CHINA ASSETS (HOLDINGS) LIMITED

(Stock Code: 170)

ANNUAL REPORT

2007

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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. Fan Jia Yan
Mr. Wu Ming Yu

Company Secretary and Qualified Accountant

Mr. Lau On Kwok

Audit Committee

Mr. Fan Jia Yan
Mr. Wu Ming Yu
Mr. Yeung Wai Kin

Remuneration Committee

Mr. Lao Yuan Yi
Mr. Fan Jia Yan

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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

Stock Code

170

Chairman's Statement

I am pleased to present the annual report for the year ended 31 December 2007.

The Company's consolidated net profit for the year ended 31 December 2007 was US$9.42 million and consolidated net asset value as at 31 December 2007 was US$203.41 million, representing US$2.6570 per share.

Business Review

During the year under review, the Group reported a profit after income tax of US$9.4 million, representing an increase of 163% over that of the previous year. The increase was mainly contributed by share of profits from its major associates and also profits on disposal of listed shares and derivatives.

Benefited from a robust stock market, First Shanghai Investments Limited ("FSIL"), an associate of the Group, recorded satisfactory results from its securities trading and brokerage service business. Together with the gain on disposal of its hotel investment in the first half, FSIL reported a profit attributable to shareholders of HK$382 million (approximately US$49.0 million) for 2007, a rise of 62% from the previous year.

CITIC Capital China Property Investment Fund, L.P. (the "Fund"), another associate of the Group had disposed of its property complex and completed distribution of all its assets to the shareholders during 2007. Together with the dividend of US$2 million paid by CITIC Capital China Property Partners Ltd., the general partner of the Fund, the Group received a total of approximately US$22 million from the investments, representing a return on investment of over 60%.

In 2007, the Group invested approximately US$1.3 million and US$6.9 million respectively on two investment funds namely China Alpha Fund and PingAn Defeng Collective Fund Trust Plan. Both funds invested mainly on China-related stocks in Hong Kong and Mainland China stock markets and recorded satisfactory performance in 2007. As the two investments are classified as available-for-sale financial assets, unrealised fair value gains of approximately US$1.4 million and US$3.5 million respectively as at the year end were reflected in the investment revaluation reserve of the Group. During the year, the Group also invested approximately US$5 million in Canton Property Investment Ltd. ("Canton Property") which is engaged in development and lease of commercial real estates in China and was listed on the Alternative Investment Market of the London Stock Exchange in August 2007. The share price of Canton Property increased significantly during the year and the unrealised fair value gain of approximately US$4.5 million was transferred to the investment revaluation reserve at the year end.

In view of the robust stock market in 2007, the Group increased its portfolio trading volume and recorded a satisfactory return. During the year under review, share price of KongZhong Corporation ("KongZhong") fell continuously to US$6.09 per American Depositary Shares ("ADS") from US$9.76 per ADS one year ago. The

Group took opportunity of a share price rebound and disposed of a total of 0.99 million KongZhong ADS in September and October 2007. The Group still held 0.43 million of KongZhong ADS and an unrealised fair value loss of US$1.59 million was recorded at the end of 2007. Apart form this, the Group also participated in several IPOs in 2007 and received positive return.

Due to a drop of market supply resulted from government environment protection policy, average selling price of penicillin bulk pharmaceuticals increased significantly during the year. Shandong Lukang Pharmaceutical Co., Ltd. ("Lukang") benefited from improved margin and recorded a profit of RMB26.1 million (approximately US$3.6 million) for 2007, compared to a loss of RMB96.5 million for the previous year.

According to the share reform agreement signed in 2006, the Group is required to return 26.3 million shares to Lukang before the Group can apply for trading of its 63.7 million Lukang shares after the lockup period. The lock-up period was expired in October 2007. After the abovementioned 26.3 million shares of Lukang are returned and the trading application is approved, the Group can sell up to 5% of total issued shares of Lukang in the open market for the first 12 month after the lock-up period. The Group can sell up to another 5% of total issued shares of Lukang in the open market in the next 12 months and the remaining shares of Lukang thereafter. Share price of Lukang closed at RMB7.14 at the end of 2007 and the highest and lowest closing price during the year were RMB9.59 and RMB2.96 respectively. As at 31 December 2007, the fair value of Lukang was stated as US$62.5 million and the unrealised fair value gain of US$33.4 million was transferred to the investment revaluation reserve.

iMedia Holdings Ltd. ("iMedia") was engaged in the provision of multi-media content and digital magazines to internet users in China. In consideration of severe competition, iMedia adjusted its focus from providing digital magazine to video magazine platform during the year. With co-operation with CCTV, iMedia successfully signed several commercial contracts with international advertising companies. In September 2007, the Group completed the first round of equity investment of US$4.3 million in Smartbuy Group Holdings Ltd. ("Smartbuy"). Smartbuy (previously known as Shanghai Yilan Business Management Co. Ltd.) was mainly engaged in the provision of sale of products and service through internet and special-designed terminals to consumers in China. Total capital commitment of the Group to Smartbuy is US$10 million.

The Group invested US$1.7 million for an indirect 2.45% interest in Beijing PanAm International Aviation Academy Co. Ltd. ("Beijing PanAm") in November 2006, Beijing PanAm was engaged in provision of civil aviation training in China. During the year, Beijing PanAm incurred an operating loss as a result of frequent air traffic control and management problem. As the Group acquired indirect interest from one of the founders of Beijing PanAm, which was subject to certain price adjustment conditions with a strategic investor in Beijing PanAm, the Group's interest might be diluted substantially after Beijing PanAm reported loss for 2007. As a result, the Group recognised an impairment loss of US$1.7 million against this investment.

Chairman's Statement

The Group also made a provision of approximately US$2.5 million for an overdue amount due from GreatGate (Beijing) Sports Broker Co. Ltd. ("GreatGate Broker"). The Group intended to participate in the lottery business in China and invested RMB20 million (approximately US$2.7 million) indirectly in GreatGate China Lottery Technology Co. Ltd. ("GreatGate") in 2005. Due to disagreements with management of GreatGate, a termination agreement was signed with other relevant parties subsequently in which total amount of RMB20 million would be repaid by GreatGate Broker in four equal instalments. The first instalment which was due in December 2007 and later extended to March 2008 remained partial outstanding as at the date of this annual report. The Group will further discuss with GreatGate and take appropriate action to recover the outstanding amount of US$2.5 million.

Economic Outlook

In 2007, China's economy posted the fastest growth in 13 years and the GDP was up by 11.4% over the previous year. Despite a string of tightening measures, the fixed assets investment continued to grow rapidly and recorded increase of 24.8% over that of last year. The producer price index also rose 3.1% in 2007 of which the purchasing prices for raw materials, fuels and power went up by 4.4%, putting further pressure on the inflation. In December 2007, the consumer price index rose 6.5% and the consumer price index for the entire year increased by 4.8% year-on-year. Facing rising inflationary pressure, it is expected that the PRC government will continue to adopt different austerity measures to prevent overheating of the economy.

At the end of 2007, China's foreign exchange reserves reached US$1,528.2 billion, up by US$461.9 billion from the previous year. The year end exchange rate of RMB against USD was 7.3046, representing an appreciation of 6.9% over that at the end of 2006. It is widely believed that RMB will continue to appreciate against USD in 2008, making assets investments in China more attractive. For 2007, the foreign capital actually utilised recorded a year-on-year increase of 13.6% to US$74.8 billion.

