# 2006
INTERIM REPORT

# CHINA ASSETS (HOLDINGS) LIMITED
(Stock Code: 170)

# Corporate Information

## Board of Directors

### *Executive Directors*

Mr. Lao Yuan Yi *(Chairman)*
Mr. Xu Xiao Feng
Mr. Wang Jun Yan
Ms. Lao Yuan Yuan

### *Non-executive Directors*

Mr. Jiang Wei
Mr. Yeung Wai Kin
Mr. Zhao Yu Qiao

### *Independent Non-executive Directors*

Mr. Peter Duncan Neil Robertson
Mr. Fan Jia Yan
Mr. Wu Ming Yu

## Company Secretary and Qualified Accountant

Mr. Lau On Kwok

## Audit Committee

Mr. Peter Duncan Neil Robertson
Mr. Fan Jia Yan
Mr. Wu Ming Yu
Mr. Yeung Wai Kin

## Remuneration Committee

Mr. Lao Yuan Yi
Mr. Peter Duncan Neil Robertson
Mr. Fan Jia Yan

## Solicitors

Victor Chu & Co.

## Auditors

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

## Bankers

Bank of China (Hong Kong) Limited
CITIC Ka Wah Bank Limited
The Hongkong and Shanghai Banking Corporation Limited
Standard Chartered Bank

## Custodian

Citibank, N.A., Hong Kong Branch

## Registrars

Computershare Hong Kong Investor Services Limited
46th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

## Registered Office

19th Floor, Wing On House
71 Des Voeux Road Central
Hong Kong
Telephone : (852) 2521 9888
Facsimile : (852) 2526 8781
E-mail address: info@chinaassets.com

## Stock Code

170

# Unaudited Interim Results

The Board of Directors of China Assets (Holdings) Limited (the "Company") has pleasure in reporting the following unaudited condensed consolidated financial information of the Company and its subsidiaries (the "Group") for the six months ended 30th June 2006:

## Condensed Consolidated Profit and Loss Account

*For the six months ended 30th June 2006*

| | | Unaudited | |
|---|---|---|---|
| | | **Six months ended 30th June** | |
| | | **2006** | 2005 |
| | *Note* | ***US$*** | *US$* |
| Turnover | *2* | **240,851** | 137,996 |
| Other losses — net | *3* | **(6,728,999)** | (1,710,133) |
| Administrative expenses | *4* | **(921,403)** | (894,965) |
| Operating loss | | **(7,409,551)** | (2,467,102) |
| Share of profits of associates | *2* | **3,034,309** | 783,946 |
| Loss before income tax | | **(4,375,242)** | (1,683,156) |
| Income tax expenses | *5* | **(163,754)** | (52,582) |
| Loss attributable to equity holders | | **(4,538,996)** | (1,735,738) |
| Loss per share attributable to equity holders | *6* | | |
| Basic | | **(0.0608)** | (0.0233) |
| Diluted | | **N/A** | N/A |

# Condensed Consolidated Balance Sheet

*As at 30th June 2006*

| | Note | **Unaudited 30th June 2006 US$** | Audited 31st December 2005 US$ |
|---|---|---|---|
| Non-current assets | | | |
| Investments in associates | | **51,394,137** | 49,116,150 |
| Available-for-sale financial assets | | **21,944,366** | 19,549,968 |
| | | **73,338,503** | 68,666,118 |
| Current assets | | | |
| Loan receivables | | **2,500,688** | 6,603,481 |
| Other receivables and prepayments | | **3,754,716** | 3,639,448 |
| Amount due from a related company | *10(b)* | **—** | 626 |
| Financial assets at fair value through profit or loss | | **19,298,000** | 27,941,562 |
| Cash and cash equivalents | *7* | **23,227,518** | 15,893,756 |
| | | **48,780,922** | 54,078,873 |
| Current liabilities | | | |
| Accounts payable | | **126,378** | 166,194 |
| Accrued expenses | | **17,561** | 104,747 |
| Amount due to a related company | *10(b)* | **8,976** | — |
| Taxation payable | | **270,807** | 147,919 |
| | | **423,722** | 418,860 |
| Net current assets | | **48,357,200** | 53,660,013 |
| Total assets less current liabilities | | **121,695,703** | 122,326,131 |
| Capital and reserves attributable to the Company's equity holders | | | |
| Share capital | *8* | **7,491,316** | 7,439,816 |
| Reserves | | **114,204,387** | 114,886,315 |
| Total equity | | **121,695,703** | 122,326,131 |

# Condensed Consolidated Cash Flow Statement

*For the six months ended 30th June 2006*

| | Unaudited Six months ended 30th June | |
|---|---|---|
| | **2006** | 2005 |
| | ***US$*** | *US$* |
| Cash flow generated from/(used in) operating activities | **3,404,255** | (1,276,575) |
| Cash flow generated from/(used in) investing activities | **3,746,929** | (19,123,037) |
| Cash flow generated from financing activities | **175,907** | 5,115 |
| Increase/(decrease) in cash and cash equivalents | **7,327,091** | (20,394,497) |
| Exchange translation | **6,671** | (1,530) |
| Cash and cash equivalents at 1st January | **15,893,756** | 33,495,303 |
| Cash and cash equivalents at 30th June | **23,227,518** | 13,099,276 |
| Analysis of the balances of cash and cash equivalents: | | |
| Cash and cash equivalents | **23,227,518** | 13,099,276 |

