



## Management Discussion and Analysis

The Board of Directors (the "Board") of China Financial Industry Investment Fund Limited ("the Company") is pleased to present to the shareholders the annual report of the Company for the year ended 31 December 2005.

### 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 2005, total market value of the Company's trading securities amounted to HK\$652,000 (2004: HK\$171,000) and investment securities amounted to HK\$2,170,000 (2004: HK\$3,900,000).

The Board has resolved not to recommend dividend.

For the financial year under review, the Company recorded a net loss of HK\$4,726,000 (2004: HK\$7,442,000). This was mainly attributable to the net realised loss on disposal of investment securities of HK\$871,000 (2004: HK\$3,677,000) and directors' remuneration of HK\$523,000 (2004: HK\$467,000) and legal and professional fee of HK\$573,000 (2004: HK\$142,000).

This adverse result was affected by the high volatility in the Hong Kong stock market in 2005.

The Company was managing a portfolio of diversified listed company securities covering a range of industry sectors to achieve risk diversification. The portfolio consisted of Bolton Group (International) Limited and WLS Holdings Limited. Apart from the above listed securities, the Company had also made investment in unlisted companies. The Company received HK\$9,000 dividend income (2004: HK\$Nil) 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\$62,000 as at 31 December 2005 (2004: HK\$112,000). As all the retained cash was placed in Hong Kong Dollars short-term deposits with a major bank in Hong Kong, exposure to exchange fluctuation is considered minimal.

The Company had net current liabilities of HK\$1,338,000 (2004: net current assets of HK\$3,715,000) and no borrowings or long term liabilities as at 31 December 2005, which put the Company in a advantageous position to pursue its investment strategies and new investment opportunities. The gearing ratio, calculated on the basis of total liabilities over total shareholders' funds as at 31 December 2005, was 2.567 (2004: 0.436).

### EMPLOYEES

As at 31 December 2005, the Company had 6 (2004: 6) employees, including executive and independent non-executive directors of the Company. Total staff costs for the year under review amounted to HK\$523,000 (2004: HK\$668,000). 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 2005.



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### PROSPECTS

In 2006, 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 blooming 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 arisen 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 maximise returns 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 and to the investment manager for their dedicated efforts 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**  
*Chairman*

Hong Kong, 26 April 2006