The continuing tightening monetary policy of China and the possible depression of US economy has taken its toll on the stock market of both Mainland China and Hong Kong at the beginning of 2008. In view of a volatile market, the Group will monitor the investments closely and investigate new investment opportunities carefully.

Liquidity and Financial Resources

The financial position of the Group remained healthy during the year. As at 31 December 2007, the Group had cash and cash equivalents of US$50.94 million (2006: US$16.74 million), of which US$15.01 million (2006: US$11.99 million) were held in RMB equivalent in the form of PRC banks' deposit held in Mainland China. 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 dollar appreciates moderately during the year.

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 Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. In addition to basic salary payments, other benefits include mandatory provident funds scheme and discretionary employee shares option scheme.

Prospects

As a result of declining market sentiments and uncertain economic outlooks, the share price of Lukang dropped to RMB6.38 per share as at the end of first quarter 2008. Most of the Company's listed share investments also followed and recorded a drop in valuation. The Company will closely monitor the market situation and minimise risks accordingly.

At an extraordinary general meeting held on 31 March 2008, shareholders of Canton Property passed resolutions to issue new shares for proposed acquisition of a commercial development project in the new central business district in Guangzhou, China. Depending upon the final terms, the Company will consider making further investment in Canton Property.

As at the end of 2007, the Company held cash and cash equivalents of approximately US$50.94 million. We believe that the Company is well positioned to look for reasonable-priced potential investment opportunities in 2008.

The Company and the Board would like to express their condolences on the loss of Mr. Peter Robertson who passed away on 22 March 2008. Mr. Robertson had been the Director of the Company since 1992 and made valuable contributions to the Company during all these years.

Finally, I would like to thank my fellow directors, shareholders and the investment manager for their continuing support during the past year.

By Order of the Board
Lao Yuan Yi
Chairman

Hong Kong, 18 April 2008

Investments

Major Long-term Investments as at 31 December 2007

Name	Nature of business	% of total issued capital %	Invested amount *US$*	Impairment loss *US$*	Carrying value *US$*	% of net assets value %	Dividend received *US$*
Investments in associates							
First Shanghai Investments Limited	Investment holding	17.80	13,770,330	0	56,249,522	27.65	797,535
Smartbuy Group Holdings Limited	Provision of sale of product and service through internet and terminals	15.56	4,300,000	0	4,187,238	2.06	0
iMedia Holdings Limited	Provision of muti-media content and digital magazines on internet	*25.00	4,000,000	0	2,799,249	1.38	0
Holygene Corporation	Reseach and development of drugs	30.00	900,000	0	246,275	0.12	0
Dezhou Zhenhua Glass Co., Ltd.	Production and sale of glass products	30.00	3,202,000	3,202,000	0	0.00	0
Available-for-sale financial assets							
Shandong Lukang Pharmaceutical Co., Ltd.	Manufacture and sale of pharmaceutical products	11.46	9,594,203	0	62,467,268#	30.71	0
PingAn Defeng Collective Fund Trust Plan	Investment fund	N/A	6,940,436	0	11,642,753#	5.72	0
Canton Property Investment Ltd.	Development and lease of commercial buildings	1.36	4,999,500	0	9,485,770#	4.66	0
China Alpha Fund	Investment fund	N/A	1,280,443	0	2,660,453#	1.31	0
Beijing PanAm International Aviation Academy Co. Ltd.	Provision of civil aviation training services	**2.54	1,710,000	1,710,000	0	0.00	0
Total			50,696,912	4,912,000	149,738,528	73.61	797,535

* % upon completion of financing according to the share subscription agreement signed on 1 July 2006

** indirect interest

also represent their fair values

Investments

Major Long-term Investments as at 31 December 2006

Name	Nature of business	% of total issued capital %	Invested amount *US$*	Impairment loss *US$*	Carrying value *US$*	% of net assets value %	Dividend received *US$*
Investments in associates							
First Shanghai Investments Limited	Investment holding	20.75	13,770,330	0	38,208,500	27.35	1,117,030
CITIC Capital China Property Investment Fund, L.P.	Investment in property projects	17.42	13,500,000	0	17,875,101	12.80	0
CITIC Capital China Property Partners Limited	Fund management	25.00	250	0	250	0.00	0
iMedia Holdings Limited	Provision of muti-media content and digital magazines on internet	*25.00	4,000,000	0	3,674,957	2.63	0
Dezhou Zhenhua Glass Co., Ltd.	Production and sale of glass products	30.00	3,202,000	3,202,000	0	0.00	0
Available-for-sale financial assets							
Shandong Lukang Pharmaceutical Co., Ltd.	Manufacture and sale of pharmaceutical products	11.46	9,594,203	0	24,784,581#	17.74	0
Konka Group Company Limited	Manufacture and sale of TV and electronic products	2.34	6,085,749	0	5,709,970#	4.09	0
Beijing PanAm International Aviation Academy Co. Ltd.	Provision of civil aviation training services	**2.54	1,710,000	0	1,710,000#	1.23	0
Total			**51,862,532**	**3,202,000**	**91,963,359**	**65.84**	**1,117,030**

* % upon completion of financing according to the share subscription agreement signed on 1 July 2006

** indirect interest

\# also represent their fair values

Investments

Other Major Investments as at 31 December 2007

Name	Nature of business	Number of Shares held	% of total issued capital	Cost	Market value	% of net assets value	Dividend received
			%	*US$*	*US$*	%	*US$*
Financial assets at fair value through profit or loss							
KongZhong Corporation	Provision of wireless value-added services	432,428 ADS	1.22	148,261	2,633,486	1.29	0
China Telcom	Provision of wireline telecommunications services	1,800,000	0.00	1,285,826	1,430,347	0.71	0
Total				**1,434,087**	**4,063,833**	**2.00**	**0**

Other Major Investments as at 31 December 2006

Name	Nature of business	Number of Shares held	% of total issued capital	Cost	Market value	% of net assets value	Dividend received
			%	*US$*	*US$*	%	*US$*
Financial assets at fair value through profit or loss							
KongZhong Corporation	Provision of wireless value-added services	1,423,920 ADS	3.97	488,201	13,897,459	9.95	0
Town Health International Holdings Co. Ltd.	Provision of health and dental services	40,000,000	0.77	1,343,213	1,203,317	0.86	0
Total				**1,831,414**	**15,100,776**	**10.81**	**0**

Investments

Major Long-term Investments

Investments in associates

First Shanghai Investment Limited ("FSIL")

FSIL continued to benefit from the buyout stock market and reported a satisfactory result for 2007, which saw its net profit attributable to shareholders up by 62% over that of the previous year. FSIL completed the disposal of its hotel investment in the first half and recorded a gain of approximately of HK$147 million. Its brokerage and securities trading business also performed remarkably during the year.

In November 2007, FSIL announced that it had entered into an agreement to subscribe for shares in a company which was set up for acquisition of a state-owned enterprise engaging in the provision for piped heat supply in Shenyan, China. FSIL considered the investment was a valuable opportunity to diversify its business and become involving in the public utility business in China.