# Condensed Consolidated Statement of Changes in Equity

*For the six months ended 30th June 2006*

| | Unaudited | | | | | |
|---|---|---|---|---|---|---|
| | Share capital US$ | Share premium US$ | Capital reserve US$ | Investment revaluation reserve US$ | Retained earnings US$ | Total US$ |
| At 1st January 2005 | 7,438,316 | 68,445,344 | 7,729,037 | — | 28,861,691 | 112,474,388 |
| Share of post-acquisition reserves of associates | — | — | (494,592) | — | — | (494,592) |
| Exchange differences arising on translation of the accounts of associates and subsidiaries | — | — | 376,731 | — | — | 376,731 |
| Fair value loss of available-for-sale financial assets | — | — | — | (2,621,766) | — | (2,621,766) |
| Net losses not recognised in the profit and loss account | — | — | (117,861) | (2,621,766) | — | (2,739,627) |
| Loss attributable to equity holders | — | — | — | — | (1,735,738) | (1,735,738) |
| Issue of new shares | 1,500 | 3,615 | — | — | — | 5,115 |
| At 30th June 2005 | 7,439,816 | 68,448,959 | 7,611,176 | (2,621,766) | 27,125,953 | 108,004,138 |
| At 1st January 2006 | 7,439,816 | 68,448,959 | 1,329,489 | (6,155,079) | 51,262,946 | 122,326,131 |
| Share of post-acquisition reserves of associates | — | — | 1,377,047 | — | — | 1,377,047 |
| Exchange differences arising on translation of the accounts of associates and subsidiaries | — | — | (38,784) | — | — | (38,784) |
| Fair value gain of available-for-sale financial assets | — | — | — | 2,394,398 | — | 2,394,398 |
| Net gains not recognised in the profit and loss account | — | — | 1,338,263 | 2,394,398 | — | 3,732,661 |
| Loss attributable to equity holders | — | — | — | — | (4,538,996) | (4,538,996) |
| Issue of new shares | 51,500 | 124,407 | — | — | — | 175,907 |
| At 30th June 2006 | 7,491,316 | 68,573,366 | 2,667,752 | (3,760,681) | 46,723,950 | 121,695,703 |

# Notes to Condensed Consolidated Financial Information

**1. Basis of preparation and accounting policies**

These unaudited condensed consolidated interim financial information for the half-year ended 30th June 2006 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and the applicable requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

These condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31st December 2005.

The accounting policies and methods of computation used in the preparation of these condensed consolidated interim financial statements are consistent with those used in the annual financial statements for the year ended 31st December 2005.

The following new standards, amendments to standards and interpretations are mandatory for financial year ending 31st December 2006.

| | |
|---|---|
| HKAS 19 (Amendment) | Actuarial Gains and Losses, Group Plans and Disclosures |
| HKAS 39 (Amendment) | The Fair Value Option |
| HKAS 21 (Amendment) | Net Investment in a Foreign Operation |
| HKAS 39 (Amendment) | Cash Flow Hedge Accounting of Forecast Intragroup Transactions |
| HKAS 39 and HKFRS 4 (Amendment) | Financial Guarantee Contracts |
| 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 Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds |
| HK(IFRIC) — Int 6 | Liabilities arising from Participating in a Specific Market — Waste Electrical and Electronic Equipment |

The above new standards, amendments to standards and interpretations are either not relevant to the Group or, upon adoption, do not result in material impact on the Group's balance sheet and profit and loss account.

The following new standards, amendments to standards and interpretations have been issued but are not yet effective for the year ending 31st December 2006 and have not been early adopted by the Group:

HK(IFRIC) — Int 7, "Applying the Restatement Approach under HKAS 29", effective for annual periods beginning on or after 1st March 2006.

HK(IFRIC) — Int 8, "Scope of HKFRS 2", effective for annual periods beginning on or after 1st May 2006.

# Notes to Condensed Consolidated Financial Information *(Continued)*

**1. Basis of preparation and accounting policies** *(Continued)*

HK(IFRIC) — Int 9, "Reassessment of Embedded Derivatives", effective for annual periods beginning on or after 1st June 2006.

HKFRS 7, "Financial instruments: Disclosures", effective for annual periods beginning on or after 1st January 2007.

HKAS 1, "Amendments to capital disclosures", effective for annual periods beginning on or after 1st January 2007.

Neither these new standards, amendments to standards and interpretations are expected to be relevant for the Group nor the adoption of which will result in significant changes to the Group's accounting policies.

**2. Turnover and segment information**

The principal activity of the Group is investment holding in Hong Kong and Chinese Mainland. Revenues recognised during the period are as follows:

| | **Unaudited Six months ended 30th June** | |
|---|---|---|
| | **2006** | 2005 |
| | ***US$*** | *US$* |
| Turnover | | |
| Interest income | **236,711** | 137,996 |
| Dividend income from listed investments | **4,140** | — |
| | **240,851** | 137,996 |

***Primary Reporting Format — Business segments***

The principal activity of the Group is investment holding carried out in Hong Kong and the Chinese Mainland with its associates/investee companies operating in three main business segments during the period:

- Investment holding;
- Manufacturing and distribution of pharmaceutical products; and
- Property holding.

***Secondary Reporting Format — Geographical segments***

The Group's three business segments operate in two main geographical areas:

- Hong Kong — investment holding; and
- Chinese Mainland — manufacturing and distribution of pharmaceutical products and property holding.

