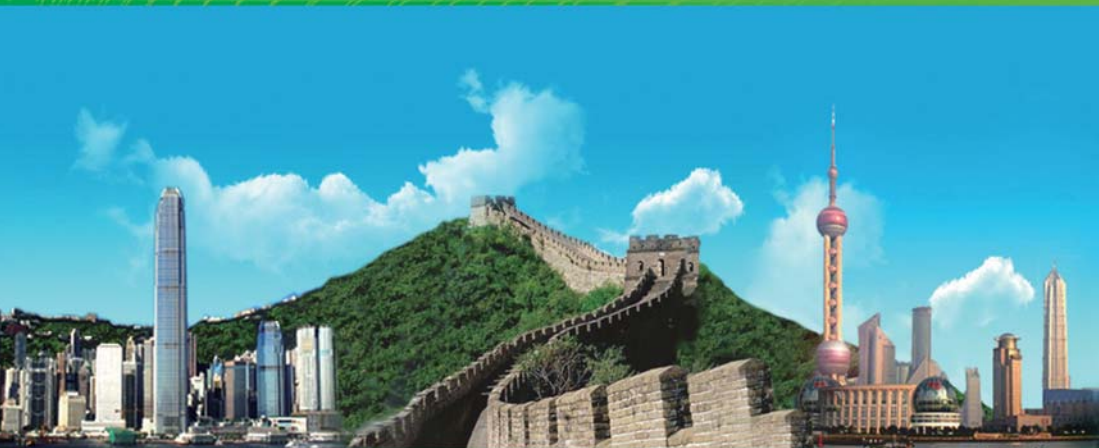


# CHINA ASSETS (HOLDINGS) LIMITED

(Stock Code: 170)



INTERIM REPORT

# 2007

## Corporate Information

### Board of Directors

#### *Executive Directors*

Mr. Lao Yuan Yi (*Chairman*)

Mr. Xu Xiao Feng

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

## Corporate Information *(Continued)*

### **Solicitors**

Victor Chu & Co.

### **Auditor**

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 2007:

### Condensed Consolidated Profit and Loss Account

For the six months ended 30th June 2007

		Unaudited Six months ended 30th June	
		2007	2006
	Note	US\$	US\$
Revenue	2	<b>470,873</b>	240,851
Other losses — net	3	<b>(440,142)</b>	(6,728,999)
Administrative expenses	4	<b>(3,068,996)</b>	(921,403)
Operating loss		<b>(3,038,265)</b>	(7,409,551)
Share of profits of associates		<b>10,319,575</b>	3,034,309
Profit/(loss) before income tax		<b>7,281,310</b>	(4,375,242)
Income tax expense	5	<b>(18,331)</b>	(163,754)
Profit/(loss) attributable to the equity holders of the Company		<b>7,262,979</b>	(4,538,996)
Earnings/(loss) per share attributable to the equity holders of the Company	6		
Basic		<b>0.0958</b>	(0.0608)
Diluted		<b>0.0937</b>	N/A

## Condensed Consolidated Balance Sheet

As at 30th June 2007

	Unaudited 30th June 2007 US\$	Audited 31st December 2006 US\$
<i>Note</i>		
<b>Non-current assets</b>		
Investments in associates	57,937,752	59,456,142
Available-for-sale financial assets	66,208,351	32,204,551
Other receivables	659,248	1,921,057
	<b>124,805,351</b>	93,581,750
<b>Current assets</b>		
Loan receivables	5,419,978	5,123,940
Other receivables, prepayments and deposits	9,860,131	5,625,836
Financial assets at fair value through profit or loss	13,152,770	18,898,016
Amount due from a related company	661	3,325
Tax recoverable	56,108	56,393
Cash and cash equivalents	34,967,078	16,736,439
	<b>63,456,726</b>	46,443,949
Total assets	<b>188,262,077</b>	140,025,699
<b>Equity attributable to the equity holders of the Company</b>		
Share capital	7,623,316	7,571,316
Reserves	180,546,747	132,115,432
Total equity	<b>188,170,063</b>	139,686,748
<b>Current liabilities</b>		
Accounts payables	66,451	137,067
Accrued expenses	10,000	95,236
Tax payable	15,563	106,648
	<b>92,014</b>	338,951
Total liabilities and equity	<b>188,262,077</b>	140,025,699
Net current assets	<b>63,364,712</b>	46,104,998
Total assets less current liabilities	<b>188,170,063</b>	139,686,748