CITIC Capital China Property Investment Fund, L.P. (the "Fund")
CITIC Capital China Property Partners, Ltd. (the "Fund's Partner")

After the Fund completed disposal of the property complex and distributed all of its assets to the shareholders during the year, the Fund was liquidated in November 2007. The Fund's Partner also distributed most of its assets to the shareholders in December 2007 and will go into liquidation after collecting the government tax refund payable to the Fund, if any, in 2008. The Company received a total distribution of US$22.2 million from the Fund and the Fund's Partner in 2007, representing a return of 64% on these investments.

iMedia Holdings Ltd. ("iMedia")

iMedia was set up in 2006 and its initial business model was to provide multi-media content and digital magazines to internet users in China. In consideration of severe competition on digital graphic magazines, iMedia adjusted its business strategy in mid 2007 and shifted its focus on provision of video magazine platform on internet. During the year, iMedia succeeded in co-operating with CCTV and signed several commercial contracts from international advertising companies. But as iMedia spent most of its resources in development of two different business models in 2006 and 2007, it required additional funding to support its co-operation with CCTV and develop its video-magazine platform. In March 2008, the Company enters into supplemental agreement with iMedia to invest further capital of approximately US$1 million to support its future development.

Investments

Smartbuy Group Holdings Ltd. ("Smartbuy")

In September 2007, the Company completed the first round of equity investment of US$4.3 million in Smartbuy (previously known as Shanghai Yilan Business Management Co. Ltd.). Total commitment of the Company was US$10 million, which would be subject to adjustment in accordance with different revenue and profit milestones. Smartbuy was mainly engaged in provision of sale of products and service through internet and special-designed terminals to consumers in China. The Company had extended a bridge loan of approximately US$4.2 million in total to Smartbuy before it completed the restructuring. As at the end of 2007, amount due from Smartbuy amounted to approximately US$1.6 million. During the year, Smartbuy had set up its internet platform and also installed the first phrase of terminals on different locations of Shanghai, China.

Investment in an Associate for which Full Provision had been made

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

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. Zhenhua ceased production in August 2005. During the year, the Company continued to discuss with the PRC majority shareholders about disposing of the Company's interests in Zhenhua.

Available-for-sale financial assets

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

Due to a more stringent government policy on environmental protection, overall production of pencillin bulk pharmaceuticals dropped during the year. As the average selling price increased, Lukang enjoyed a higher margin and reported a profit of RMB26.1 million (approximately US$3.6 million). During the year, Lukang developed new sales channel and achieved significant growth from sale of new drugs. It also succeeded to strengthen its account receivable management and reduce its working capital pressure.

As at 31 December 2007, the Company held a total of 89.9 million Lukang's restricted shares, of which 26.3 million shares were required to be returned to Lukang according to the share reform agreement, if the Company applied for trading of the remaining 63.7 million shares. Once the abovementioned 26.3 million shares of Lukang are returned and the trading application is approved, the Company can dispose of up to 5%, of total issued shares of Lukang in the open market within the first 12 months after the lock-up period ie. 31 October 2007. The Company can dispose of another 5% within the next 12 months and the remaining shares thereafter. Share price of Lukang closed at RMB7.14 at the end of 2007 and the highest and lowest closing price were RMB9.59 and RMB2.96 respectively. As at 31 December 2007, the fair value of Lukang was stated as US$62.5 million and the unrealised fair value gain of US$33.4 million was transferred to the investment revaluation reserve.

Investments

Canton Property Investment Ltd. ("Canton Property")

In August 2007, the Company invested approximately US$5 million in Canton Property which was engaged in development and lease of commercial real estates in China and was listed on the Alternative Investment Market of the London Stock Exchange. During the year, Canton Property completed major renovation of a shopping mall in Guangzhou, China and substantially improved its overall occupancy rate and total rental income. The development of another shopping mall adjacent to the most established commercial areas in Guanghou was also in good progress. The share price of Canton Property increased significantly during the year and the unrealised fair value gain of approximately US$4.5 million was transferred to the investment revaluation reserve at the year end.

Available-for-sale Financial Asset for which Full Provisions had been made

Beijing PanAm International Aviation Academy Co. Ltd. ("Beijing PanAm")

The Company invested US$1.7 million for an indirect 2.45% interest in Beijing PanAm in 2006, Beijing PanAm was mainly engaged in provision of civil aviation training in China. During the year, Beijing PanAm incurred an operating loss as a result of frequent air traffic control and management problem. As the Company acquired indirect interest from one of the founders of Beijing PanAm, which was subject to certain price adjustment conditions with another strategic investor in Beijing PanAm, the Company's interest might be diluted substantially after Beijing PanAm reported loss for 2007. In view of the potential dilution effect, the Company recognised an impairment loss of US$1.7 million against this investment.

Other Major Investments

Financial assets at fair value through profit or loss

During the year, the Company achieved a gain on disposal of approximately US$2.1 million for its listed portfolio and derivative product, of which the disposal loss of KongZhong amounted to US$2.2 million. The shares held at 31 December 2007 had a fair value of US$4.1 million. Unrealised fair value loss of US$1.4 million were included in the consolidated profit and loss account for the year.

KongZhong Corporation ("KongZhong")

Share price of KongZhong continued to suffer from regulatory policy changes and further dropped from US$9.76 per American Depositary Shares ("ADS") as at 31 December 2006 to US$6.09 per ADS as at the end of 2007. Taking opportunity of a share price rebound, the Company disposed of a total 0.99 million ADS in September and October 2007. The Company still held 0.43 million of KongZhong's ADS and an unrealised fair value loss of US$1.59 million was recorded at the end of 2007.

Biographical Details of Directors

Mr. LAO Yuan Yi, aged 62, was a director from 1991 to 1993 and was re-elected in 1995. He is the chairman of the Company and China Assets Investment Management Limited ("CAIML", the Company's investment manager) and a director of various subsidiaries of the Company. He is also the chairman and managing director of First Shanghai Investments Limited which is a substantial shareholder and an associated company of the Company and a director of Golad Resources Limited. Previously, Mr. Lao was a senior policy researcher at China's National Research Centre for Science and Technology and Social Development and worked at the PRC State Science and Technology Commission, Ministry of Communications of the People's Republic of China and the PRC Railway Ministry. Mr. Lao graduated from Fudan University in Shanghai and obtained his master's degree from Harvard University.

Mr. XU Xiao Feng, aged 41, was appointed as a director on 28 June 2006. He is also the managing director and a shareholder of CAIML. Prior to joining the Company, he is a senior manager of Investment & Operation Department of Shanghai Industrial Holdings Limited which is listed on The Stock Exchange of Hong Kong Limited. Before that, he worked at the Corporate Finance Department of Daiwa Securities America Inc. from 1990 to 1993 and as senior vice president of Daiwa Securities Hong Kong Limited from 1994 to 1998 respectively. Mr. Xu has more than 10 years of experiences in investment field. Mr. Xu obtained his bachelor's degree in economics from San Francisco Lincoln University.

Ms. LAO Yuan Yuan, aged 29, has been a director since 2005. She is also a director of CAIML. Ms. Lao is presently a vice president of business development of Crimson Pharmaceutical (Hong Kong) Limited ("Crimson"), a subsidiary of First Shanghai Investments Limited. Prior to joining Crimson, Ms. Lao worked in investment banking division at Merrill Lynch & Co. in New York City, where she was part of the Financial Sponsors Group. Ms. Lao graduated magna cum laude from Columbia University where she studied Engineering Management Systems. Ms. Lao is the daughter of Mr. Lao Yuan Yi.