# Notes to Condensed Consolidated Financial Information *(Continued)*

## 2. Turnover and segment information *(Continued)*

***Primary Reporting Format — Business segments***

The segment revenue and results for the six months ended 30th June 2006 by business segments are as follows:

| | Investment holding (Unaudited) US$ | Manufacturing and distribution of pharmaceutical products (Unaudited) US$ | Property holding (Unaudited) US$ | Others (Unaudited) US$ | Total (Unaudited) US$ |
|---|---|---|---|---|---|
| Segment revenue | 240,851 | — | — | — | 240,851 |
| Segment results | 240,851 | — | — | — | 240,851 |
| Unallocated income | | | | | 264,457 |
| Unallocated expenses* | | | | | (921,403) |
| Gain on disposal of a subsidiary | 231,942 | — | — | — | 231,942 |
| Gain on disposal of financial assets at fair value through profit or loss | 933,488 | — | — | — | 933,488 |
| Loss on deemed disposal of partial interests in an associate | (1,607,865) | — | — | — | (1,607,865) |
| Unrealised fair value losses on financial assets at fair value through profit or loss | (6,551,021) | — | — | — | (6,551,021) |
| Operating loss | | | | | (7,409,551) |
| Share of profits of associates | 2,936,051 | — | 94,384 | 3,874 | 3,034,309 |
| Income tax expenses | | | | | (163,754) |
| Loss attributable to equity holders | | | | | (4,538,996) |

The segment assets and liabilities at 30th June 2006 are as follows:

| | Investment holding (Unaudited) US$ | Manufacturing and distribution of pharmaceutical products (Unaudited) US$ | Property holding (Unaudited) US$ | Others (Unaudited) US$ | Total (Unaudited) US$ |
|---|---|---|---|---|---|
| Segment assets | 54,408,215 | 16,317,073 | — | — | 70,725,288 |
| Investments in associates | 34,532,744 | — | 17,165,957 | (304,564) | 51,394,137 |
| Total assets | | | | | 122,119,425 |
| Segment liabilities | 406,161 | — | — | — | 406,161 |
| Unallocated liabilities | | | | | 17,561 |
| Total liabilities | | | | | 423,722 |

# Notes to Condensed Consolidated Financial Information *(Continued)*

## 2. Turnover and segment information *(Continued)*

### *Primary Reporting Format — Business segments (Continued)*

The segment revenue and results for the six months ended 30th June 2005 by business segments are as follows:

| | Investment holding (Unaudited) *US$* | Manufacturing and distribution of pharmaceutical products (Unaudited) *US$* | Property holding (Unaudited) *US$* | Others (Unaudited) *US$* | Total (Unaudited) *US$* |
|---|---|---|---|---|---|
| Segment revenue | 137,996 | — | — | — | 137,996 |
| Segment results | 137,996 | — | — | — | 137,996 |
| Unallocated Income | | | | | 32,599 |
| Unallocated expenses* | | | | | (988,405) |
| Gain on disposal of investment in an associate | 28,581 | — | — | — | 28,581 |
| Gain on disposal of financial assets at fair value through profit or loss | 61,261 | — | — | — | 61,261 |
| Fair value loss on call options purchased | (336,109) | — | — | — | (336,109) |
| Unrealised fair value losses on financial assets at fair value through profit or loss | (1,403,025) | — | — | — | (1,403,025) |
| Operating loss | | | | | (2,467,102) |
| Share of profits/(losses) of associates | 630,805 | — | 194,000 | (40,859) | 783,946 |
| Income tax expenses | (52,582) | — | — | — | (52,582) |
| Loss attributable to equity holders | | | | | (1,735,738) |

# Notes to Condensed Consolidated Financial Information *(Continued)*

**2. Turnover and segment information** *(Continued)*

***Primary Reporting Format — Business segments*** *(Continued)*

The segment assets and liabilities at 31st December 2005 are as follows:

| | Investment holding (Audited) *US$* | Manufacturing and distribution of pharmaceutical products (Audited) *US$* | Property holding (Audited) *US$* | Others (Audited) *US$* | Total (Audited) *US$* |
|---|---|---|---|---|---|
| Segment assets | 57,697,008 | 15,931,833 | — | — | 73,628,841 |
| Investments in associates | 30,747,464 | — | 18,673,250 | (304,564) | 49,116,150 |
| Total assets | | | | | 122,744,991 |
| Segment liabilities | 314,113 | — | — | — | 314,113 |
| Unallocated liabilities | | | | | 104,747 |
| Total liabilities | | | | | 418,860 |

* Included in the unallocated expenses is the management fees of US$741,602 (2005: US$589,277) paid/payable to a related company and US$Nil (2005: US$50,625) paid to an associate respectively.

There are no sales or other transactions between the business segments.