## Condensed Consolidated Cash Flow Statement

For the six months ended 30th June 2007

	Unaudited	
	Six months ended 30th June	
	2007	2006
	US\$	US\$
Cash flows (used in)/generated from operating activities	(4,196,515)	3,404,255
Cash flows generated from investing activities	22,174,661	3,746,929
Cash flows generated from financing activities	196,226	175,907
Increase in cash and cash equivalents	18,174,372	7,327,091
Effect of foreign exchange rate changes	56,267	6,671
Cash and cash equivalents at 1st January	16,736,439	15,893,756
Cash and cash equivalents at 30th June	34,967,078	23,227,518
Analysis of the balances of cash and cash equivalents:		
Bank balances and cash	34,967,078	23,227,518

## Condensed Consolidated Statement of Changes in Equity

For the six months ended 30th June 2007

	Unaudited						
	Share capital US\$	Share premium US\$	Employee share-based compensation reserve US\$	Capital reserve US\$	Investment revaluation reserve US\$	Retained earnings US\$	Total US\$
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 condensed consolidated 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
At 1st January 2007	7,571,316	68,765,940	—	3,710,944	4,789,504	54,849,044	139,686,748
Share of post-acquisition reserves of associates	—	—	—	8,581,202	—	—	8,581,202
Exchange differences arising on translation of the accounts of associates and subsidiaries	—	—	—	(136,779)	—	—	(136,779)
Fair value gain of available-for-sale financial assets	—	—	—	—	31,774,924	—	31,774,924
Release upon disposal of available-for-sale financial assets	—	—	—	—	375,779	—	375,779
Release of capital reserve upon deemed disposal of partial interests in an associate	—	—	—	(1,565,721)	—	—	(1,565,721)
Net gains not recognised in the condensed consolidated profit and loss account	—	—	—	6,878,702	32,150,703	—	39,029,405
Profit attributable to equity holders	—	—	—	—	—	7,262,979	7,262,979
Issue of new shares	52,000	144,226	—	—	—	—	196,226
Employee share option benefits	—	—	1,994,705	—	—	—	1,994,705
At 30th June 2007	7,623,316	68,910,166	1,994,705	10,589,646	36,940,207	62,112,023	188,170,063

# Notes to Condensed Consolidated Financial Information

## 1. Basis of preparation and accounting policies

These unaudited condensed consolidated interim financial information for the six months ended 30th June 2007 has been prepared in accordance with Hong Kong Accounting Standard 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 information should be read in conjunction with the annual financial statements for the year ended 31st December 2006.

The significant accounting policies and method of computation used in the preparation of these condensed consolidated interim financial information are consistent with those used in the annual financial statements for the year ended 31st December 2006 except for the adoption of interpretations which are relevant and effective for the year ending 31st December 2007 as set out below:

- HK(IFRIC)-Int 8                      Scope of HKFRS 2
- HK(IFRIC)-Int 9                      Reassessment of Embedded Derivatives
- HK(IFRIC)-Int 10                      Interim Financial Reporting and Impairment

The adoption of the above interpretations did not result in substantial changes to the Group's accounting policies.

The following new standard and interpretations have been issued but are not effective for the year ending 31st December 2007 and have not been early adopted:

- HKFRS 8                                  Operating Segment
- HK(IFRIC)-Int 11                      HKFRS 2-Group and Treasury Share Transactions
- HK(IFRIC)-Int 12                      Service Concession Arrangements

## 2. Revenue and segment information

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

	Unaudited	
	Six months ended 30th June	
	2007	2006
	US\$	US\$
Revenue		
Interest income	405,873	236,711
Dividend income from listed investments	—	4,140
Dividend income from unlisted investments	65,000	—
	<b>470,873</b>	<b>240,851</b>



## Notes to Condensed Consolidated Financial Information (Continued)

### 2. Revenue and segment information (Continued)

#### Primary Reporting Format — Business segments

The principal activity of the Group is investment holding carried out in Hong Kong and the Mainland China 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
- Mainland China — manufacturing and distribution of pharmaceutical products and property holding.

