000).

The Board has resolved not to recommend a dividend.

For the financial year under review, the Company recorded a net loss of HK\$7,442,000 (2003: HK\$12,096,000). This was mainly attributable to the net realised loss on disposal of trading investment of HK\$3,677,000 (2003: HK\$1,004,000), net unrealised holding loss of the Company’s investment in listed securities of HK\$458,000 (2003: HK\$7,529,000) and provision for diminution in value of investment securities of HK\$1,100,000 (2003: Nil).

This adverse result was affected by the high volatility in the Hong Kong stock market in 2004.

The Company was managing a portfolio of listed company securities covering a range of industry sectors to achieve risk diversification. The portfolio consisted of Global Link Communications Holdings Limited and WLS Holdings Limited. Apart from the above listed securities, the Company had also made an investment in an unlisted company, Hong Xiang Petroleum International Holdings Limited. Subsequent to the year end date, the Company’s interest in the unlisted company has been exchanged as consideration for various listed and unlisted investments, which are foreseen by the management as profitable investments. No dividend income (2003: HK\$100,000) was received by the Company during the financial year under review. The Board is optimistic to the future prospects of these companies in their respective lines of business, and is expecting attractive return on investments and medium-term capital appreciation. Further details of the Company’s investment portfolio are set out in the audited financial statements.

## ***LIQUIDITY, FINANCIAL RESOURCES AND FUNDING***

The Company had retained cash of HK\$112,000 as at 31 December 2004 (2003: HK\$54,000). As all the retained cash was placed in Hong Kong Dollars short-term deposits with the banks in Hong Kong, exposure to exchange fluctuation is considered minimal.

The Company had net current assets of HK\$3,715,000 (2003: HK\$6,157,000) and no borrowings or long term liabilities as at 31 December 2004. The gearing ratio, calculated on the basis of total liabilities over total shareholders’ funds as at 31 December 2004, was 0.436 (2003: 0.063).

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## *EMPLOYEES*

As at 31 December 2004, the Company had 6 (31 December 2003: 6) employees, including executive and independent non-executive directors of the Company. Total staff costs for the year under review amounted to HK\$668,000 (2003: HK\$1,598,000). 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 individual employee.

During the year under review, no option has been granted or agreed to be granted under the share option scheme.

## *CHARGES ON THE COMPANY'S ASSETS AND CONTINGENT LIABILITIES*

There were no charges on the Company's assets or any significant contingent liabilities as at 31 December 2004.

## *PROSPECTS*

In 2005, the Company will continue to identify and pursue investment opportunities in Hong Kong, the PRC and other areas in accordance with the Company's investment objectives and policies.

Hong Kong economy is recovering gradually after a long sluggish period. Furthermore, the remarkable economic growth in the PRC is expected to continue in the coming years. Direct foreign investments in the PRC will also be strong and positive. The Board believes that Hong Kong can take advantage of the booming economy of the PRC to sustain a strong rebound of domestic economy in the coming years. The Company will closely monitor its underlying investment portfolio and make further investments and/or divestments to capture the opportunities arise in Hong Kong and/or the PRC.

In light of the stimuli advocated by the central government to boost domestic economy, the Company has an optimistic view on Hong Kong's economic prospect. The Company will work closely with its investment manager to identify suitable investment targets and to continue to make investments with potential in short to medium term in order to maximising return to shareholders. We are of the opinion that any short-term turbulence in the capital markets may actually represent opportunities to acquire profitable investment.

## *APPRECIATION*

On behalf of the Board, I would like to express my appreciation to the shareholders for their continued support since the Company's listing on the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

On behalf of the Board

**Tam Wai Keung, Billy**

*Executive Director*

Hong Kong, 20 May 2005