



China Investment Fund Company Limited
中國投資基金有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 612



Interim
Report
2006

06

INTERIM RESULTS

The Board of Directors (the "Board") of China Investment Fund Company Limited (the "Company") is pleased to present the unaudited consolidated interim results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30th June, 2006 (the "Period"). The unaudited condensed consolidated interim results have been reviewed by the Company's auditors and the audit committee of the Company, which are as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June, 2006

| | Notes | Unaudited six months ended | |
|-------------------------------------------------------|-------|----------------------------|----------------------------|
| | | 30th June, 2006 HK\$ | 2005 HK\$ (Restated) |
| Turnover | 2 | 26,833,436 | 1,070,337 |
| Cost of sales | | (21,836,910) | (1,964,309) |
| Gross profit/(loss) | | 4,996,526 | (893,972) |
| Other income | | 392,879 | 139,361 |
| Fair value changes on investments held for trading | | 727,921 | (1,061,764) |
| Administrative expenses | | (1,598,205) | (1,698,019) |
| Profit/(loss) before taxation | 4 | 4,519,121 | (3,514,394) |
| Taxation | 5 | – | – |
| Profit/(loss) for the period | | 4,519,121 | (3,514,394) |
| Earning/(loss) per share | | | |
| Basic | 6 | 0.94 cents | (0.73) cents |
| Diluted | 6 | N/A | N/A |

CONDENSED CONSOLIDATED BALANCE SHEET

At 30th June, 2006

| | Unaudited 30th June, 2006 HK\$ | Audited 31st December, 2005 HK\$ |
|---------------------------------------------|-----------------------------------------|-------------------------------------------|
| Note | | |
| Non-current assets | | |
| Available-for-sale financial assets | 10,000,000 | 10,000,000 |
| | 10,000,000 | 10,000,000 |
| Current assets | | |
| Prepayments, deposits and other receivables | 1,686,114 | 8,660,786 |
| Cash and cash equivalents | 30,471,275 | 10,924,432 |
| Investments held for trading | 16,581,370 | 24,564,119 |
| | 48,738,759 | 44,149,337 |
| Current liabilities | | |
| Accrued liabilities and other payables | 257,930 | 187,629 |
| Net current assets | 48,480,829 | 43,961,708 |
| Net assets | 58,480,829 | 53,961,708 |
| Capital and reserves | | |
| Share capital | 4,800,000 | 4,800,000 |
| Reserves | 53,680,829 | 49,161,708 |
| Total equity | 58,480,829 | 53,961,708 |
| Net Asset Value per share | 8 | 0.12 |
| | | 0.11 |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June, 2006

| | THE GROUP | | | |
|-----------------------------------------------------------------------------|---------------------------------|---------------------------------|--------------------------------------|----------------------|
| | Unaudited | | | |
| | Share capital <i>HK\$</i> | Share premium <i>HK\$</i> | Accumulated losses <i>HK\$</i> | Total <i>HK\$</i> |
| As 1st January, 2006 | 4,800,000 | 79,555,597 | (30,393,889) | 53,961,708 |
| Net profit for the period | – | – | 4,519,121 | 4,519,121 |
| At 30th June, 2006 | 4,800,000 | 79,555,597 | (25,874,768) | 58,480,829 |
| At 1st January, 2005 | 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 |
| 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 |

CONDENSED CONSOLIDATED CASH FLOW STATEMENTS

For the six months ended 30th June, 2006

| | THE GROUP | |
|-------------------------------------------------------|-----------------------------------|--------------|
| | Unaudited six months ended | |
| | 30th June, | |
| | 2006 | 2005 |
| | HK\$ | HK\$ |
| Net cash from/(used in) operating activities | 19,546,843 | (24,591,646) |
| Net cash from investing activities | – | – |
| Net cash from financing activities | – | – |
| Net increase/(decrease) in cash and cash equivalents | 19,546,843 | (24,591,646) |
| Cash and cash equivalents at 1 January | 10,924,432 | 38,259,836 |
| Cash and cash equivalents at 30 June | 30,471,275 | 13,668,190 |
| Analysis of the balances of cash and cash equivalents | | |
| Cash and cash equivalents, being | | |
| Bank balances and cash | 28,349,446 | 11,625,284 |
| Goldman Sachs US\$ Liquid Reserve Fund | 2,121,829 | 2,042,906 |
| | 30,471,275 | 13,668,190 |

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30th June, 2006

1. BASIS OF PREPARATION

The unaudited condensed interim financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") and with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The accounting policies and basis of preparation used in the preparation of unaudited condensed consolidated interim financial statements are consistent with those used in the Group's annual financial statements for the year ended 31st December, 2005.

2. TURNOVER

The Group is principally engaged in investing in listed and unlisted investments held for trading. Turnover represents proceeds from sales of investments and dividend income.

| | THE GROUP | |
|-----------------------------------------------------|-----------------------------------|------------|
| | Unaudited six months ended | |
| | 30th June, | |
| | 2006 | 2005 |
| | HK\$ | HK\$ |
| | | (Restated) |
| Proceeds from sales of investments held for trading | 26,695,290 | 699,509 |
| Dividend income from investments held for trading | 138,146 | 370,828 |
| | 26,833,436 | 1,070,337 |