#### Primary Reporting Format — Business segments

The segment revenue and results for the six months ended 30th June 2007 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	470,873	—	—	—	470,873
Segment results	470,873	—	—	—	470,873
Unallocated income					545,883
Unallocated expenses					(3,068,996)
Gain on disposal of a subsidiary	463,502	—	—	—	463,502
Gain on disposal of financial assets at fair value through profit or loss	2,199,717	—	—	—	2,199,717
Gain on deemed disposal of partial interests in an associate	410,786	—	—	—	410,786
Unrealised fair value losses on financial assets at fair value through profit or loss	(4,060,030)	—	—	—	(4,060,030)
Operating loss					(3,038,265)
Share of profits of associates	6,105,745	—	2,266,481	1,947,349	10,319,575
Income tax expense					(18,331)
Profit attributable to equity holders					7,262,979

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

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

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

The segment assets and liabilities at 30th June 2007 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	76,550,485	53,717,732	—	—	130,268,217
Investments in associates	55,863,752	—	2,375,936	(301,936)	57,937,752
Unallocated assets					56,108
Total assets					<u>188,262,077</u>
Segment liabilities	66,451	—	—	—	66,451
Unallocated liabilities					<u>25,563</u>
Total liabilities					<u>92,014</u>

## Notes to Condensed Consolidated Financial Information (Continued)

### 2. Revenue and segment information (Continued)

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

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 expense					(163,754)
Loss attributable to equity holders					(4,538,996)

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

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

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

The segment assets and liabilities at 31st December 2006 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	55,728,583	24,784,581	—	—	80,513,164
Investments in associates	41,883,457	—	17,875,101	(302,416)	59,456,142
Unallocated assets					56,393
Total assets					140,025,699
Segment liabilities	243,715	—	—	—	243,715
Unallocated liabilities					95,236
Total liabilities					338,951

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

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

	For the six months ended 30th June 2007		As at 30th June 2007
	Segment revenue (Unaudited) US\$	Segment results (Unaudited) US\$	Total assets (Unaudited) US\$
Hong Kong	343,709	343,709	35,468,073
Mainland China	127,164	127,164	94,800,144
	<b>470,873</b>	<b>470,873</b>	<b>130,268,217</b>
Unallocated income		545,883	
Unallocated expenses		(3,068,996)	
Gain on disposal of a subsidiary		463,502	
Gain on disposal of financial assets at fair value through profit or loss		2,199,717	
Gain on deemed disposal of partial interests in an associate		410,786	
Unrealised fair value losses on financial assets at fair value through profit or loss		(4,060,030)	
Operating loss		(3,038,265)	
Share of profits of associates		10,319,575	
Income tax expense		(18,331)	
Profit attributable to equity holders		<b>7,262,979</b>	
Investments in associates			57,937,752
Tax recoverable			56,108
Total assets			<b>188,262,077</b>

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

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

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

	For the six months ended 30th June 2006		As at 31st December 2006
	Segment revenue (Unaudited) US\$	Segment results (Unaudited) US\$	Total assets (Audited) US\$
Hong Kong	198,998	198,998	13,607,803
Mainland China	41,853	41,853	66,961,754
	<u>240,851</u>	240,851	80,569,557
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		<u>(6,551,021)</u>	
Operating loss		(7,409,551)	
Share of profits of associates		3,034,309	
Income tax expense		<u>(163,754)</u>	
Loss attributable to equity holders		<u>(4,538,996)</u>	
Investments in associates			<u>59,456,142</u>
Total assets			<u>140,025,699</u>