# Notes to Condensed Consolidated Financial Information *(Continued)*

**2. Turnover and segment information** *(Continued)*

***Secondary Reporting Format — Geographical segments***

| | For the six months ended 30th June 2006 | | As at 30th June 2006 |
|---|---|---|---|
| | Turnover (Unaudited) | Segment results (Unaudited) | Total assets (Unaudited) |
| | *US$* | *US$* | *US$* |
| Hong Kong | 198,998 | 198,998 | 11,634,302 |
| Chinese Mainland | 41,853 | 41,853 | 59,090,986 |
| | 240,851 | 240,851 | 70,725,288 |
| Unallocated income | | 264,457 | |
| Unallocated expenses | | (921,403) | |
| Gain on disposal of a subsidiary | | 231,942 | |
| Gain on disposal of financial assets at fair value through profit or loss | | 933,488 | |
| Loss on deemed disposal of partial interests in an associate | | (1,607,865) | |
| Unrealised fair value losses on financial assets at fair value through profit or loss | | (6,551,021) | |
| Operating loss | | (7,409,551) | |
| Share of profits of associates | | 3,034,309 | |
| Income tax expenses | | (163,754) | |
| Loss attributable to equity holders | | (4,538,996) | |
| Investments in associates | | | 51,394,137 |
| Total assets | | | 122,119,425 |

# Notes to Condensed Consolidated Financial Information *(Continued)*

## 2. Turnover and segment information *(Continued)*

***Secondary Reporting Format — Geographical segments*** *(Continued)*

| | For the six months ended 30th June 2005 | | As at 31st December 2005 |
|---|---|---|---|
| | Turnover (Unaudited) *US$* | Segment results (Unaudited) *US$* | Total assets (Audited) *US$* |
| Hong Kong | 137,996 | 137,996 | 10,880,621 |
| Chinese Mainland | — | — | 62,748,220 |
| | 137,996 | 137,996 | 73,628,841 |
| Unallocated income | | 32,599 | |
| Unallocated expenses | | (988,405) | |
| Gain on disposal of investment in an associate | | 28,581 | |
| Gain on disposal of financial assets at fair value through profit or loss | | 61,261 | |
| Fair value loss on call options purchased | | (336,109) | |
| Unrealised fair value losses on financial assets at fair value through profit or loss | | (1,403,025) | |
| Operating loss | | (2,467,102) | |
| Share of profits of associates | | 783,946 | |
| Income tax expenses | | (52,582) | |
| Loss attributable to equity holders | | (1,735,738) | |
| Investments in associates | | | 49,116,150 |
| Total assets | | | 122,744,991 |

There are no sales or other transactions between the geographical segments.

# Notes to Condensed Consolidated Financial Information *(Continued)*

## 3. Other losses — net

| | Unaudited Six months ended 30th June | |
|---|---|---|
| | **2006** | 2005 |
| | ***US$*** | *US$* |
| Gain on disposal of investment in an associate | — | 28,581 |
| Gain on disposal of a subsidiary | **231,942** | — |
| Gain on disposal of financial assets at fair value through profit or loss | **933,488** | 61,261 |
| Net exchange gain/(loss) — net | **133,426** | (93,440) |
| Fair value loss on call options purchased | — | (336,109) |
| Loss on deemed disposal of partial interests in an associate | **(1,607,865)** | — |
| Unrealised fair value losses on financial assets at fair value through profit or loss | **(6,551,021)** | (1,403,025) |
| Others | **131,031** | 32,599 |
| | **(6,728,999)** | (1,710,133) |

## 4. Administrative expenses

Expenses included in administrative expenses are analysed as follows:

| | Unaudited Six months ended 30th June | |
|---|---|---|
| | **2006** | 2005 |
| | ***US$*** | *US$* |
| Management fee paid/payable to a related company *(note 10(a)(i))* | **741,602** | 589,277 |
| Management fee paid to an associate *(note 10(a)(ii))* | **—** | 50,625 |
| Auditors' remuneration | **8,927** | 11,929 |

# Notes to Condensed Consolidated Financial Information *(Continued)*

**5. Income tax expenses**

Hong Kong profits tax has been provided for at the rate of 17.5% (2005: 17.5%) on the estimated assessable profit for the period. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation charged to the condensed consolidated profit and loss account represents:

| | Unaudited Six months ended 30th June | |
|---|---|---|
| | **2006** | 2005 |
| | ***US$*** | *US$* |
| Current overseas taxation | **163,754** | 52,582 |

There was no material unprovided deferred taxation for the period.

**6. Loss per share**

The calculation of basic and diluted loss per share are based on the Group's loss attributable to equity holders of US$4,538,996 (2005: US$1,735,738). The basic loss per share is based on the weighted average number of 74,679,016 (2005: 74,385,066) ordinary shares in issue during the period.

Diluted loss per share for the six months ended 30th June 2005 and 2006 have not been disclosed as the share options outstanding have an anti-dilutive effect on the basic loss per share during the six months ended 30th June 2005 and 2006.

**7. Cash and Cash equivalent**

Included in the cash and cash equivalents of the Group are Renminbi deposits and cash in Chinese Mainland of US$13,444,436 (31st December 2005: US$5,572,933). Renminbi is not a freely convertible currency.

# Notes to Condensed Consolidated Financial Information *(Continued)*

## 8. Share Capital

| | Unaudited As at 30th June 2006 US$ | 2005 US$ |
|---|---|---|
| Authorised: | | |
| 160,000,000 shares of US$0.10 each | **16,000,000** | 16,000,000 |

| | Number of shares of US$0.10 each | Ordinary Share US$ | shares premium US$ | Total US$ |
|---|---|---|---|---|
| Issued and fully paid: | | | | |
| At 1st January 2005 | 74,383,160 | 7,438,316 | 68,445,344 | 75,883,660 |
| Shares issued under employee share option scheme | 15,000 | 1,500 | 3,615 | 5,115 |
| At 30th June 2005 | 74,398,160 | 7,439,816 | 68,448,959 | 75,888,775 |
| At 1st January 2006 | 74,398,160 | 7,439,816 | 68,448,959 | 75,888,775 |
| Shares issued under employee share option scheme | 515,000 | 51,500 | 124,407 | 175,907 |
| At 30th June 2006 | 74,913,160 | 7,491,316 | 68,573,366 | 76,064,682 |

## 9. Commitments

As at 30th June 2006 and 31st December 2005, the Group's share of capital commitments of an associate is as follows:

| | 30th June 2006 (Unaudited) US$ | 31st December 2005 (Audited) US$ |
|---|---|---|
| Contracted but not provided for | **2,097,545** | 315,635 |
| Authorised but not contracted for | **4,299,259** | 4,675,302 |

The Group did not have any other material commitments at 30th June 2006 (2005: Nil).

