

# CHINA FINANCIAL INDUSTRY INVESTMENT FUND LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1227)

## ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2005

The Board of Directors (the “Board”) of China Financial Industry Investment Fund Limited (the “Company”) announces the audited results of the Company for the year ended 31 December 2005 with the comparative figures for the year ended 31 December 2004 as follows:

### INCOME STATEMENT

*For the year ended 31 December 2005*

	<i>Note</i>	<b>2005</b> <b>HK\$'000</b>	<b>2004</b> <b>HK\$'000</b> <i>(restated)</i>
Turnover	3	<b>4,033</b>	2,950
Cost of Sales		<u><b>(4,904)</b></u>	<u>(6,627)</u>
Gross Loss		<b>(871)</b>	(3,677)
Reversal of unrealised holding loss on financial assets at fair value through profit or loss		<b>195</b>	—
Net unrealised holding loss on financial assets at fair value through profit or loss		—	(458)
Impairment loss on available-for-sale financial assets		<b>(430)</b>	(1,100)
Impairment loss of investment deposit		<b>(1,300)</b>	—
Other operating expenses	5	<u><b>(2,320)</b></u>	<u>(2,207)</u>
Loss before income tax		<b>(4,726)</b>	(7,442)
Income tax expense		<u>—</u>	<u>—</u>
Loss for the year		<u><b>(4,726)</b></u>	<u>(7,442)</u>
Attributable to:			
Equity holders of the Company		<u><b>(4,726)</b></u>	<u>(7,442)</u>
Loss per share			
Basic, in HK cents	7	<u><b>(8.18)</b></u>	<u>(14.88)</u>
Diluted		<u><b>N/A</b></u>	<u>N/A</u>

# BALANCE SHEET

For the year ended 31 December 2005

	2005 HK\$'000	2004 HK\$'000 (restated)
<b>Non-Current Assets</b>		
Available-for-sale financial assets	<u>2,170</u>	<u>—</u>
<b>Current Assets</b>		
Available-for-sale financial assets	—	3,900
Financial assets at fair value through profit or loss	652	171
Prepayment, deposits and other receivables	83	1,150
Cash and bank balances	<u>62</u>	<u>112</u>
	<u>797</u>	<u>5,333</u>
<b>Total Assets</b>	<u><u>2,967</u></u>	<u><u>5,333</u></u>
<b>Equity:</b>		
<b>Capital and reserves attributable to the Company's equity holders</b>		
Share capital	600	500
Reserves	<u>232</u>	<u>3,215</u>
<b>Total equity</b>	<u><u>832</u></u>	<u><u>3,715</u></u>
<b>Current Liabilities</b>		
Accrued charges and other accounts payable	1,004	1,240
Amount due to a related company	131	73
Amounts due to directors	<u>1,000</u>	<u>305</u>
	<u>2,135</u>	<u>1,618</u>
<b>Total Liabilities</b>	<u>2,135</u>	<u>1,618</u>
<b>Total Equity and Liabilities</b>	<u>2,967</u>	<u>5,333</u>
<b>Net Current (Liabilities)/Assets</b>	<u><u>(1,338)</u></u>	<u><u>3,715</u></u>
<b>Total Assets Less Current Liabilities</b>	<u><u>832</u></u>	<u><u>3,715</u></u>

# NOTES TO INCOME STATEMENT

The auditors of the Company have modified their report on the Company's financial statements as follows:

## 1. Fundamental Uncertainty

In forming our opinion, we have considered the adequacy of disclosures made in the financial statements concerning the adoption of the going concern basis for the preparation of the financial statements. As set out in Note 2 (b) to the financial statements, the financial statements have been prepared on a going concern basis, the validity of which is dependent on the continuing financial support from the directors of the Company. The financial statements do not include any adjustments that would result from a failure of the Company to operate as a going concern. If the going concern basis is not used, adjustments would have to be made to the financial statements to reduce the value of the Company's assets to their recoverable amounts and to provide for any further liabilities which might arise.

We consider that appropriate disclosures relating to these fundamental uncertainty have been made and our opinion is not qualified in this respect.