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	
	2007	2006
	US\$	US\$
Gain on disposal of subsidiaries	463,502	231,942
Gain on disposal of financial assets at fair value through profit or loss	2,199,717	933,488
Net exchange gain — net	531,077	133,426
Gain/(loss) on deemed disposal of partial interests in associates	410,786	(1,607,865)
Unrealised fair value losses on financial assets at fair value through profit or loss	(4,060,030)	(6,551,021)
Others	14,806	131,031
	<b>(440,142)</b>	<b>(6,728,999)</b>

### 4. Administrative expenses

Expenses included in administrative expenses are analysed as follows:

	Unaudited	
	Six months ended 30th June	
	2007	2006
	US\$	US\$
Management fee paid/payable to a related company <i>(note 10(a))</i>	916,663	741,602

## Notes to Condensed Consolidated Financial Information (Continued)

### 5. Income tax expense

Hong Kong profits tax has been provided for at the rate of 17.5% (2006: 17.5%) on the estimated assessable profit for the period. Income tax expense on overseas profits has been calculated on the estimated assessable profit for the period at the rates of income tax prevailing in the countries in which the Group operates.

The amount of income tax expense charged to the condensed consolidated profit and loss account represents:

	Unaudited	
	Six months ended 30th June	
	2007	2006
	US\$	US\$
Current overseas income tax	<u>18,331</u>	163,754

There was no material unprovided deferred income tax for the period.

### 6. Earnings/(loss) per share

The calculation of basic earnings per share are based on the Group's profit attributable to equity holders of the Company of US\$7,262,979 (2006: loss of US\$4,538,996) and the weighted average number of 75,801,845 (2006: 74,679,016) ordinary shares in issue during the period.

The calculation of diluted earnings per share are based on the Group's profit attributable to equity holders of the Company of US\$7,262,979 (2006: loss of US\$4,538,996). The weighted average number of 77,490,092 ordinary shares used in the calculation is the sum of weighted average number of 75,801,845 ordinary shares in issue during the period as used in the basic earnings per share calculation and the weighted average number of 1,688,247 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the period.

Diluted loss per share for the six months ended 30th June 2006 has 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 2006.

### 7. Cash and Cash equivalents

Included in the cash and cash equivalents of the Group are Renminbi deposits and cash in the Mainland China of US\$9,774,991 (31st December 2006: US\$11,992,936). Renminbi is not a freely convertible currency.

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

### 8. Share Capital

	Unaudited			
	Six months ended 30th June			
	2007		2006	
	US\$		US\$	
Authorised:				
160,000,000 shares of US\$0.10 each	<b>16,000,000</b>		16,000,000	
	<b>Number of shares of US\$0.10 each</b>	<b>Ordinary share US\$</b>	<b>Share premium US\$</b>	<b>Total US\$</b>
Issued and fully paid:				
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
At 1st January 2007	75,713,160	7,571,316	68,765,940	76,337,256
Shares issued under employee share option scheme	520,000	52,000	144,226	196,226
At 30th June 2007	76,233,160	7,623,316	68,910,166	76,533,482

### 9. Commitments

As at 30th June 2007 and 31st December 2006, the Group's capital commitments are as follows:

	30th June 2007 (Unaudited) US\$	31st December 2006 (Audited) US\$
Investment in associates and available- for-sale financial assets		
Contracted but not provided for	—	1,035,000
Authorised but not contracted	<b>600,000</b>	—



## Notes to Condensed Consolidated Financial Information (Continued)

### 9. Commitments (Continued)

As at 30th June 2007 and 31st December 2006, the Group's share of capital commitments of an associate are as follows:

	30th June 2007 (Unaudited) US\$	31st December 2006 (Audited) US\$
Contracted but not provided for	500,350	1,249,850
Authorised but not contracted	7,620,868	8,543,974

The Group did not have any other material commitments at 30th June 2007 (2006: Nil).

### 10. Related party transactions

Significant related party transactions, which were carried out in the normal course of business are as follows:

- (a) During the period, the Company paid management fee totalling US\$916,663 (2006: US\$741,602) to China Assets Investment Management Limited ("CAIML") under the management agreement signed between the Company and CAIML.