MR. JIANG Wei, aged 45, has been a director since 1996. Mr Jiang is currently a director, vice president and chief financial officer of China Resources (Holdings) Company Limited. He is a non-executive director of China Resources Enterprise Limited, China Resources Power Holdings Limited, China Resources Land Limited, and China Resources Logic Limited. He is also an executive director of Cosmos Machinery Enterprises Limited and an independent non-executive director of Greentown China Holdings Limited. He obtained both his bachelor's degree in International Trade and master's degree in International Business and Finance from the University of International Business and Economics in Beijing, China.

Mr. YEUNG Wai Kin, aged 46, has been a director since 1997. He is a director of various subsidiaries of the Company and also a shareholder and a director of CAIML. Mr. Yeung is the chief financial officer and a director of First Shanghai Investments Limited. He is also a director of First Shanghai Direct Investments Limited and Golad Resources Limited. He has over 20 years of experience in auditing, finance and management positions. Mr. Yeung possesses professional memberships of the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants and the Taxation Institute of Hong Kong. He has a bachelor's degree in law from Peking University.

Biographical Details of Directors

Mr. ZHAO Yu Qiao, aged 63, has been a director since 2000. He has a bachelor's degree from Qinghua University, China and a diploma engineer degree from Rul University, Germany.

Mr. Peter Duncan Neil ROBERTSON, deceased. Mr. Robertson was an independent non-executive director of the Company from 1992. He passed away on 22 March 2008.

Mr. FAN Jia Yan, aged 61, has been a director since 1999. Mr. Fan is an independent non-executive director of the Company. He is a special adviser of CITIC Ka Wah Bank Limited. He had worked in CITIC Industrial Bank in Beijing for more than 10 years and is well versed with all aspects of China's banking business.

Mr. WU Ming Yu, aged 76, has been a director since 2002. Mr. Wu is an independent non-executive director of the Company. Mr. Wu is a renowned scientific policy researcher in China. He is an honorary president of the China Association for Scientific and Economic Research and the China Association for Scientific and Technology Research. He is also an independent director of Beijing Shougang Company Limited, an independent non-executive director of Venturepharm Laboratories Limited and a director of Creat Group. He was a vice director of the Development Research Center of the State Council, vice director of the State Science and Technology Commission and a part-time professor at the University of Science and Technology of China, Zhongqing University and the Beijing Institute of Technology. He had published numerous research papers and was instrumental in formulating China's policy on science and technology.

Corporate Governance Report

This Corporate Governance Report contains information for the year ended 31 December 2007 and was prepared in accordance with Appendix 23 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The Company is committed to maintain a sound standard of corporate governance in protecting the interests of its shareholders based on the principles of integrity, fairness, independence and transparency. The Company continues to review the effectiveness of the corporate structure in order to assess whether changes are necessary and appropriate to improve its corporate governance practices.

Corporate Governance Practices

The Code on Corporate Governance Practices setting out in Appendix 14 of the Listing Rules (the "CG Code") was introduced on 1 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 year ended 31 December 2007, the Company has complied with all the provisions in the CG Code.

Director's Securities Transactions

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. After specifically inquiring with all the directors of the Company, the Company confirms that its directors' securities transactions have been fully complied with the standard laid down in the said rules at any time during the year ended 31st December 2007.

Board of Directors

The board of directors (the "Board) is responsible for providing leadership and oversight of the management and operations of the Company. The Board lays down strategies for achieving the business objectives so as to enhance the shareholders' value. The Board regularly reviews and ensures that corporate governance principles are in place and at good standard.

As disclosed in the composition below, the Board maintains a balance composition of executive and non-executive directors. There is a strong independent element on the Board which can effectively bring independent judgement to the Company. In addition, the Board has a balance of skills and experience appropriate for the Company. Biographical details of the directors are set out on pages 13 to 14.

The Company has entered into a management agreement with China Assets Investment Management Limited ("CAIML") whereby CAIML was appointed to act as investment manager of the Company and agreed to provide management services to the Company.

Board of Directors *(Continued)*

In order to comply with the rules 3.10 (1) and (2) of the Listing Rules, the Company since 2002 has appointed three independent non-executive directors who have appropriate professional qualifications or accounting or related financial management expertise. The Company has received, from each of the independent non-executive directors, a confirmation of his independence pursuant to rule 3.13 of the Listing Rules. The Board considers that the existing independent non-executive directors are independent in accordance with the guidelines set out in rule 3.13 of the Listing Rules.

When deemed necessary, any director upon reasonable request may seek independent professional advice at the Company's expense.

Composition

During 2007, the Board composed of nine directors, of whom three were Executive Directors, three were Non-executive Directors and three were Independent Non-executive Directors.

The members of the Board during the year ended 31 December 2007 and up to the date of this report are set out as follows:

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 (deceased on 22 March 2008)
Mr. Fan Jia Yan
Mr. Wu Ming Yu

Board of Directors *(Continued)*

Except that Ms. Lao Yuan Yuan is the daughter of Mr. Lao Yuan Yi, there is no relationship among the directors of the Company.

The Chairman of the Board is Mr. Lao Yuan Yi who provides leadership and supervision for the Board and oversees the overall business and investment strategy. There is no other individual performing the role of chief executive officer. With the assistance of the company secretary, the Chairman ensures that adequate information, which is complete and reliable, can be received by all the directors in a timely manner and the directors are properly briefed on issues arising at board meetings.

Since the appointment of the directors would be brought before the Board for consideration, no Nomination Committee was established. The Board would consider a number of factors about the suitable candidate, such as experience and qualifications related to the scope of business of the Company, prior to making an appointment.

After the resolution in relation to the amendment to the Articles passed at the annual general meeting of the Company in May 2006, all directors including Non-executive Directors shall be appointed for a term of not more than three years renewable, subject to re-election at a general meeting.

Board meetings

The Board has held five board meetings during the year ended 31 December 2007. Notice of at least 14 days has been given for a regular board meeting in which all directors have been given opportunity to attend. The directors have been provided in a timely manner with appropriate information in order to enable them to discharge their duties and responsibilities. The regular board meetings have been participated by the directors either in person or through other means of communication.

Board of Directors *(Continued)*

Board meetings *(Continued)*

The individual attendance of each director at the five board meetings for the year ended 31 December 2007 is set out as follows:

Name of Director	Attendance
Mr. Lao Yuan Yi	4/5
Mr. Xu Xiao Feng	5/5
Ms. Lao Yuan Yuan	3/5
Mr. Jiang Wei	1/5
Mr. Yeung Wai Kin	4/5
Mr. Zhao Yu Qiao	1/5
Mr. Peter Duncan Neil Robertson (deceased on 22 March 2008)	3/5
Mr. Fan Jia Yan	5/5
Mr. Wu Ming Yu	5/5

Remuneration Committee

A Remuneration Committee with specific written terms of reference was established in June 2005. The terms of reference are formulated based on the specific duties setting out in the code provisions of the CG Code. The Remuneration Committee is a committee of the Board. Its primary function is to assist the Board in establishing coherent remuneration policy which:

(i) enable the Company to attract, retain and motivate directors and senior management who create value for shareholders;

(ii) fairly and responsibly reward directors and senior management having regard to the performance of the Company, the performance of the directors and senior management and the general remuneration environment; and

(iii) comply with the provisions of the Listing Rules and other relevant legal requirements.

