

# MANAGEMENT DISCUSSION AND ANALYSIS

I am pleased to present the annual report of China Investment Fund Company Limited (the "Company") and its subsidiaries (collectively, the "Group") for the year ended 31 December 2006.

The Group was principally engaged in investment in both listed and unlisted securities. The Group held listed equity investments in Hong Kong. During the year, the Group has continued to diversify its investment portfolio in both unlisted and debt securities.

## **BUSINESS REVIEW**

Hong Kong economy maintained the momentum of development through the financial year 2006. The rate of growth of The People's Republic of China (the "PRC") economy has remained firm and staunch support to the policies of Hong Kong from the Central Government.

### **Securities Investments**

For the year ended 31 December 2006, the Group recorded an audited turnover of approximately HK\$32,702,000, increased by approximately 16% over the previous year. The Group's net profit had made a turnaround from a net loss of approximately HK\$17,839,000 to a net profit of approximately HK\$19,329,000, it was mainly attributed from the realisation of long term listed investments and recover of debt securities during the year.

During the year review, the business of the Group has been benefited by the favorable investment climate in the Hong Kong stock market. The stock market posted a strong performance in line with the buoyant market conditions. As benefited from the continuous upturn of the overall economy, the securities market in Hong Kong traded actively. As a result, the Group recorded a realised gain on investments in securities of approximately HK\$5,942,000 as at 31 December 2006 (2005: loss of approximately HK\$2,223,000). The Directors believe that investment in Hong Kong listed companies will generate profits to the Group in long run. Given that the Hong Kong stock market is still volatile and the business environment still remains challenging, the Board will continue to identify any investment opportunities and manage the investment portfolio in accordance with the Company's investment objective and policy with a view of gaining high investment returns and yields for our shareholder.

### **Information Technology**

During the year review, the Group invested in a project which focuses on providing services in technology solution for clients in the hospitality industry. The Board considered that, with the growing domestic and international travelers within and into/out of the PRC, the demand for hotel and tourist related service is high. The information technology service provides fully integrated software solution to both hotel management system and operators. The wired or wireless high-speed internet access solution enables hoteliers or business travelers to access internet at their convenience. While the Group is positive on the prospects of this business, the Board will closely monitor and manage the portfolio in a prudent way.

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## LIQUIDITY AND FINANCIAL RESOURCES

The Group had cash and cash equivalents of approximately HK\$11,785,000 as at 31 December 2006 (2005: approximately HK\$10,924,000). The Group had no borrowing and had not obtained any credit facilities from financial institutions during the year.

The Group's gearing ratio, representing the total debt divided by equity attributable to equity holders of the Company, was not applicable as the Group did not have any bank loans or borrowings as at 31 December 2006 and 2005.

There were no capital commitments as at 31 December 2006 which would require a substantial use of the Group's present cash resources or external funding.

Exchange risk of the Group is minimal as the assets of the Group comprised substantially of bank deposits denominated in Hong Kong currency.

## MATERIAL ACQUISITION OF SUBSIDIARIES AND DISPOSAL OF A SUBSIDIARY

There were no material acquisition of subsidiaries and disposal of a subsidiary during the year ended 31 December 2006.

## CAPITAL STRUCTURE

The shares of the Company were listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and there has been no change in the capital structure of the Company for the year under review.

## EMPLOYEE INFORMATION

As at 31 December 2006, the Company had 2 executive Directors and 3 independent non-executive Directors and no employee. Remuneration policies for the Directors are reviewed by the Group in accordance with the market situation and their performance from time to time.

## PROSPECTS

The Directors will take a cautious and prudent approach in managing the Group's investment portfolio and develop the investment strategies. Given the present continuous economic improvement in the PRC, the Group will look into any potential investment opportunities in the PRC in the future that will nurture further development and constant growth in the future. The Group is open-minded and will continue to look for investment opportunities which offer outstanding returns and within the acceptable risk profile of the Group.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year ended 31 December 2006, the Company has not purchased, sold nor redeemed any of the Company's listed securities.

### **PUBLICATION OF FURTHER INFORMATION ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY**

All the financial and other related information of the Group required by the Rules Governing the Listing of Securities ("Listing Rules") on the Stock Exchange will be dispatched to our shareholders on or before 30 April 2007 and published on the websites of the Stock Exchange and the Company in due course.

### **CLOSURE OF REGISTER OF MEMBERS**

The register of member of the Company will be closed from Tuesday, 12 June 2007 to Wednesday, 13 June 2007, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify for attending the Annual General Meeting to be held on Wednesday, 20 June 2007, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Standard Registrars Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:00 p.m. on Monday, 11 June 2007.

By order of the Board

**China Investment Fund Company Limited**

**Ng Hon Cheung, Sannio**

*Director*

Hong Kong, 23 April 2007