

MANAGEMENT DISCUSSION AND ANALYSIS

RESULT

For the year ended 31 December 2006, the audited net profit for New Capital International Investment Limited (“New Capital” or the “Company”) and its subsidiaries (the “Group”) totaled HK\$25,860,547. The consolidated net asset value of the Company was HK\$191,665,423 as at 31 December 2006. The Group’s audited combined loss for the year up to 31 December 2005, and combined net asset value per share as at 31 December 2005 were HK\$12,726,109 and HK\$0.264 respectively.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2006, the Group was in a good liquidity position, with cash and bank balances of HK\$33,461,172 (31 December 2005: HK\$38,967,253). As all the retained cash was placed in Hong Kong Dollars short-term deposits with a major bank in Hong Kong, the Group’s exposure to exchange fluctuations is considered minimal. The Board believes that the Group has sufficient financial resources to meet its immediate investment or working capital requirements.

As at 31 December 2006, the Group had net assets of HK\$191,665,423 (31st December 2005: HK\$171,005,472) and no borrowings or long-term liabilities, putting the Group in an advantageous position to pursue its investment strategies and investment opportunities.

CAPITAL STRUCTURE

There has been no change to the Group’s capital structure for the year in 31 December 2006.

CHARGE ON ASSETS AND CONTINGENT LIABILITIES

As at 31 December 2006, there were no charges on the Group’s assets or any significant contingent liabilities (31 December 2005: nil)

INVESTMENT PORTFOLIO

China Property Development (Holdings) Limited (“CPDH”)

The Group invested HKD78 million in China Property Development (Holdings) Limited (“CPDH”) in February 2002, representing an equity interest of 33.42%. CPDH holds 100% interest in a Beijing residential development project, the Pacific Town Project (marketed as Richmond Park in Beijing).

The project is a high-end residential development project located in the northeast corner of Beijing within the Lido Area of the Chaoyang District, it is situated in an up market district popular with foreigners and the diplomatic community.

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Richmond Park

The Richmond Park Project, is located in the up-market Lido area at the northeastern corner of Beijing outside the Fourth Ring Road. Popular amongst foreigners, major hotels and international schools are situated within the area. With convenient access to major expressways and roads, the Beijing International Airport, CBD and Yansa Business District are all within 10 minutes drive by car. Covering a site area of 125,925 square meters, the project plans to build 243,737 square meters high-end residential space with a product mix of high-rise apartments, condominiums and villas.

Phase I of Richmond Park consists of 3 high-rise luxury residential buildings (Block A1, A2 and A3) and a clubhouse facility. The residential units had been substantially pre-sold in August 2004 with an average selling price of RMB10,517 per sqm, the units were handed over to buyers in April 2006. The Phase I of the Project has been most successful and receives great acclaim from the satisfying customers. Richmond Park was awarded as one of the best design and the most desirable housing by the local real estate associations. It has established itself in the top end of the luxury residential sector and ranks equally among projects developed by first tier international developers. The project development company of Richmond Park has completed and submitted the tax audit report of Phase I to the relevant government authority. The profit of Phase I of the Project can then be distributed once approval is obtained.

Phase II-A consists of two buildings, A4 and A5. Phase III has one building of B5. The two phases represent total floor area of 51,327 sqm in 230 units which have been substantially pre-sold in the market, and their construction works are scheduled to complete in late 2007.

The project company is working on the site clearance of building A6 of Phase II-B and building B6 of Phase IV-A. Once the remaining households are resettled, construction work will commence immediately. The sales permit of building A7 of Phase I is obtained in February 2007, the project company is planning to launch sales of the retail properties in the clubhouse building.

Wuhan Xing Cheng Building

Wuhan city is the capital of Hubei Province; it is a famous historical and cultural city in China, a central metropolitan in the middle reaches of Yangtze River, national pivotal industrial base, centre of finance, commerce, logistics, information, science and education in Central China, long being reputed as "Oriental Chicago".

Wuhan is located at the geo-economic centre of China, the Beijing-Guangzhou and Beijing-Kowloon trunk railways run from north to south of the city, and it is also at the confluence of Yangtze river and Hanjiang river which run from west to east.



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Wuhan Xing Cheng Building is a commercial building situated at the city centre of Jianghan District in Wuhan. It is adjacent to the Wuhan Mobile & Telecommunication Bureau Building in the east, China Southern Airline Building in the west, 70 meters north of the building is Hankou Railway Station and the five -star Oriental Hotel. The building is at proximity to shopping malls, luxury residential apartments and commercial buildings.