Remuneration Committee *(Continued)*

The Remuneration Committee is granted the authority to review the overall remuneration policy and other remuneration related matters of the Company within its terms of reference and all employees are directed to cooperate as requested by members of the Remuneration Committee. The Remuneration Committee is provided with sufficient resources to discharge its duties. The Remuneration Committee is authorised by the Board to obtain outside legal or other independent professional advice if considered necessary.

During 2007, the Remuneration Committee was composed of three members of whom one Executive Director, Mr. Lao Yuan Yi and two Independent Non-executive Directors, Mr. Peter Duncan Neil Robertson and Mr. Fan Jia Yan. The Remuneration Committee was chaired by Mr. Lao Yuan Yi.

The Remuneration Committee has held one meeting to discuss the remuneration related matters during the year ended 31 December 2007. The individual attendance of each member at the committee meeting for the year ended 31 December 2007 is set out as follows:

Name of Director	**Attendance**
Mr. Lao Yuan Yi	1/1
Mr. Peter Duncan Neil Robertson (deceased on 22 March 2008)	1/1
Mr. Fan Jia Yan	1/1

Audit Committee

The Company has set up an Audit Committee with written terms of reference since December 1998. The Audit Committee is a committee of the Board. Its primary function is to assist the Board in fulfilling its oversight responsibilities by reviewing the financial information which will be provided to the shareholders and others, the systems of internal controls which management and the Board have established, and the external audit process.

Full minutes of the audit committee meetings are kept by a duly appointed secretary of the meeting. Draft and final versions of the minutes of the audit committee meetings are sent to members of the committee for comment and records within a reasonable time after the meeting.

Corporate Governance Report

Audit Committee *(Continued)*

During 2007, the Audit Committee was composed of four members of whom three Independent Non-executive Directors, Mr. Peter Duncan Neil Robertson, Mr. Fan Jia Yan and Mr. Wu Ming Yu and one Non-Executive Director, Mr. Yeung Wai Kin. Mr. Robertson and Mr. Fan are co-chairmen of the Audit Committee. Pursuant to rule 3.21 of the Listing Rules, the majority of the audit committee members are independent non-executive directors and the committee is chaired by the independent non-executive directors. The Audit Committee comprises a minimum of three members, at least one of whom is an independent non-executive director with appropriate professional qualifications.

The Audit Committee has held three meetings during the year ended 31 December 2007. The individual attendance of each member at the committee meetings for the year ended 31 December 2007 is set out as follows:

Name of Director	**Attendance**
Mr. Peter Duncan Neil Robertson (deceased on 22 March 2008)	2/3
Mr. Fan Jia Yan	3/3
Mr. Wu Ming Yu	3/3
Mr. Yeung Wai Kin	3/3

Auditor's Remuneration

The following is a schedule setting out the remuneration in respect of the audit and non-audit services provided by the Company's external auditor, PricewaterhouseCoopers to the Group during the year ended 31 December 2007:

	US$
Annual audit fee	124,520
Non-audit fee	37,559
	162,079

Directors' Responsibility for Preparing the Accounts

The directors acknowledge their responsibilities for preparing the accounts of the Company and the Group.The directors, confirm that, to the best of their knowledge and having made all reasonable inquiries, they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the Company's external auditor of the Company, PricewaterhouseCoopers, in connection with their reporting responsibilities on the accounts of the Company and the Group is set out in the Independent Auditor's Report on pages 30 and 31.

Internal Control

The directors acknowledge their responsibilities to ensure a sound and effective internal control system, which is designed to provide reasonable, but not absolute, assurance that material misstatement or loss can be avoided, and to manage and minimise risks of failure in achieving Company's objectives. The Audit Committee is delegated by the board to review the internal control system on an ongoing basis. During the review performed by the Audit Committee held in April 2008, the Audit Committee was satisfied that the internal control system had been in place and functioned effectively.

Report of the Directors

The directors submit their report together with the audited accounts for the year ended 31 December 2007.

Principal Activities

The principal activity of the Company is investment holding.

The principal activities and other relevant details of the subsidiaries and associates are set out in notes 14 and 15 to the accounts respectively.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 7 to the accounts.

The Company, being an investment holding company, has no supplier or customer. All the subsidiaries are either investment holding companies or dormant companies and have no supplier or customer.

Results and Appropriations

The results of the Group for the year are set out in the consolidated profit and loss account on page 32.

The directors do not recommend the payment of a dividend for the year ended 31 December 2007.

Reserves

Movements in the reserves of the Group and the Company during the year are set out in note 22 to the accounts.

Share Capital

Detail of the movements in share capital of the Company are set out in note 21 to the accounts.

Distributable Reserves

Distributable reserves of the Company as at 31 December 2007 amounted to US$23,010,426 (2006: US$731,627).

Five-year Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 84.

Report of the Directors

Purchase, Sale or Redemption of the Company's Shares

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

Directors

The directors during the year and up to the date of this report were:

Mr. Lao Yuan Yi
Mr. Xu Xiao Feng
Ms. Lao Yuan Yuan
Mr. Jiang Wei
Mr. Yeung Wai Kin
Mr. Zhao Yu Qiao
* Mr. Robertson Peter Duncan Neil (deceased on 22 March 2008)
* Mr. Fan Jia Yan
* Mr. Wu Ming Yu

 # Non-executive directors
** Independent non-executive directors*

In accordance with Articles 87B, 90 and 98 of the Company's Articles of Association, Mr. Lao Yuan Yi, Mr. Yeung Wai Kin and Mr. Fan Jia Yan will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Directors' Service Contracts

No director (whether or not he is proposed for re-election at the forthcoming annual general meeting) has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation (if any).

Biographical Details of Directors

Brief biographical details of directors are set out on pages 13 and 14.

Amended Management Agreement

The Company entered into an agreement (the "Management Agreement") on 28 March 1991 with a related company, China Assets Investment Management Limited ("CAIML"), for provision of management and advisory services to the Company. The Management Agreement was subsequently amended on 8 April 1992 and a supplemental agreement (the "Amended Management Agreement") was signed on 11 October 2004 in which the term of the Management Agreement was fixed to continue to 31 December 2006 and thereafter renewable for further terms of 2 years each provided that the requirements of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited ("Stock Exchange") are compiled with before renewal. On 31 December 2006, the Amended Management Agreement was renewed for a further term of 2 years to 31 December 2008. The Amended Management Agreement may be terminated by either party by serving not less than six months' written notice to the other party provided that the Company is required to have approval of its shareholders (by way of ordinary resolution) before giving such notice.

Under the Amended Management Agreement, CAIML is entitled to receive from the Company a management fee at the rates of (i) 2.75% per annum on the aggregate cost to the Company of the investment (less any provisions in respect thereof) held by it from time to time; and (ii) 1% per annum on the value of the uninvested net assets of the Company. In addition, CAIML is entitled to performance bonus based on a specified formula on the return on net assets and net capital gains of the Company.

CAIML is an associate of First Shanghai Investments Limited ("FSIL"), a substantial shareholder of the Company holding approximately 32.87% equity interests in the Company as at 31 December 2007. On the other hand, the Company is a substantial shareholder of FSIL holding approximately 17.80% equity interests in FSIL as at 31 December 2007.