# Notes to Condensed Consolidated Financial Information *(Continued)*

**10. Related party transactions**

(a) Significant related party transactions, which were carried out in the normal course of business are as follow:

(i) During the period, the Company paid management fee totalling US$741,602 (2005: US$589,277) to China Assets Investment Management Limited ("CAIML") under the management agreement signed between the Company and CAIML.

CAIML is an associate of First Shanghai Investment Limited, an associate of the Company. Mr. Lao Yuan Yi, the Chairman and an executive director of the Company, Mr. Xu Xiao Feng and Mr. Wang Jun Yan, executive directors of the Company, and Mr. Yeung Wai Kin, a non-executive director of the Company, are also the directors of CAIML. Mr. Wang and Mr. Yeung are the shareholders (effective from 30th December 2005) of CAIML. Mr. Lao and Mr. Yeung are the directors of FSIL.

(ii) During the period, the Company did not pay any management fee to CITIC Capital China Property Partners, Ltd., an associate of the Company (2005: US$50,625).

(b) As at 30th June 2006, management fee payable to CAIML amounted to US$8,976 (2005: paid in advance: US$626). The balance was denominated in United States dollar, unsecured, interest-free and will be settled in the third quarter of 2006.

**11. Subsequent event**

(a) In July 2006, the Company entered into an agreement to invest a total of US$4 million in a media company which was principally engaged in the provision of multi-media content to broadband internet users, mobile phones users and IPTV markets for free subscription.

(b) In September 2006, the Company entered into an agreement to acquire indirect interest at consideration of US$1.7 million in an aviation academy company which was principally engaged in the provision of pilot-training service in China.

# Dividend

The Directors do not recommend the payment of an interim dividend (2005: US$Nil).

# Net Asset Value

The unaudited consolidated net asset value per share of the Group at 30th June 2006 was US$1.6245 (31st December 2005: US$1.6442).

# Share Options

## Options in respect of shares in the Company

At the Annual General Meeting of the Company held on 19th May 2004, the shareholders of the Company approved adoption of a share option scheme (the "Scheme"). The purpose of the Scheme is to enable the Company to grant options for the subscription of shares in the Company to selected participants as incentives or rewards for their contribution to the Group. Pursuant to the terms of the Scheme, the Directors may at their discretion offer any employee, proposed employee or director of the Company, any of its subsidiaries, its investment manager (the "Manager") or any invested entity in which the Group holds not less than 20% of its equity interest to take up options to subscribe for the shares in the Company.

Pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 26th May 2006, the 10% scheme limit was further refreshed to 7,491,316, representing 10% of the total number of issued shares of the Company as at the date of such meeting.

# Share Options *(Continued)*

## Options in respect of shares in the Company *(Continued)*

Details of the share options under the Scheme remain outstanding as at 30th June 2006 are as follows:

| | Options held at 1st January 2006 | Options exercised during the period | Options held at 30th June 2006 | Exercise price *HK$* | Closing price before the date of grant | Date of grant | Exercise period |
|---|---|---|---|---|---|---|---|
| **Directors:** | | | | | | | |
| Lao Yuan Yi | 725,000 | — | 725,000 | 2.65 | 2.50 | 21/05/2004 | 25/05/2004-23/05/2014 |
| Wang Jun Yan | 700,000 | — | 700,000 | 2.65 | 2.50 | 21/05/2004 | 25/05/2004-23/05/2014 |
| Jiang Wei | 50,000 | — | 50,000 | 2.65 | 2.50 | 21/05/2004 | 25/05/2004-23/05/2014 |
| Yeung Wai Kin | 700,000 | — | 700,000 | 2.65 | 2.50 | 21/05/2004 | 25/05/2004-23/05/2014 |
| Zhao Yu Qiao | 700,000 | (115,000)[1] | 585,000 | 2.65 | 2.50 | 21/05/2004 | 25/05/2004-23/05/2014 |
| Peter Duncan Neil Robertson | 70,000 | — | 70,000 | 2.65 | 2.50 | 21/05/2004 | 25/05/2004-23/05/2014 |
| Fan Jia Yan | 70,000 | (70,000)[2] | — | 2.65 | 2.50 | 21/05/2004 | 25/05/2004-23/05/2014 |
| Wu Ming Yu | 70,000 | — | 70,000 | 2.65 | 2.50 | 21/05/2004 | 25/05/2004-23/05/2014 |
| Employees of the Manager | 700,000 | (330,000)[3] | 370,000 | 2.65 | 2.50 | 21/05/2004 | 25/05/2004-23/05/2014 |
| | 3,785,000 | (515,000) | 3,270,000 | | | | |

1 The weighted average closing price before the dates of exercise was HK$5.93.
2 The weighted average closing price before the dates of exercise was HK$6.20.
3 The weighted average closing price before the dates of exercise was HK$6.00.