## 2 Impact of New/Revised Hong Kong Financial Reporting Standards

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented unless otherwise stated.

The financial statements of China Financial Industry Investment Fund Limited have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which is a collective term that includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs"), and Interpretations ("Ints") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance and applicable disclosure provisions of the The Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

A summary of significant accounting policies followed by the Company in the preparation of the financial statements is set out below:

HKAS 1	Presentation of Financial Statements
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 18	Revenue
HKAS 21	The Effects of changes in Foreign Exchange Rates
HKAS 24	Related Party Disclosures
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 34	Interim Financial Reporting
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 39	Financial Instruments: Recognition and Measurement

The adoption of new/revised HKASs 1, 7, 8, 10, 18, 21, 24, 33, 34, 36 and 37 did not result in substantial changes to the Company's accounting policies. In summary:

- HKAS 1 has affected the presentation of financial statements.
- HKASs 7, 8, 10, 18, 33, 34, 36 and 37 had no material effect on the Company's policies.
- HKAS 21 had no material effect on the Company's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. The Company have the same functional currency as the presentation currency for respective entity financial statements.
- HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification of financial assets at fair value through profit or loss and available-for-sale financial assets.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards, wherever applicable. All standards adopted by the Company require retrospective application other than:

- HKAS 39 — does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Company applied the previous SSAP 24 “Accounting for investments in securities” to investments in securities and also to hedge relationships for the 2004 comparative information. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognised at 1 January 2005.

The adoption of revised HKAS 39 resulted in

	2005 HK\$'000	2004 HK\$'000
Increase in available-for-sale financial assets	2,170	3,900
Decrease in investment securities	(2,170)	(3,900)
Increase in financial assets at fair value through profit or loss	652	171
Decrease in trading securities	<u>(652)</u>	<u>(171)</u>

There was no impact on basic and diluted loss per share from the adoption of HKAS 39.

No early adoption of the following new Standards or Interpretations that have been issued but are not yet effective. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on or after 1st January, 2006:

HKAS 1 Amendment	Capital disclosures
HKAS 19 Amendment	Actuarial gains and losses, group plans and disclosures
HKAS 39 Amendment	Cash flow hedge accounting of forecast intragroup transactions
HKAS 39 Amendment	The fair value option
HKAS 39 & HKFRS4	Financial guarantee contracts
Amendments	
HKFRSs 1 & 6	First-time adoption of Hong Kong Financial Reporting Standards and
Amendments	exploration for and evaluation of mineral resources
HKFRS 6	Exploration for and evaluation of mineral resources
HK (IFRIC)-Int 4	Determining whether an arrangement contains a lease
HK (IFRIC)-Int 5	Rights to interest arising from decommissioning, restoration and
	environmental rehabilitation funds
HK (IFRIC)-Int 6	Liabilities arising from participating in a special market — waste electrical
(effective for	and electronic equipment
accounting periods	
on or after 1	
December 2005)	

The HKAS 1 Amendment shall be effective for accounting periods commencing on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Company's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 will replace HKAS 32 and has modified the disclosure requirements of HKAS 32 relating to financial instruments. This HKFRS shall be effective for accounting periods commencing on or after 1 January 2007.

The Company is in the process of making an assessment of what the impact of the new and revised HKFRSs is expected to be in the period of initial application. So far it has concluded that the HKAS 19 Amendment, HKAS 39 Amendments, HKFRSs 1 & 6 Amendments, HKFRS 6, HK (IFRIC) Int 5 & 6 do not apply to the activities of the Company. The Company expects that the adoption of the rest of them will not have any significant impact on the Company's results of operation and financial position.

### 3. Turnover and Other Revenue

Turnover represents sales in listed and unlisted financial assets during the year. The amount of each significant category of revenue recognised during the year are as follows:

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
<b>Turnover:</b>		
Sale of financial assets at fair value through profit or loss	129	2,950
Sale of available-for-sale financial assets	3,890	—
Dividend received	9	—
Bank interest income	5	—
	<u>4,033</u>	<u>2,950</u>

### 4. Segment Information

During the year ended 31 December 2005, more than 90% of the Company's turnover was derived from sale of available-for-sale financial assets in the British Virgin Islands (BVI), no business and geographical segmental information on turnover are presented.