The directors of the Company confirm that none of them has any equity interest in CAIML or any personal interest in the Amended Management Agreement except that (a) Mr. Lao Yuan Yi, a director of the Company, FSIL and CAIML, has an indirect interest in CAIML through his 12.76% interests in FSIL; (b) Mr. Yeung Wai Kin, a director and a shareholder of CAIML, is also a director of FSIL and the Company, and (c) Mr. Xu Xiao Feng, a director of the Company, is also a director and a shareholder of CAIML.

The above transaction is disclosed in note 26(a) to the accounts and does not constitute a connected transaction as defined under the Listing Rules.

Share Options

Options in respect of shares in the Company

At the Annual General Meeting of the Company held on 19 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, CAIML (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.

Details of the share options granted under the Scheme and remain outstanding as at 31 December 2007 are as follows:

	Options held at 1 January 2007	Options granted during the year	Options exercised during the year	Options held at 31 December 2007	Exercise price *HK$*	Closing price before the date of grant *HK$*	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
	—	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)[1]	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	—	(280,000)[2]	305,000	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)[3]	—	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)[4]	—	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	—	(170,000)[5]	100,000	2.65	2.50	21/05/2004	25/05/2004-23/05/2014
	—	1,450,000	(50,000)[6]	1,400,000	5.74	5.62	25/04/2007	25/04/2007-24/04/2017
	2,470,000	5,925,000	(845,000)	7,550,000				

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$8.01
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$8.56
5 The weighted average closing price before the dates of exercise was HK$8.40
6 The weighted average closing price before the dates of exercise was HK$8.42

Fair Value of Total Share Options

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

Date of grant	25 April 2007
Total share options granted during the year	5,925,000
Fair value of total share options granted during the year	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 31 December 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).

Directors' Interests in Contracts of Significance

Save as disclosed in the section headed Amended Management Agreement above, no other contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Save as disclosed in the section headed Amended Management Agreement above, no other contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Directors' and Chief Executives' Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Company and its Associated Corporations

As at 31 December 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 were as follows:

Shares in the Company

	Number of shares held			
Name of director	**Personal interests**	**Corporate interests**	**Total**	**% of the issued share capital**
Yeung Wai Kin	100,000	0	100,000	0.13%
Fan Jia Yan	75,000	0	75,000	0.09%

Apart from the Amended Management Agreement and the Scheme stated above, at no time during the year had the Company, its subsidiaries, its associates, its fellow subsidiaries or its holding company a party to any arrangement to enable the directors and chief executives of the Company (including their spouse and children under 18 years of age) 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, Underlying Shares and Debentures of the Company and its Associated Corporations

The register of substantial shareholders' interests required to be kept under section 336 of Part XV of the SFO reveals that as at 31 December 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	32.87%
First Shanghai Direct Investments Limited ("FSDI") *(Note 1)*	Corporate	Interest of Controlled Corporation	25,162,866	32.87%
Golad Resources Limited *(Note 1)*	Corporate	Beneficial Owner	25,162,866	32.87%
Deutsche Bank Aktiengesellschaft	Corporate	Security Interest	16,738,918	21.86%
		Beneficial owner	3,176,082	4.15%
QVT Financial LP *(Note 2)*	Corporate	Investment Manager	19,915,000	26.01%
QVT Financial GP LLC *(Note 2)*	Corporate	Interest of Controlled Corporation	19,915,000	26.01%
QVT Associates GP LLC *(Note 3)*	Corporate	Interest of Controlled Corporation	16,863,526	22.03%
QVT Fund LP *(Note 3)*	Corporate	Beneficial Owner	15,337,878	20.03%
Chen Dayou	Personal	Beneficial Owner	8,405,000	10.98%

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

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 an 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.

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 31 December 2007.

Sufficiency of Public Float

Based on the information that is publicly available to the Company and within the knowledge of the directors, it is confirmed that there is sufficient public float of more than 25% of the Company's issued shares as at the date of this report.

Subsequent Events

Details of subsequent events are set out in note 27 to the account.

Auditor

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Lao Yuan Yi
Chairman

Hong Kong, 18 April 2008

Independent Auditor's Report

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

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TO THE SHAREHOLDERS OF CHINA ASSETS (HOLDINGS) LIMITED

(incorporated in Hong Kong with limited liability)

We have audited the consolidated accounts of China Assets (Holdings) Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 32 to 83, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated profit and loss account, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Accounts

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated accounts in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of accounts that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated accounts based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the accounts are free from material misstatement.

Auditor's Responsibility *(Continued)*

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated accounts give a true and fair view of the state of affairs of the company and of the group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 18 April 2008

Consolidated Profit and Loss Account

For The Year Ended 31 December 2007

	Notes	2007 US$	2006 US$
Revenue	7	**1,392,996**	663,433
Other gains/(losses) — net	8	**48,380**	(1,799,509)
Administrative expenses	9	**(4,206,981)**	(2,186,733)
Operating loss		**(2,765,605)**	(3,322,809)
Share of profits of associates		**12,578,956**	7,079,348
Profit before income tax		**9,813,351**	3,756,539
Income tax expenses	11	**(390,473)**	(170,441)
Profit attributable to equity holders of the Company		**9,422,878**	3,586,098
Earnings per share for profit attributable to the equity holders of the Company during the year	13		
— Basic		**0.124**	0.048
— Diluted		**0.118**	0.047

The notes on pages 37 to 83 are an integral part of these accounts.

Consolidated Balance Sheet

As at 31 December 2007

	Notes	2007 US$	2006 US$
Non-current assets			
Investments in associates	*15*	**64,941,324**	59,456,142
Available-for-sale financial assets	*16*	**86,256,244**	32,204,551
Other receivable	*18*	**—**	1,921,057
		151,197,568	93,581,750
Current assets			
Loan receivables	*17*	**2,709,732**	5,123,940
Other receivables, prepayments and deposits	*18*	**546,062**	5,625,836
Financial assets at fair value through profit or loss	*19*	**4,111,988**	18,898,016
Amount due from a related company	*26(c)*	**—**	3,325
Prepaid tax		**—**	56,393
Cash and cash equivalents	*20*	**50,937,382**	16,736,439
		58,305,164	46,443,949
Total assets		**209,502,732**	140,025,699
Equity attributable to the Company's equity holders			
Share capital	*21*	**7,655,816**	7,571,316
Reserves	*22*	**195,758,828**	132,115,432
Total equity		**203,414,644**	139,686,748
Current liabilities			
Accounts payable		**198,355**	137,067
Accrued expenses		**95,236**	95,236
Amount due to a related company	*26(c)*	**8,244**	—
Tax payable		**325,877**	106,648
		627,712	338,951
Non-current liabilities			
Deferred income tax liabilities	*23*	**5,460,376**	—
Total liabilities		**6,088,088**	338,951
Total liabilities and equity		**209,502,732**	140,025,699
Net current assets		**57,677,452**	46,104,998
Total assets less current liabilities		**208,875,020**	139,686,748

Lao Yuan Yi
Director

Xu Xiao Feng
Director

The notes on pages 37 to 83 are an integral part of these accounts.