CAIML is an associate of First Shanghai Investments Limited ("FSIL") which is an associate of the Company. Mr. Lao Yuan Yi, the Chairman and an executive director of the Company, Mr. Xu Xiao Feng and Ms. Lao Yuan Yuan, executive directors of the Company, and Mr. Yeung Wai Kin, a non-executive director of the Company, are also the directors of CAIML. Mr. Yeung and Mr. Xu are the shareholders of CAIML. Mr. Lao and Mr. Yeung are the shareholders and directors of FSIL.

- (b) As at 30th June 2007, management fee paid in advance to CAIML amounted to US\$661 (31st December 2006: US\$3,325.) The balance was denominated in United States dollar, unsecured, interest-free and will be settled in the third quarter of 2007.

### 11. Subsequent event

In July 2007, the Company subscribed for shares amounting to US\$5 million in Canton Property Investment Ltd. ("CPIL") which was admitted on Alternative Investment Market ("AIM") of London Stock Exchange in August 2007. CPIL is a property development company which is engaged in development and operation of shopping malls in China.

## Dividend

The Directors do not recommend the payment of an interim dividend (2006: US\$Nil).

## Net Asset Value

The unaudited consolidated net asset value per share of the Group at 30th June 2007 was US\$2.4683 (31st December 2006: US\$1.8449).

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

As at 30th June 2007, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required to be notified to the Company and the Stock Exchange 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

Name of director	Number of shares held			% of the issued share capital
	Personal interests	Corporate interests	Total	
Yeung Wai Kin	200,000	0	200,000	0.26%

## Directors' interests and short positions in the securities of the Company and its associated corporations (Continued)

### Options in respect of shares in the Company

Details of the share options granted under the share option scheme approved on 19th May 2004 (the "Scheme") remain outstanding as at 30th June 2007 are as follows:

	Options held at 1st January 2007	Options granted during the period	Options exercised during the period	Options held at 30th June 2007	Exercise price HK\$	Closing price before the date of grant	Date of grant	Exercise period
<b>Directors:</b>								
Lao Yuan Yi	725,000	—	—	725,000	2.65	2.50	21/05/2004	25/05/2004-23/05/2014
	—	750,000	—	750,000	5.74	5.62	25/04/2007	25/04/2007-24/04/2017
Xu Xiao Feng	—	750,000	—	750,000	5.74	5.62	25/04/2007	25/04/2007-24/04/2017
Lao Yuan Yuan	—	750,000	—	750,000	5.74	5.62	25/04/2007	25/04/2007-24/04/2017
Jiang Wei	50,000	—	—	50,000	2.65	2.50	21/05/2004	25/05/2004-23/05/2014
	—	500,000	—	500,000	5.74	5.62	25/04/2007	25/04/2007-24/04/2017
Yeung Wai Kin	700,000	—	(200,000) <sup>1</sup>	500,000	2.65	2.50	21/05/2004	25/05/2004-23/05/2014
	—	750,000	—	750,000	5.74	5.62	25/04/2007	25/04/2007-24/04/2017
Zhao Yu Qiao	585,000	—	(130,000) <sup>2</sup>	455,000	2.65	2.50	21/05/2004	25/05/2004-23/05/2014
	—	750,000	—	750,000	5.74	5.62	25/04/2007	25/04/2007-24/04/2017
Peter Duncan								
Neil Robertson	70,000	—	(70,000) <sup>3</sup>	—	2.65	2.50	21/05/2004	25/05/2004-23/05/2014
	—	75,000	—	75,000	5.74	5.62	25/04/2007	25/04/2007-24/04/2017
Fan Jia Yan	—	75,000	—	75,000	5.74	5.62	25/04/2007	25/04/2007-24/04/2017
Wu Ming Yu	70,000	—	—	70,000	2.65	2.50	21/05/2004	25/05/2004-23/05/2014
	—	75,000	—	75,000	5.74	5.62	25/04/2007	25/04/2007-24/04/2017
Employees of the Manager								
	270,000	—	(120,000) <sup>4</sup>	150,000	2.65	2.50	21/05/2004	25/05/2004-23/05/2014
	—	1,450,000	—	1,450,000	5.74	5.62	25/04/2007	25/04/2007-24/04/2017
	<u>2,470,000</u>	<u>5,925,000</u>	<u>(520,000)</u>	<u>7,875,000</u>				