For the year ended 31 December 2004, more than 90% of the Company's turnover was derived from sale of financial assets at fair value through profit or loss in Hong Kong, no business and geographical segmental information on turnover are presented.

The Company's segment assets and liabilities for the year, analysed by geographical market, are as follows:

	<b>Hong Kong</b>		<b>UK</b>		<b>BVI</b>		<b>Total</b>	
	2005	2004	2005	2004	2005	2004	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Segment assets	2,452	1,433	515	—	—	3,900	2,967	5,333
Segment liabilities	2,135	1,618	—	—	—	—	2,135	1,618

### 5. Expenses by Nature

Administrative expenses are analysed as follows:

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Auditors' remuneration	200	252
Employee benefit expenses	523	668
Legal and professional fee	<u>573</u>	<u>142</u>

## 6. Taxation

### *Current Taxation*

No provision for Hong Kong profits tax has been made as the Company incurred a taxation loss for the year (2004: Nil).

	2005 HK\$'000	2004 HK\$'000
<i>Deferred Taxation</i>		
Credit for the year	<u>—</u>	<u>—</u>

The credit for the year can be reconciled to the loss per the income statement as follows:

	2005 HK\$'000	%	2004 HK\$'000	%
Loss before tax	<u>(4,726)</u>		<u>(7,442)</u>	
Tax at Hong Kong profit tax rate of 17.5% (2004: 17.5%)	(827)	(17.5)	(1,302)	(17.5)
Estimated tax effect on income that are not taxable in determining taxable profit	(2)	(0.1)	—	—
Estimated tax effect on expenses that are not deductible in determining taxable profit	—	—	193	2.6
Tax effect of unrecognised deductible temporary differences	—	—	82	1.1
Tax effect of unrecognised tax losses	<u>829</u>	<u>17.6</u>	<u>1,027</u>	<u>13.8</u>
Tax income and effective tax rate for the year	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

## 7. Loss Per Share

The calculation of basic loss per share is based on the Company's net loss attributable to the shareholders of HK\$4,726,000 (2004: HK\$7,442,000) and the 57,808,000 (2004: 50,000,000) weighted average ordinary shares in issue during the year.

There were no dilutive potential shares during the years ended 31 December 2004 and 2005, therefore, no diluted loss per share has been presented.

## 8. Dividend

The directors do not recommend the payment of dividend in respect of the year ended 31 December 2005 (2004: Nil).

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

During the year ended 31 December 2005, the Company has not purchased, sold nor redeemed any of its listed securities.

## CORPORATE GOVERNANCE

In the opinion of the directors, the Company has, throughout the year, complied with The Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") save for (i) the Code Provisions on internal controls which are to be implemented for accounting periods commencing on or after 1 July 2005 pursuant to the Code; and (ii) the Code Provision A.4.2. which requires that all directors appointed including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

In the opinion of the Board, the continuity of leadership by the Chairman and Managing Director is important for the stability and growth of the Company. The Board therefore considers that both the Chairman and Managing Director of the Company should not be subject to retirement by rotation.

Further details of the Company's compliance with the Code will be disclosed in the 2005 Annual Report to be dispatched to the members of the Company in due course.

## **COMMENTARY ON FINAL RESULTS**

### **Business Review**

The Company is principally engaged in investing in listed and unlisted companies in Hong Kong and in the People's Republic of China (the "PRC"). There was no change in the nature of the Company's principal activity during the year. As at 31 December 2005, total market value of the Company's trading securities amounted to HK\$652,000 (2004: HK\$171,000) and investment securities amounted to HK\$2,170,000 (2004: HK\$3,900,000).

The Board has resolved not to recommend a dividend.

For the financial year under review, the Company recorded a net loss of HK\$4,726,000 (2004: HK\$7,442,000). This was mainly attributable to the net realised loss on disposal of investment securities of HK\$871,000 (2004: HK\$3,677,000) and directors' remuneration of HK\$523,000 (2004: HK\$467,000) and legal and professional fee of HK\$573,000 (2004: HK\$142,000).