Balance Sheet

As at 31 December 2007

	Notes	2007 US$	2006 US$
Non-current assets			
Investments in subsidiaries	*14*	**35,089,962**	46,054,932
Investments in associates	*15*	**13,468,400**	13,467,914
Available-for-sale financial assets	*16*	**74,613,491**	24,784,581
		123,171,853	84,307,427
Current assets			
Loan receivables	*17*	**1,500,000**	2,561,410
Other receivables and prepayments	*18*	**163,610**	50,467
Financial assets at fair value through profit or loss	*19*	**1,478,502**	1,203,317
Amount due from a related company	*26(c)*	**—**	3,325
Prepaid tax		**—**	56,393
Cash and cash equivalents	*20*	**34,706,481**	4,309,225
		37,848,593	8,184,137
Total assets		**161,020,446**	92,491,564
Equity attributable to the Company's equity holders			
Share capital	*21*	**7,655,816**	7,571,316
Reserves	*22*	**148,477,441**	84,687,945
Total equity		**156,133,257**	92,259,261
Current liabilities			
Accounts payable		**198,355**	137,067
Accrued expenses		**95,236**	95,236
Amount due to a related company	*26(c)*	**8,244**	—
Tax payable		**300,557**	—
		602,392	232,303
Non-current liabilities			
Deferred income tax liabilities	*23*	**4,284,797**	—
Total liabilities		**4,887,189**	232,303
Total liabilities and equity		**161,020,446**	92,491,564
Net current assets		**37,246,201**	7,951,834
Total assets less current liabilities		**160,418,054**	92,259,261

Lao Yuan Yi
Director

Xu Xiao Feng
Director

The notes on pages 37 to 83 are an integral part of these accounts.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2007

	Notes	2007 US$	2006 US$
Total equity as at 1 January		**139,686,748**	122,326,131
Fair value gains of available-for-sale financial assets, net of deferred income tax	*22*	**42,790,908**	10,944,583
Release of investment revaluation reserve upon disposal of available-for-sale financial assets	*22*	**375,779**	—
Share of post-acquisition reserves of associates	*22*	**10,521,170**	2,442,705
Release of capital reserve upon deemed disposal of an associate	*22*	**(1,803,932)**	—
Exchange differences arising on translation of accounts of associates	*22*	**(49,358)**	(85,656)
Exchange difference arising on translation of accounts of a subsidiary	*22*	**139,424**	24,406
Net income recognised directly in equity for the year		**51,973,991**	13,326,038
Profit attributable to equity holders of the Company	*22*	**9,422,878**	3,586,098
Total recognised income and expense for the year		**61,396,869**	16,912,136
Employee share option benefits	*22*	**1,994,705**	—
Shares issued under employee share option scheme	*21 and 22*	**336,322**	448,481
Total equity as at 31 December		**203,414,644**	139,686,748

The notes on pages 37 to 83 are an integral part of these accounts.

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	Notes	2007 US$	2006 US$
Cash flows from operating activities			
Cash generated from operations	24(a)	**19,948,182**	3,505,548
Hong Kong profits tax paid		**—**	(144,199)
Overseas profit tax paid		**(114,851)**	(123,906)
Net cash generated from operating activities		**19,833,331**	3,237,443
Cash flows from investing activities			
Interest received		**1,327,996**	659,293
Dividends received from associates		**9,453,368**	1,117,031
Dividends received from investments		**65,000**	4,140
Purchase of investments in associates		**(5,200,000)**	(4,000,000)
Purchase of available-for-sale financial assets		**(14,260,562)**	(1,710,000)
Net proceeds from disposal of a subsidiary	24(b)	**1,498,502**	1,029,932
Net proceeds from disposal of associates		**13,500,000**	31,957
Net proceeds from disposal of an available-for-sale financial asset		**7,507,562**	—
Net cash generated from/(used in) investing activities		**13,891,866**	(2,867,647)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		**336,322**	448,481
Net cash generated from financing activities		**336,322**	448,481
Increase in cash and cash equivalents		**34,061,519**	818,277
Cash and cash equivalents at 1 January		**16,736,439**	15,893,756
Effect of foreign exchange rate changes		**139,424**	24,406
Cash and cash equivalents at 31 December		**50,937,382**	16,736,439
Analysis of the balances of cash and cash equivalents:			
Bank balances and cash		**50,937,382**	16,736,439

The notes on pages 37 to 83 are an integral part of these accounts.

1. General Information

China Assets (Holdings) Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") is principally engaged in the investment holding in Hong Kong and the Mainland China.

The Company is a limited liability company incorporated in Hong Kong. The address of its registered office is 19th Floor, Wing On House, 71 Des Voeux Road Central, Hong Kong.

The Company has its primary listing on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

These consolidated accounts are presented in United States dollars ("US dollars" or "US$"), unless otherwise stated. These consolidated accounts have been approved for issue by the Board of Directors on 18 April 2008.

2. Summary of Significant Accounting Policies

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

(a) Basis of preparation

These consolidated accounts have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"), which also includes Hong Kong Accounting Standards ("HKAS"), issued by the Hong Kong Institute of Certified Public Accountants. The consolidated accounts have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and financial assets at fair value through profit or loss.

The preparation of accounts in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated accounts, are disclosed in Note 4.

2. Summary of Significant Accounting Policies *(Continued)*

(a) Basis of preparation *(Continued)*

Relevant Standard, Amendment and Interpretations effective in 2007

- HKFRS 7, "Financial Instruments: Disclosures", and the complementary Amendment to HKAS 1, "Presentation of Financial Statements – Capital Disclosures", introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the Group's financial instruments, or the disclosures relating to taxation and other payables.

- HK(IFRIC)-Int 8, "Scope of HKFRS 2", requires consideration of transactions involving the issuance of equity instruments, where the identifiable consideration received is less than the fair value of the equity instruments issued in order to establish whether or not they fall within the scope of HKFRS 2. This Standard does not have any impact on the consolidated accounts.

- HK(IFRIC)-Int 9, "Re-assessment of Embedded Derivatives", requires that the date to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative is the date that the Group first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group has no significant embedded derivative requiring separation from the host contract, the Interpretation has had no effect on the consolidated accounts.

- HK(IFRIC)-Int 10, "Interim Financial Reporting and Impairment", prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. This Standard does not have any impact on the consolidated accounts.

2. Summary of Significant Accounting Policies *(Continued)*

(a) Basis of preparation *(Continued)*

Relevant Standards, Amendments and Interpretations to existing Standards that are not yet effective and have not been early adopted by the Group.

The following Standards, Amendments and Interpretations to published Standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods, but the Group has not early adopted them:

- HKAS 1 (Revised), "Presentation of Financial Statements" (effective from 1 January 2009), requires all owner changes in equity to be presented in a statement of changes in equity. All comprehensive income is presented in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). It requires presenting a statement of financial position as at the beginning of the earliest comparative period in a complete set of accounts when there are retrospective adjustments or reclassification adjustments. However, it does not change the recognition, measurement or disclosure of specific transactions and other events required by other HKFRSs. The Group will apply HKAS 1 (Revised) from 1 January 2009.

