

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 2004.

OPERATING REVIEW

The principal activity of the Group is investing in both listed and unlisted securities. The Group held listed equity investments in Hong Kong. During the year, the Group has diversified its investment portfolio into both unlisted and debt securities. The Group has deployed part of its resources in hospitality business in the United States of America and debt securities in China.

OPERATING RESULTS

During the year ended 31 December 2004, the Group recorded a loss of approximately HK\$2.1 million (2003: approximately HK\$4.6 million loss). The improvement in the current year financial results was mainly due to the gain on disposals and the appreciation in value of investments. For the year ended 31 December 2004, the Group has recorded approximately HK\$10.6 million turnover from the disposal of investments and realized gain of approximately HK\$209,000 (2003: realized loss of approximately HK\$780,000). The total net unrealized gain of the investment portfolio was approximately HK\$709,000 (2003: unrealized loss of approximately HK\$324,000).

FINANCING ACTIVITY

The Company issued 400 million shares of HK\$0.01 each in the share capital of the Company on 10 May 2004 by way of an open offer to qualified shareholders on the basis of five for one share held. Proceed of HK\$50 million from issuing would be applied to purchase investments in accordance with the investment objectives and investment policies of the Group. For the year ended 31 December 2004, approximately HK\$21 million has been applied during the year for diversifying the investment portfolio of the Group. The net proceeds from such share offer which has not been deployed for investments were placed in time deposits with financial institutions in Hong Kong.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2004, the Group had net cash balance of approximately HK\$38 million with no borrowing and no credit facilities obtained from financial institutions. The increase in cash balance to approximately HK\$38 million as at 31 December 2004 from approximately HK\$14.5 million as at 31 December 2003 was mainly due to the issuance of additional 400 million ordinary shares of HK\$50 million during the year. Since the Company has made no borrowing as at 31 December 2004, the calculation of gearing ratio was not applicable.

MATERIAL ACQUISITION OF SUBSIDIARIES AND DISPOSAL OF A SUBSIDIARY

Details of the disposal of a subsidiary and material acquisition of subsidiaries are set out in note 24 and note 25 to the financial statements respectively.

EMPLOYEES

As at 31 December 2004, the Company had no employee (2003: two employees). Total staff costs of the Company, excluding Directors' remuneration, for the year under review amounted to nil (2003: HK\$337,487). Staff remuneration packages were in line with the prevailing market practice and were determined on the basis of the performance and experience of individual employee.

CHARGES ON ASSETS AND CONTINGENT LIABILITIES

Throughout the year ended 31 December 2004, assets of the Company were free from any form of legal charge. In addition, the Company did not have any significant contingent liabilities.

PROSPECTS

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.

By order of the Board
China Investment Fund Company Limited
Ng Hon Cheung, Sannio
Director

Hong Kong, 22 April 2005