This adverse result was affected by the high volatility in the Hong Kong stock market in 2005.

The Company was managing a portfolio of diversified listed company securities covering a range of industry sectors to achieve risk diversification. The portfolio consisted of Bolton Group (International) Limited and WLS Holdings Limited. Apart from the above listed securities, the Company had also made investment in unlisted companies. The Company received HK\$9,000 dividend income (2004: HK\$Nil) during the financial year under review. The Board is optimistic to the future prospects of these companies in their respective lines of business, and is expecting attractive return on investments and medium-term capital appreciation. Further details of the Company's investment portfolio are set out in the audited financial statements.

### **Liquidity, Financial Resources and Funding**

The Company had retained cash of HK\$62,000 as at 31 December 2005 (2004: HK\$112,000). As all the retained cash was placed in Hong Kong Dollars short-term deposits with a major bank in Hong Kong, exposure to exchange fluctuation is considered minimal.

The Company had net current liabilities of HK\$1,338,000 (2004: net current assets HK\$3,715,000) and no borrowings or long term liabilities as at 31 December 2005, which put the Company in a advantageous position to pursue its investment strategies and new investment opportunities. The gearing ratio, calculated on the basis of total liabilities over total shareholders' funds as at 31 December 2005, was 2.567 (2004: 0.436).

### **Employees**

As at 31 December 2005, the Company had 6 (2004: 6) employees, including executive and independent non-executive directors of the Company. Total staff costs for the year under review amounted to HK\$523,000 (2004: HK\$668,000). The Company's remuneration policies are in line with the prevailing market practice and are determined on the basis of the performance and experience of individual employee.

During the year under review, no option has been granted or agreed to be granted under the share option scheme.



## **Charges on the Company's Assets and Contingent Liabilities**

There were no charges on the Company's assets or any significant contingent liabilities as at 31 December 2005.

## **Prospects**

In 2006, the Company will continue to identify and pursue investment opportunities in Hong Kong, the PRC and other areas in accordance with the Company's investment objectives and policies.

Hong Kong economy is recovering gradually after a long sluggish period. Furthermore, the remarkable economic growth in the PRC is expected to continue in the coming years. Direct foreign investments in the PRC will also be strong and positive. The Board believes that Hong Kong can take advantage of the blooming economy of the PRC to sustain a strong rebound of domestic economy in the coming years. The Company will closely monitor its underlying investment portfolio and make further investments and/or divestments to capture the opportunities arisen in Hong Kong and /or the PRC.

In light of the stimuli advocated by the central government to boost domestic economy, the Company has an optimistic view on Hong Kong's economic prospect. The Company will work closely with its investment manager to identify suitable investment targets and to continue to make investments with potential in short to medium term in order to maximising return to shareholders. We are of the opinion that any short-term turbulence in the capital markets may actually represent opportunities to acquire profitable investment.

## **ADOPTION OF THE MODEL CODE**

The Company has adopted its own code of conduct regarding directors' securities transactions (the "Code of Conduct") on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. All directors of the Company have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code throughout the year ended 31st December, 2005. The Model Code also applies.

## **AUDIT COMMITTEE**

The Audit Committee, comprising three independent non-executive directors, together with the management, has reviewed management the accounting principles and practices adopted by the Company and has discussed internal control and financial reporting matters including a review of the financial statements for the year ended 31 December 2005.

## **PUBLICATION OF INFORMATION ON THE WEBSITE OF THE STOCK EXCHANGE**

The Company's 2005 annual report containing the relevant information required by the Listing Rules will be dispatched to the shareholders of the Company and published on the website of the Stock Exchange in due course.



## **DIRECTORS**

As of this date of announcement, Mr. Tam Wai Keung, Billy, Mr. Wu Tse Wai, Frederick and Mr. Fong Chi Wah are the executive directors of the Company; and Mr. Lam Yuk Lau, Mr. Tang King Fai and Mr. Wong Che Man, Eddy are the independent non-executive directors of the Company.

For and on behalf of the Board

**Tam Wai Keung, Billy**

*Chairman*

Hong Kong, 27 April, 2006