1. The weighted average closing price before the dates of exercise was HK\$5.50.
2. The weighted average closing price before the dates of exercise was HK\$7.40.
3. The weighted average closing price before the dates of exercise was HK\$8.29.
4. The weighted average closing price before the dates of exercise was HK\$8.28.

## Directors' interests and short positions in the securities of the Company and its associated corporations *(Continued)*

### Fair value of share options

The estimate of the fair value of the share options granted under the Scheme is based on the Black-Scholes valuation model. Details of the options granted during the period were as follows:

Date of grant	25th April 2007
Total share options granted during the period	5,925,000
Fair value of total share options granted during the period	HK\$15,594,600 (approximately US\$1,994,705)
Exercise price	HK\$5.74
Share closing price at the date of grant	HK\$5.40
Life of options	10 years
Expected volatility*	31.05%
Annual risk-free interest rate**	4.14%
Dividend yield***	0%

\* Expressed as annualised volatility for 1 year immediately preceding the grant date

\*\* Based on the yield of 10-year Exchange Fund Notes

\*\*\* Expressed as annualised dividend of the most recent financial year and the share closing price at the date of grant

Apart from the above, as at 30th June 2007, none of the Directors or the chief executive of the Company had or was deemed to have any interests and short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules.

## 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 2007, 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	33.01%
First Shanghai Direct Investments Limited ("FSDI") (Note 1)	Corporate	Interest of Controlled Corporation	25,162,866	33.01%
Golad Resources Limited (Note 1)	Corporate	Beneficial Owner	25,162,866	33.01%
QVT Financial LP (Note 2)	Corporate	Investment Manager	16,835,000	22.08%
QVT Financial GP LLC (Note 2)	Corporate	Interest of Controlled Corporation	16,835,000	22.08%
Deutsche Bank Aktiengesellschaft	Corporate	Security Interest	13,731,127	18.01%
		Beneficial owner	3,103,873	4.07%
QVT Associates GP LLC (Note 3)	Corporate	Interest of Controlled Corporation	13,731,127	18.01%
QVT Fund LP (Note 3)	Corporate	Beneficial Owner	13,731,127	18.01%
Chen Dayou	Personal	Beneficial Owner	8,405,000	11.03%

### Notes:

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

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 2007.

## 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 2007, the Company has complied with the code provisions in the CG Code.

## 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 2007.

## Investment Review

The Company reported a profit of US\$7.26 million for the six months ended 30th June 2007, compared to a loss of US\$4.54 million of the corresponding period of 2006. The profit was mainly due to share of profits from its associates — First Shanghai Investments Ltd. ("FSIL"), CITIC Capital China Property Investment Fund, L.P. (the "Fund") and CITIC Capital China Property Partners, Ltd. (the "Fund's Partner").

## Investment Review *(Continued)*

During the period, FSIL completed the disposal of its hotel investment in Kunshan, China and recorded a satisfactory profit. Together with the growth of its stock brokerage business, FSIL reported a significant increase in its interim result. Meanwhile, the Fund completed the disposal of its investment property in Shanghai in April 2007, which yielded a gross internal rate of return (“IRR”) of approximately 30%. The Fund’s Partner also recorded profits after receipts of carried interest from the Fund.

Suffering from the adverse policy change of telecommunication operators, KongZhong Corporation recorded a substantial drop in interim profit. Its American Depositary Shares (“ADS”) price plummeted by approximately 47% during the period from US\$9.76 to US\$5.18 per ADS. As a result an unrealised fair value loss of US\$6.29 million was recorded.