# Share Options *(Continued)*

## Options in respect of shares in associated corporations

| | Associated corporation | Date of grant | Balance of options not exercised as at 30 June 2006 | Exercise price *HK$* | Exercise period |
|---|---|---|---|---|---|
| **Directors:** | | | | | |
| Lao Yuan Yi | First Shanghai Investments Limited | 11/07/1996 | 5,503,900 | 0.318 | 11/01/1997 - 15/07/2006 |
| | | 01/11/1997 | 10,000,000 | 0.816 | 01/05/1998 - 12/11/2007 |
| | | 30/11/2005 | 22,842,000 | 0.564 | 30/05/2006 - 11/12/2015 |
| | | | 38,345,900 | | |
| Wang Jun Yan | First Shanghai Investments Limited | 08/07/1998 | 1,000,000 | 0.283 | 08/01/1999 - 15/07/2008 |
| | | 30/11/2005 | 11,810,000 | 0.564 | 30/05/2006 - 11/12/2015 |
| | | | 12,810,000 | | |
| Yeung Wai Kin | First Shanghai Investments Limited | 11/07/1996 | 1,494,304 | 0.318 | 11/01/1997 - 15/07/2006 |
| | | 01/11/1997 | 2,500,000 | 0.816 | 01/05/1998 - 12/11/2007 |
| | | 08/07/1998 | 6,980,000 | 0.283 | 08/01/1999 - 15/07/2008 |
| | | 30/11/2005 | 11,810,000 | 0.564 | 30/05/2006 - 11/12/2015 |
| | | | 22,784,304 | | |

The above share options were granted under the share option scheme of First Shanghai Investments Limited adopted on 24th May 2002.

# Directors' Interests and Short Positions in The Shares of the Company and its Associated Corporations

As at 30th June 2006, the interests and short positions of the directors and chief executives of the Company in the shares of the Company or its associated corporations (within the meaning of the Securities and Futures Ordinance (Cap. 571) ("SFO") recorded in the register maintained by the Company under section 352 of the SFO or notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, were as follows:

## Shares in the Company

The directors' interests in the shares of the Company are set out in the section headed "Share Options" above and all such interests were personal interests.

## Shares in associated corporations

| Associated corporation | Name | Type of interest | Number of ordinary shares held (percentage of issued share capital) |
|---|---|---|---|
| First Shanghai Investments Limited | Lao Yuan Yi | Personal | 90,216,000 |
| | | Corporate | 72,952,000 |
| | | | 163,168,000 (13.82%) |

Apart from the interests stated above and at note 10(a)(i), at no time during the period had the Company, its subsidiaries, its associates, its fellow subsidiaries a party to any arrangement to enable the directors and chief executives of the Company to hold any interests or short positions in the shares or underlying shares in, or debentures of, the Company or its associated corporation.

# Substantial Shareholders' Interests and Short Positions in the Shares of the Company and its Associated Corporations

The register of substantial shareholders' interests maintained under section 336 of the SFO reveals that as at 30th June 2006, the Company had been notified of the following interests of the substantial shareholders of the Company, being 5% or more of the Company's issued shares that carry a right to vote at general meetings of the Company.

| Name | Type of interest | Capacity | Number of ordinary shares held | Percentage of Issued share capital |
|---|---|---|---|---|
| First Shanghai Investments Limited ("FSIL") *(Note 1)* | Corporate | Interest of Controlled Corporation | 25,162,866 | 33.59% |
| First Shanghai Direct Investments Limited ("FSDI") *(Note 1)* | Corporate | Interest of Controlled Corporation | 25,162,866 | 33.59% |
| Golad Resources Limited *(Note 1)* | Corporate | Beneficial Owner | 25,162,866 | 33.59% |
| Deutsche Bank Aktiengesellschaft | Corporate | Security Interest | 15,730,000 | 21.00% |
| QVT Financial LP *(Note 2)* | Corporate | Investment Manager | 15,730,000 | 21.00% |
| QVT Financial GP LLC *(Note 2)* | Corporate | Interest of Controlled Corporation | 15,730,000 | 21.00% |
| QVT Associates GP LLC *(Note 3)* | Corporate | Interest of Controlled Corporation | 12,771,651 | 17.05% |
| QVT Fund LP *(Note 3)* | Corporate | Beneficial Owner | 12,771,651 | 17.05% |
| Chen Dayou | Personal | Beneficial Owner | 8,405,000 | 11.22% |

*Notes:*

1. Both FSIL and FSDI had corporate interests in the issued share capital of the Company through their indirect or direct share interests in Golad Resources Limited. Golad Resources Limited is wholly-owned by FSDI, which is, in turn, wholly-owned by FSIL.

2. QVT Financial GP LLC had interest in QVT Financial LP which is deemed to have interest in the issued share capital of the Company since QVT Financial LP acts in the capacity of investment manager to QVT Fund LP.

3. QVT Associates GP LLC had interest in the issued share capital of the Company through its interest in QVT Fund LP.

# Substantial Shareholders' Interests and Short Positions in the Shares of the Company and its Associated Corporations *(Continued)*

Save as disclosed above, no other shareholders of the Company had any beneficial or legal interests in 5% or more of the Company's issued shares that carry a right to vote in general meetings of the Company as recorded in the register maintained by the Company. All the interests described above represent long position in the shares of the Company and no short positions, deemed interests or derivative interests were recorded in the register maintained by the Company as at 30th June 2006.

# Purchase, Sale or Redemption of Shares

The Company has not redeemed any of its shares during the period. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the period.