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3. SEGMENT INFORMATION

During the periods ended 30 June 2005 and 2006, more than 90% of the Group's turnover was derived from investments holding and trading in Hong Kong, no business and geographical segmental information on turnover are presented. The Group's segment assets and liabilities for the Period, analysed by geographical market, are as follows:

| | Hong Kong | | United States of America | | United Kingdom | | Others | | Consolidated | |
|---------------------------|---------------------------|------------|-----------------------------|------------|---------------------------|------|---------------------------|------|---------------------------|------------|
| | 30th June, 31st December, | | 30th June, 31st December, | | 30th June, 31st December, | | 30th June, 31st December, | | 30th June, 31st December, | |
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| | HK\$ | HK\$ | HK\$ | HK\$ | HK\$ | HK\$ | HK\$ | HK\$ | HK\$ | HK\$ |
| ASSETS | | | | | | | | | | |
| Segment assets | 18,195,484 | 33,224,905 | 10,000,000 | 10,000,000 | - | - | - | - | 28,195,484 | 43,224,905 |
| Unallocated assets | 30,543,275 | 10,924,432 | - | - | - | - | - | - | 30,543,275 | 10,924,432 |
| Consolidated total assets | | | | | | | | | 58,738,759 | 54,149,337 |
| LIABILITIES | | | | | | | | | | |
| Unallocated liabilities | | | | | | | | | 257,930 | 187,629 |

4. PROFIT/(LOSS) BEFORE TAXATION

| THE GROUP | |
|-----------------------------------|-------------|
| Unaudited six months ended | |
| 30th June, | |
| 2006 | 2005 |
| HK\$ | HK\$ |

Profit/(loss) before taxation has been arrived at after charging:

Staff costs (including directors):

| | | |
|--------------------------------------------------|----------------|---------|
| Salaries and other benefits | 150,000 | 398,750 |
| Contributions to mandatory provident fund scheme | 3,000 | 12,438 |
| | 153,000 | 411,188 |

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 period can be reconciled to the profit/(loss) per consolidated income statement as follows:

| | THE GROUP | |
|-----------------------------------------------------------------------------------------------|-----------------------------------|-------------|
| | Unaudited six months ended | |
| | 30th June, | |
| | 2006 | 2005 |
| | HK\$ | HK\$ |
| Profit/(loss) before taxation | 4,519,121 | (3,514,394) |
| Tax at Hong Kong Profits Tax rate 17.5% | 790,846 | (615,019) |
| Tax effect of non-deductible expenses and non-taxable income in determining taxable profit | (531,025) | (275,439) |
| Tax effect of tax losses not recognised | (259,821) | 890,458 |
| Taxation | - | - |

6. EARNING PER SHARE

The calculation of basic earning per share for the period is based on the net profit for the period of HK\$4,519,121 (loss for the six months period ended 30th June, 2005: HK\$3,514,394) and on the weighted average number of 480,000,000 (six months ended 30th June, 2005: 480,000,000) ordinary shares during the period. No diluted earning/(loss) per share is presented since the Company has no dilutive potential ordinary shares in both periods presented.

7. DIVIDEND

The Board resolved not to pay an interim dividend for the Period (six months ended 30th June, 2005: nil).

8. NET ASSET VALUE PER SHARE

Net asset value per share is computed based on the net assets of HK\$58,480,829 (31st December, 2005: HK\$53,961,708) and the number of issued and fully paid up shares 480,000,000 (31st December, 2005: 480,000,000) as at 30th June, 2006.

9. COMMITMENTS

No capital commitment for investments held for trading 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:

| | Notes | THE GROUP | |
|-------------------------------------------|-------|-----------------------------------|-------------|
| | | Unaudited six months ended | |
| | | 30th June, | |
| | | 2006 | 2005 |
| | | HK\$ | HK\$ |
| Investment management fees paid to | | | |
| Baron Asset Management Limited | (i) | 210,000 | 210,000 |
| Rental expenses paid to Baron | | | |
| International Investment Holdings Limited | (ii) | 18,000 | 18,000 |

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 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, 2006, the Group had no significant contingent liabilities.

12. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform with the current period's presentation.

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, 2006, the Group has deployed approximately HK\$16.5 million in listed securities.

Operating Results

During the six months ended 30th June, 2006, the Group reported a profit of approximately HK\$4.5 million (six months ended 30th June, 2005: a loss approximately HK\$3.5 million). The profit was mainly attributable to the realized profit on disposal of investments in securities.

Financial Position and Working Capital

As at 30th June, 2006, the Group had cash and cash equivalents of approximately HK\$30.5 million (31st December, 2005: HK\$10.9 million) with no borrowings. The increase in cash and cash equivalents was mainly due to the disposal of investments in securities. Cash and cash equivalents represented approximately 51.9% of the Group's total asset as at 30th June, 2006.

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.

DIRECTOR'S AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS

As at the 30th June, 2006, 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 of the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules.

SUBSTANTIAL SHAREHOLDERS

As at 30th June, 2006, 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:

| Name | Notes | Number of Shares | Type of interest | Approximately percentage of issued share capital of the Company |
|---------------------------------------------|-------|------------------|------------------------------------|-----------------------------------------------------------------|
| Cosmopolitan International Holdings Limited | 1 | 130,896,000 | Interest of controlled corporation | 27.27% |
| 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 130,896,000 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. Join 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, 2006, 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 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, 2006.

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, comprising three independent Non-executive Directors, has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters of the Company including the review of the unaudited interim financial statements for the period. At the request of the Directors, the Company's external auditors, Messrs. HLM & Co., have carried out a review of the unaudited interim financial statements in accordance with the Statement of Auditing Standards 700 "Engagement to review interim financial reports" issued by the Hong Kong Institute of Certified Public Accountants.

REMUNERATION COMMITTEE

A Remuneration Committee was established by the Company in 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
Ng Hon Cheung, Sannio
Director

Hong Kong, 13th September, 2006