



## Management Discussion and Analysis

On behalf of the board of directors (the "Board"), I would like to present to the shareholders the annual report of Concepta Investments Limited (the "Company") for the year ended 31 March 2006 (the "Year").

### BUSINESS REVIEW AND PROSPECTS

During the Year, the Hang Seng China Enterprises Index fluctuated between the range of 4,460 to 5,541 points. The Company retained the strategy of buying H shares when they overshoot on the downside and selling them in the period of relatively high valuations. The net profit for the Year was approximately HK\$7.9 million which comprised realised gain on listed securities of approximately HK\$10.2 million and net unrealized gain on fair value adjustments through profit and loss on listed securities of HK\$0.8 million. Administrative expenses for the year were approximately HK\$3.3 million.

The need for Chinese policy makers to focus on generating approximately 9 million new jobs a year implies that the Chinese economy will primarily be export and investment driven. However, the Chinese leadership also realised that growth rate of these two main engines of the Chinese economy cannot continuously be sustained at a high level and have indicated that growth need to be rebalanced with an increasing bias towards domestic consumption. The Board views that consumption will grow at a reasonable margin and provide investment opportunities, however, it will not be able to replace export and investment as the main economy driver in a short period of time. The Board believes those that are pushing for more government spending on healthcare and pension are justifiable as it is the lack of these provision that is contributing to the high savings rate and depressed consumption growth rate. For the near future, the Board is optimistic about the sustainable growth in China GDP as well corporate earnings.

While the Board is optimistic about the corporate earnings growth in the near term, China's stock market is also supported by strong liquidity flows on the back of ongoing speculation about Renminbi revaluation. The Board will take into account of the potential impact of forthcoming Renminbi revaluation when evaluating investment opportunities.

The Board expects that Hong Kong listed China shares will be well supported at current levels due to the positive factors mentioned and will remain overweight in the property, consumption and utility sector.

### LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2006, the Company had bank balances of HK\$34,768,451 (2005: HK\$29,037,553). The Board believes that the Company has sufficient financial resources to satisfy its immediate investments and working capital requirements.

The Company had net current assets of HK\$52,405,085 (2005: HK\$44,523,448) and no borrowings as at 31 March 2006, which positions the Company advantageously to pursue its investment strategies and new investment opportunities.



## Management Discussion and Analysis *(continued)*

The gearing ratio, which was calculated on the basis of total liabilities over total shareholders' funds as at 31 March 2006, was 0.02 (2005: 0.06).

### CAPITAL STRUCTURE

There has been no change in the Company's capital structure during the Year.

### INVESTMENT PORTFOLIOS

The Company's investment portfolio comprised of unlisted investment and listed securities investments. The Company held minority stakes of unlisted companies which are believed to have sound prospects of long-term growth in profits and capital appreciation in the future. As at 31 March 2006, the Company's unlisted investments, valued at cost less impairment, totalling HK\$778,000 (2005: HK\$778,000).

As at 31 March 2006, all of the Company's listed securities investments are Hong Kong listed securities. The Company held listed investments, at market value, of HK\$18,579,025 (2005: HK\$18,087,200) at 31 March 2006.

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### EMPLOYEES

During the Year, the Company had 3 (2005: 3) employees, including executive directors. Total staff costs, including directors' emoluments for the Year amounted to HK\$937,000 (2005: HK\$896,370). The Company's remuneration policies are in line with the market practice and are determined on the basis of the performance and experience of individual employees.

### EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

The Company's assets and liabilities are denominated in Hong Kong Dollars and, therefore, the Company had no significant exposure to foreign exchange fluctuation.

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

As at 31 March 2006, there were no charges on the Company's assets and the Company did not have any significant contingent liabilities.



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## Management Discussion and Analysis *(continued)*

### APPRECIATION

On behalf of the Board, I would like to thank all our shareholders for their continued trust and support and the investment manager for their dedicated efforts.

#### **ZHANG Gaobo**

*Executive Director*

Hong Kong SAR, 17 July 2006