# Code on Corporate Governance Practices

The Code on Corporate Governance Practices setting out in Appendix 14 of the Listing Rules (the "CG Code") was introduced on 1st January 2005. Accordingly, the Company adopted the code provisions in the CG Code as its own code on corporate governance practices in January 2005.

During the six months ended 30th June 2006, the Company has complied with the code provisions in the CG Code except for the following deviation:

## Code provision A.4.2

Under the code provision A.4.2 of the CG Code, every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

According to the corporate governance report in the 2005 annual report, not all the directors are subject to retirement by rotation. In order to comply with the code provision A.4.2 of the CG Code, relevant amendments to the Articles of Association of the Company were proposed and approved by the shareholders at the annual general meeting held on 26th May 2006.

## Audit Committee

The Company has set up an Audit Committee with written terms of reference since December 1998. The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including a review of the unaudited interim accounts for the period. The committee comprises three independent non-executive directors and a non-executive director.

## Model Code for Securities Transactions by the Directors

The Company has adopted Appendix 10 of the Listing Rules "Model Code for Securities Transactions by Directors of Listed Issuers" as rules for securities transactions initiated by the directors of the Company. Following specific enquiry by the Company, all directors have confirmed that they fully complied with the standard laid down in the said rules at any time during the period ended 30th June 2006.

## Investment Review

The Company reported a loss of US$4.54 million for the six months ended 30th June 2006, compared to a loss of US$1.74 million of the corresponding period of 2005. The loss was mainly due to an unrealised loss on listed trading portfolio of approximately US$6.55 million.

During the period under review, the Company continued to execute the shareholders' resolution and disposed of part of its investments in KongZhong Corporation ("KongZhong"). A disposal gain of US$0.44 million was recorded and an unrealised loss of US$7.17 million was booked representing difference of the market value of KongZhong's American Depositary Shares ("ADS") between 30th June 2006 and 31st December 2005. In order to better regulate the wireless value-added service ("WVAS") market, China Mobile issued new rules regarding regulation of WVAS in July. As the rules changes would adversely affect WVAS business, KongZhong revised down its revenue projection for the whole year and its ADS price reflected accordingly. The ADS price of KongZhong closed at US$8.80 on 30th June 2006.

## Investment Review *(Continued)*

After adopting various cost-cutting measures and change of products mix, Shandong Lukang Pharmaceutical Co. Ltd. (“Lukang”) reported an improved result for the first half. Regarding the share reform of Lukang, the Company has been actively discussing with the largest shareholder of Lukang — Shandong Lukang Pharmaceutical Group Co. Ltd. (“Lukang Group”) in the hope of reaching agreement about the share reform proposal. The Company’s share interest in Lukang will be diluted if the proposal is to be implemented after obtaining approval from the shareholders of Lukang. Despite the share reform, the Company will continue to look for buyers for its 15.46% interests (before dilution) in Lukang.

First Shanghai Investments Limited (“FSIL”) reported a significant increase on its profit for the first half of 2006, mainly due to a gain on disposal of its child products business. Performance of its stock broking business was improved by an active stock market in Hong Kong during the period.

CITIC Capital China Property Investment Fund, L.P. (the “Fund”) completed a second closing of US$36 million in January 2006 and acquired a podium which was an integrated part of the property already owned by the Fund subsequent to the first closing. And a revaluation gain of approximately US$5 million was also recognised to reflect the increase in the Fund’s value after the first closing in 2005.

In June 2006, the Company entered into an agreement to dispose of its indirect interest in Shenzhen Mindray Bio-Medical Electronics Co., Ltd. and recorded a disposal gain of approximately US$0.23 million which translated into a return on investment of approximately 29% in less than a year.

Despite the macro-economic tightening policy implemented in 2005, China’s economy has expanded at its fastest pace in more than a decade, growing by 11.3% year-on-year in the second quarter of 2006. The gross domestic product in the first half recorded a year-on-year increase of 10.9%. During the same period, the consumer price index and producer price index climbed 1.3% and 2.7% respectively. Purchase price for raw material, fuel and power continued to stay at a high level and rose by 6.1% comparing the same period last year.

# Investment Review *(Continued)*

During the first half of 2006, the PRC government introduced various macroeconomic control measures including raising the benchmark one-year lending rate by 0.27%, increasing the bank's reserve requirement ratio and conducting a series of measures to curb speculative investment in real estate sector so as to slow down the overheated economy. However, fixed assets investment continued to surge up by 29.8% over the same period last year. Meanwhile, the total contracted foreign capital rose by 2.7% while the actually utilised foreign capital fell by 0.5%.

Although this year's new tightening cycle has increased policy uncertainties in the near term, we believe the PRC government is aiming at preventing over-expansion on specific sectors, rather than slowing down the overall economic activities sharply.

A review of the Group's investments is set out below.

## Long-Term Investments

**First Shanghai Investments Limited ("FSIL")**

FSIL reported a profit of HK$109 million (approximately US$14.04 million) for the first half, representing an increase of nearly 6 times of that of the previous year. The substantial increase was mainly due to the profit on disposal of its child products business completed in the first half. Benefited from an active stock market, the brokerage service business of FSIL recorded an improved result for the period. Its hotel business also recorded significant growth in revenue as it gained popularity in the area.