Using the opportunity of a robust stock market in both Hong Kong and China, the Company increased its trading portfolio and invested in two China-stock funds during the period. Overall the performance of both the trading portfolio and the fund investments were encouraging. The Company also disposed of all of its shares in Konka Group Company Ltd. and NetDragon Websoft Inc. which generated satisfactory returns.

During the first half of 2007, the PRC government continued to implement a series of macro-control policies aiming at improved efficiency and steady economic growth. Gross domestic product in the second quarter surged to an 11-year high and recorded a year-on-year increase of 11.5% for the first half. Inflation jumped to a near 3-year high in June and the consumer price index increased by 3.2% for the period, above the central bank’s target for the year of less than 3%. Producer price index increased by 3.2% and purchase price for raw material, fuel and power rose by 3.8% year-on-year.

It is expected that more macroeconomic control measures including both monetary and administrative measures will be used to cool activity in overheated sectors such as in food and property sectors, as inflationary pressure increases.

## Investment Review *(Continued)*

### Long-Term Investments

#### First Shanghai Investments Limited (“FSIL”)

FSIL reported a profit of HK\$244 million (approximately US\$31.23 million) for the first half, representing an increase of nearly 172% of that of same period last year. The substantial increase was mainly due to the profit on disposal of its hotel investment completed in the first half. Benefiting from a buyout stock market, the brokerage service business of FSIL achieved significant growth. Turnover from its container and freight forwarding service business declined seriously as freight forwarding business was terminated during the period.

#### Shandong Lukang Pharmaceutical Co., Ltd. (“Lukang”)

Benefiting from the increase of price of penicillin bulk pharmaceuticals, Lukang achieved a profit of RMB11.83 million for the period, representing a year-on-year increase of approximately 70%. Turnover and operating profit were also improved by 17% and 85% respectively over that of the same period last year.

During the period, the Company held several discussions with the largest shareholder — Shandong Lukang Pharmaceutical Group Company Limited (“Lukang Group”) and the lawyer about the formalities in relation to the disposal of its 63,658,870 restricted shares of Lukang. According to the relevant regulation, all the shares held by the Company have been subject to a lock-up period until 31st October 2007 and thereafter shares of not more than 5% and 10% of the total issued shares of Lukang could be traded on the stock exchange in the next 12-month period and 24-month period.

As a result of improved result and a robust stock market, Lukang share price climbed rapidly to RMB6.40 per share as at 30th June 2007 from RMB3.04 as at 31st December 2006. The unrealised fair value gain of approximately US\$28.93 million was credited to the investment revaluation reserve.

#### CITIC Capital China Property Investment Fund, L.P. (the “Fund”) CITIC Capital China Property Partners, Ltd. (the “Fund’s Partner”)

In April 2007, the Fund completed the disposal of its investment property in Shanghai to an investor group at a consideration of US\$200 million, compared to the valuation of the property of US\$179 million as of 31st December 2006. Taking into account of capital gain and rental income, net of expenses and carried interests, the profit represented a gross IRR of approximately 30%. Up to the end of 30th June 2007, the Fund made two distributions which in aggregate equaled to approximately 90% of the Fund’s estimated post sale net asset value. The Fund is currently under liquidation and the final distribution is expected to be made on or before the first quarter of the coming year. A total of US\$19.81 million was received by the Company during the period.

As a result of receipt of carried interest from the Fund, the Fund’s Partner recorded profit of approximately US\$7.8 million during the period.



## Investment Review *(Continued)*

### Long-Term Investments *(Continued)*

#### **iMedia Holdings Ltd. (“iMedia”)**

In July 2006, the Company acquired 25% equity interests in iMedia, which is engaged in provision of digital content and on-line magazines to internet users in China. During the period, iMedia continued to expand its business and started to record revenue from main operation.

#### **Beijing PanAm International Aviation Academy Co. Ltd. (“Beijing PanAm”)**

The Company acquired 2.54% indirect interests in Beijing PanAm in November 2006, which is engaged in provision of civil aviation training services in China. As a result of tight air traffic control and poor weather conditions during the second half year of 2006, the graduation of existing pilot students and recruitment of new pilot students were delayed and hence its operating result was affected adversely.