Wuhan Xing Cheng Building has 16 floors; the underground floor is public areas and car parks. The first and second floors are areas for shopping purposes; the third to fifteen floors are commercial offices. The Group has approved to acquire the beneficial interest of Profit Harbour Industrial Limited, a company registered in Hong Kong, which holds the retail floors, Level 1 and Level 2 of Wuhan Xing Cheng Building, and is leased out to CITIC Bank (中信實業銀行武漢分行) and Beijing Illinois (北京伊力諾依家品店) a nationwide high-end store for household items and furniture.

The acquisition will provide the Group a stable rental income, together with a potential for capital appreciation.



China Eco-hotel Investments Limited (“China Eco-hotel”)

One of the newest business segments to take root in China’s growing economy in recent years is something that most westerners take for granted: economy hotel chains.



While China’s urban dwellers and business travelers are well acquainted with luxury and mid-priced hotel brands from Marriott International Inc. and Hilton Hotels Corporation, the rest of the lodging industry remains fragmented, dominated by guest houses and other privately owned properties. But with almost every aspect of China’s economy growing explosively, from heavy industry to disposable income, the demand for a standardized chain of lower-priced hotels is growing.

In December 2006, the Group entered into agreement to establish China Eco-hotel Investments Limited (“China Eco-hotel”) to invest in Anyi (Sichuan) Hotel Development Company Limited (“Anyi”). Anyi is a cooperative joint venture of China Eco-hotel with Sichuan Mishan Investment Limited (“Mishan”) to operate and manage economic hotel business in China. Mishan is one of the leading hotel investment and hotel management companies in Chengdu, China, it will provide experience and professional management to the joint venture. Mishan currently operate 4 economy hotels in Chengdu under the “Anyi 158” brand. The new joint venture is to expand the Anyi network to other cities in the South West region.

Anyi 158 hotels are economy hotels at a standard daily rate of RMB158 per night for an en suite room inclusive of breakfast. Independent air conditioning, telephone, television and broadband internet access are standard

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facilities of the room. It has taken reference of the features of economic hotels in developed countries, by providing hotel services that emphasize simple function, value for money, helpful and friendly staffs but low costs. Such new idea adopts ways of operations by running chain hotels under brand name. The target customers of Anyi 158 are the inbound travelers, individual, family or business clients, they are offered with low room rate RMB158 with great value. The service counter of Anyi 158 has fax, copy, printing and hotel booking services provided, ticketing and tourist services are also offered.

The growth of the PRC's economy and its tourism industry has led to a rapid development in the hotel industry. In recent years, the small, economic and friendly hotels have become more popular, especially for budget conscious travelers. The Board of the Company believed that the new investment will provide renewed impetus for the Company.

The government approval and the business license of the joint venture company has been obtained on 9 March 2007, the management team has been set up and getting ready to start development work at pre-identified sites. China Eco-hotel will invest initially up to RMB30 million, for Anyi to add ten more economy hotels in South West region of China within the next two years, then to strategically expand to other cities and establish an extensive hotel network in China under the Anyi brand. China Eco-hotel has an option to invest a further RMB50 million when the network expands.

Beijing Far East Instrument Co., Ltd. ("Far East")

Based on the unaudited management account as at 31 December 2006, the revenue of Far East increased by 26% to Rmb265 million. Its gross profit margin improved

to 11.8% in 2006. Its profit before adjustment for the year 2006 achieved historical high, was approximately Rmb11 million, as compared with Rmb6 million in 2005. The profit is coming both from the main business operations and the investment income distributed by its associates.

The main business operations cover the manufacturing of self-produced electrical products and the derived income from Beijing Rosemount Far East Instrument Co. Limited, the joint venture of Far East with Rosemount Inc. for advanced market segment. The profit increased by 46.3% to Rmb5.7 million.

Far East has explored into automated products and industrial integrated control system, it joined hand with other companies into sector of intelligent building control system and construction technology. The investment income coming from the distributed dividend income from its investment has increased by 147.5% to Rmb5.5 million in 2006.

Quoted Investment

On 24 October 2005, the Company subscribed 3,954,000 shares of China Construction Bank Corporation – H shares ("China Construction Bank") at HK\$2.35 per share. The Company has disposed 2,954,000 shares in December 2006 and the remaining 1,000,000 shares in January 2007 of China Construction Bank. The disposal contributed a gain of approximately HK\$5 million to the Group.

The Group has also disposed 7,810,000 shares of Skyworth Digital Company Limited ("Skyworth") during the year 2006. The disposal produced a gain of approximately HK\$266,000 to the Group. At the end of December 2006, the Group is holding 2,190,000 shares of Skyworth, which is valued at HK\$0.77 per share.