**Shandong Lukang Pharmaceutical Co., Ltd. ("Lukang")**

After two consecutive price drop of 7-ACA series products, competition became more intense in the penicillin market in China. In view of unfavorable factors such as inflated fuel, raw material costs and increased finance costs from higher interest rate, Lukang adopted various cost-cutting measures and underwent a change of products mix. For the first half, Lukang reported a profit of RMB6.93 million (approximately US$0.87 million), representing an increase of 225% from the corresponding period last year.

# Investment Review *(Continued)*

## Long-Term Investments *(Continued)*

**Shandong Lukang Pharmaceutical Co., Ltd. ("Lukang")** *(Continued)*

During the period, the Company had been actively discussing with the largest shareholder — Shandong Lukang Pharmaceutical Group Company Limited ("Lukang Group") about the shares reform of Lukang. Different share reform proposals which took into considerations of various factors such as the prevailing proposals in the market, the financial position of Lukang Group and Lukang were reviewed and discussed. Upon agreement by the Company and Lukang Group, the share reform proposals will require further approval from the tradable share holders of Lukang. The Company's shares in Lukang will be subject to lock-up period and selling restrictions for the first three years upon approval of the share reform proposal and its interest in Lukang will be diluted down. Meanwhile, the Company will continue to look for buyers for its 15.46% interests (before dilution) in Lukang.

**CITIC Capital China Property Investment Fund, L.P. (the "Fund")**

After an extensive feasibility study, the Fund decided to further acquire the podium which was an integral part of the property complex and shared all public maintenance facilities with the office tower and the serviced apartment tower of the property complex already owned by the Fund subsequent to the first closing. In order to finance the acquisition of the podium, the Fund completed a second closing of US$36 million in January, among which the seller received an interest in the Fund as part of the sale consideration. A revaluation gain of US$5 million was recognized to reflect the increase in the Fund's value after the first closing completed in 2005. Upon completion of the second closing, the Company's interest in the Fund was diluted down from 30% to 17.42% and a loss on deemed disposal of US$16 million was recorded.

After completing the acquisition of the whole property complex, the manager of the Fund was working on a new property contract aiming at improving the overall rental income and occupancy rate. For the first half, the Fund recorded total rental income (unaudited) and profit after tax (unaudited) of approximately US$4.59 million and US$0.54 million respectively.

# Investment Review *(Continued)*

## Long-Term Investments *(Continued)*

**Konka Group Company Limited ("Konka")**

Benefited from a turnaround in mobile phones business, Konka reported a profit of RMB33.37 million (approximately US$4.17 million) for the first half, representing an increase of approximately 43% from the same period last year. During the period, Konka partnered with agents, trading companies and chain stores and expanded its overseas business significantly. Meanwhile, Konka also adjusted its products mix and increased the proportion of high-quality products such as LCD and high-definition TVs.

During the period, Konka also completed its share reform with a proposal of 2.5 consideration shares per 10 tradable shares. The Company is holding B-shares which are not entitled to receive any consideration shares from the share reform proposal.

## Investments for Which Full Provisions Had Been Made

**Dezhou Zhenhua Glass Co., Ltd. ("Zhenhua")**

Due to the obsolete production equipment and technology, production of Zhenhua had been suspended in August 2005. The Company is reviewing different alternatives for Zhenhua's future development, including liquidation.

A full provision of US$3.2 million was made against this investment in 1998 in view of the uncertain future for the sheet glass industry.

# Investment Review *(Continued)*

## Listed Shares

During the period, the Company achieved a profit on disposal of US$0.93 million for its listed portfolio, of which the disposal profit of KongZhong amounted to US$0.44 million. The shares held at 30th June 2006 had a carrying value of US$19.30 million. Unrealised fair value losses of US$6.55 million were included in the consolidated profit and loss account for the period.

**KongZhong Corporation ("KongZhong")**

KongZhong reported a profit of US$16.21 million for the first half, representing a year-on-year increase of approximately 30%. During the period, KongZhong completed the acquisition of another WVAS company which could diversify its income base. Affected by the policy changes of China Mobile, KongZhong ADS price faced downward pressure from the second quarter. During the period under review, the Company disposed of a total of 280,700 KongZhong's ADS at an approximate average price of US$14.13. The highest and lowest market price of KongZhong's ADS were US$15.30 and US$8.06 respectively during the period.

# Liquidity and Financial Resources

The financial position of the Group remained sound and healthy during the period. As at 30th June 2006, the Group had cash and cash equivalents of US$23.23 million (31st December 2005: US$15.89 million), of which US$13.44 million (31st December 2005: US$5.57 million) were held in RMB equivalent in form of the PRC banks' deposit held in Chinese Mainland, and no debt. Most of the Group's investments are located in Chinese Mainland. RMB is not a freely convertible currency and the RMB exchange rate remained relatively stable during the period.

# Employees

The Company is managed by China Assets Investment Management Limited. A qualified accountant was employed by the Company pursuant to the requirement of the Listing Rules. In addition to basic salary payments, other benefits include mandatory provident funds scheme and discretionary employee share option scheme.

## Prospects

In July 2006, the Company entered into agreement to invest a total of US$4 million in a media company which was principally engaged in the provision of multi-media content to broadband internet users, mobile phones users and IPTV markets for free subscription.

In September 2006, the Company entered into agreement to acquire indirect interest at consideration of US$1.7 million in an aviation academy company which was principally engaged in the provision of pilot-training service in China.

The Company will continue to look for investment opportunities which can provide high growth potential and attractive returns with defined risks.

By Order of the Board
**Lao Yuan Yi**
*Chairman*

Hong Kong, 12th September 2006