#### **Smartbuy Group Holdings Ltd. (“Smartbuy”)**

Pursuant to a term sheet entered into by the Company in November 2006, the Company will acquire 30% equity interests in Smartbuy (formerly known as Shanghai Yilan Business Management Co. Ltd.) which is engaged in provision of service of on-screen advertising and on-line purchase through special-designed terminals in China.

As the restructure of Smartbuy has not been completed, a total of RMB32 million (approximately US\$4.22 million) was extended to an affiliate of Smartbuy during the period. The loan will be applied as part of consideration for 30% equity interests of Smartbuy once its restructure is completed.

### **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 was suspended in August 2005. A full provision of US\$3.2 million had been made against this investment in 1998. The Company is currently in discussion with the PRC shareholders about different alternatives for Zhenhua’s future, including liquidation.

### **Listed Shares**

Benefiting from a robust stock market in both Hong Kong and China, the Company disposed part of its listed portfolio and achieved a profit on disposal of US\$0.78 million during the period. The shares held at 30th June 2007 had a carrying value of US\$7.12 million. Unrealised fair value losses of US\$6.29 million were included in the consolidated profit and loss account for the period.

## Investment Review *(Continued)*

### Listed Shares *(Continued)*

#### KongZhong Corporation (“KongZhong”)

KongZhong reported a profit of US\$1.60 million for the first half, representing a year-on-year drop of approximately 90%. The substantial decline was mainly due to the negative impact of policy changes introduced by telecommunications operators. During the period, China Mobile started to display a fee reminder to users trying to browse a WAP page. Besides, China Mobile began to promote only its own products on the embedded menu of handset, which also promoted other best selling products including many of KongZhong’s products in the past. As a result of these adverse actions, both operating margin and net margin of KongZhong deteriorated rapidly during the period.

Amid the tough operating environment, KongZhong continued to improve its mobile advertising business and also announced cooperation with MSN China and Opera Software ASA. As at 30th June 2007, KongZhong’s ADS price closed at US\$5.18 per ADS, representing a decrease of approximately 47% over that of 31st December 2006. An unrealised fair value loss of US\$6.29 million was charged against the consolidated profit and loss account as a result.

### Liquidity and Financial Resources

The financial position of the Group remained sound and healthy during the period. As at 30th June 2007, the Group had cash and cash equivalents of US\$34.97 million (31st December 2006: US\$16.74 million), of which US\$9.77 million (31st December 2006: US\$11.99 million) were held in RMB equivalent in form of the PRC banks’ deposit held in Mainland China, and no debt. Most of the Group’s investments are located in Mainland China. RMB is not a freely convertible currency and the RMB exchange rate against US dollars appreciated slightly 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

After receipt of approximately US\$20 million distributed by CITIC Capital China Property Investment Fund, the Company had cash and bank balances of approximately US\$35 million as at 30th June 2007. The Company will actively look for attractive investment opportunities with long term growth potential.

## Prospects *(Continued)*

On 30th July 2007, the shareholders of the Company at the extraordinary general meeting passed a resolution to dispose of up to 63,658,870 shares of Shangdong Lukang Pharmaceutical Company Limited (“Lukang”) through the open market at any time within twelve months from the expiry of the respective lock-up periods. The first batch of not more than 5% of the total issued shares of Lukang will become tradable on the stock market from the expiry of the first 12-month lock-up period i.e. 31st October 2007. The Company is now in preparation of formalities for the possible disposal of Lukang shares and will execute the disposal once the market conditions are favourable.

On 31st July 2007, the Company entered into an agreement to subscribe for placing shares of US\$5 million of Canton Property Investment Ltd. (“CPIL”) which was admitted on the AIM on 16th August 2007. CPIL is mainly engaged in development and operation of shopping malls in China.

In consideration of the national policy of intensifying environmental protection efforts and building a sustainable economic system formulated by the PRC government in its 11th Five-Year Plan, the Company will pay attention to projects relating to emission reduction and new energy.

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

Hong Kong, 12th September 2007