- HKFRS 2 Amendment "Share-based Payment Vesting Conditions and Cancellations" (effective from 1 January 2009). The amendment clarifies the definition of "vesting conditions" and specifies the accounting treatment of "cancellations" by the counterparty to a share-based payment arrangement. Vesting conditions are service conditions (which require a counterparty to complete a specified period of service) and performance conditions (which require a specified period of service and specified performance targets to be met) only. All "non-vesting conditions" and vesting conditions that are market conditions shall be taken into account when estimating the fair value of the equity instruments granted. All cancellations are accounted for as an acceleration of vesting and the amount that would otherwise have been recognised over the remainder of the vesting period is recognised immediately. The Group will apply HKFRS 2 Amendment from 1 January 2009, but it is not expected to have any impact on the consolidated accounts.

2. Summary of Significant Accounting Policies *(Continued)*

(a) Basis of preparation *(Continued)*

- HKFRS 3 (Revised) "Business Combination" (effective for business combinations with acquisition date on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The amendment may bring more transactions into acquisition accounting as combinations by contract alone and combinations of mutual entities are brought into the scope of the standard and the definition of a business has been amended slightly. It now states that the elements are "capable of being conducted" rather that are "conducted and managed". It requires considerations (including contingent consideration), each identifiable asset and liability to be measured at its acquisition-date fair value, except leases and insurance contracts, reacquired right, indemnification assets as well as some assets and liabilities required to be measured in accordance with other HKFRSs. They are income taxes, employee benefits, share-based payment and non current assets held for sale and discontinued operations. Any non-controlling interest in an acquiree is measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets. The Group will apply HKFRS 3 (Revised) from 1 January 2010.

- HKFRS 8, "Operating Segments" (effective from 1 January 2009), replaces HKAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, "Disclosures about Segments of an Enterprise and Related Information". The new standard requires a "management approach", under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply HKFRS 8 from 1 January 2009. The expected impact is still being assessed in detail by management, but it appears likely that the number of reportable segments, as well as the manner in which the segments are reported, will change in a manner that is consistent with the internal reporting provided to the chief operating decision-maker.

- HK(IFRIC) — Int 11, "HKFRS 2 — Group and Treasury Share Transactions", provides guidance on whether share-based transactions involving treasury shares or involving Group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. This interpretation does not have any impact on the consolidated accounts.

2. Summary of Significant Accounting Policies *(Continued)*

(b) Consolidation

The consolidated accounts include the accounts of the Company and all its subsidiaries made up to 31 December.

(i) Subsidiaries

Subsidiaries are those entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated profit and loss account.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses (Note 2(f)). The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

2. Summary of Significant Accounting Policies *(Continued)*

(b) Consolidation *(Continued)*

(ii) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition (Note 2(e)).

The Group's share of its associates' post-acquisition profits or losses is recognised in the consolidated profit and loss account, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses in associates are recognised in the consolidated profit and loss account.

In the Company's balance sheet the investments in associates are stated at cost less provision for impairment losses (Note 2(f)). The results of associates are accounted for by the Company on the basis of dividend received and receivable.

2. Summary of Significant Accounting Policies *(Continued)*

(c) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the accounts of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency"). The consolidated accounts are presented in United States dollars, which is the Company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit and loss account, and other changes in carrying amount are recognised in equity.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities, such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation difference on non-monetary financial assets, such as equities classified as available-for-sale are included in the investment revaluation reserve in equity.

2. Summary of Significant Accounting Policies *(Continued)*

(d) Foreign currency translation *(Continued)*

(iii) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each profit and loss account are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the profit and loss account as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(e) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired associate at the date of acquisition. Goodwill on acquisitions of associates is included in investments in associates and is tested annually for impairment as part of the overall balance. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

2. Summary of Significant Accounting Policies *(Continued)*

(e) Goodwill *(Continued)*

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The Group allocates goodwill to each business segment in each country in which it operates (Note 2(f)).

(f) Impairment of investments in subsidiaries, associates and non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(g) Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables and available-for-sale. The classification depends on the purposes for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as "loan receivables" and "other receivables" in the balance sheet (Note 2(h)).

2. Summary of Significant Accounting Policies *(Continued)*

(g) Financial assets *(Continued)*

(iii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the profit and loss account. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the profit and loss account within "other gains/(losses) — net" in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the profit and loss account as part of "revenue" when the Group's right to receive payments is established.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in profit or loss; translation differences on non-monetary securities are recognised in equity. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in equity.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in investment revaluation reserve are included in the profit and loss account as gains and losses from investment securities.

2. Summary of Significant Accounting Policies *(Continued)*

(g) Financial assets *(Continued)*

Interest on available-for-sale securities calculated using the effective interest method is recognised in the profit and loss account as part of "revenue". Dividends on available-for-sale equity instruments are recognised in the profit and loss account as part of "revenue" when the Group's right to receive payments is established

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss — is removed from equity and recognised in the profit and loss account. Impairment losses recognised in the profit and loss account on equity instruments are not reversed through the profit and loss account. Impairment testing of loan receivables and other receivables is described in Note 2(f).

(h) Loan receivables and other receivables

Loan receivables and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of loan receivables and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the provision is recognised in the profit and loss account.

2. Summary of Significant Accounting Policies *(Continued)*

(i) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

(j) Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(k) Current and deferred income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantially enacted at the balance sheet date in the countries where the Company and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated accounts. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2. Summary of Significant Accounting Policies *(Continued)*

(l) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

(m) Employee benefit

(i) Pension obligations

The Group operates a defined contribution plan which is generally funded through payments to an insurance company. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The contributions are recognised as employee benefit expense when they are due and are not reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

2. Summary of Significant Accounting Policies *(Continued)*

(m) Employee benefit *(Continued)*

(ii) Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in the assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the profit and loss account, and a corresponding adjustment to equity over the remaining vesting period.

(iii) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

(n) Revenue recognition

Dividend income is recognised when the right to receive payment is established.

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

2. Summary of Significant Accounting Policies *(Continued)*

(o) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(p) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's accounts in the period in which the dividends are approved by the Company's shareholders in the case of final dividend and the Company's directors in the case of interim dividend.

3. Financial Risk Management

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value and cash flow interest rate risks and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by the accountant under the guidance approved by the Board of Directors. The Group identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units.

3. Financial Risk Management *(Continued)*

(a) Financial risk factors *(Continued)*

(i) Market risk

(1) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollars. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

As Hong Kong dollars ("HK$") is pegged to US$, the exposure to fluctuations in exchange rate of HK$ is considered to be insignicant. The Group is mainly exposed to fluctuation in exchange rate of Renminbi ("RMB") against US$. If US$ strengthened or weakened by 5% against RMB and all other variables were held constant, the Group's profit for the year ended 31 December 2007 would decrease or increase by approximately US$1,183,000 or US$1,308,000 respectively (2006: decrease or increase by approximately US$726,000 or US$803,000 respectively) and the Group's investment revaluation reserve would decrease or increase by approximately US$2,975,000 or US$3,288,000 respectively (2006: decrease or increase by approximately US$1,180,000 or US$1,304,000 respectively).

(2) Price risk

The Group is exposed to equity securities price risk as investments held by the Group are classified on the consolidated balance sheet either as available-for-sale financial assets or as financial assets at fair value through profit or loss. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio.

If the securities price of the respective investments held by the Group as available-for-sale financial assets and financial assets at fair value through profit or loss were higher or lower by 5% as at 31 December 2007, the Group's investment revaluation reserve and profit for the year would increase or decrease by US$4,313,000 (2006: US$1,610,000) and US$206,000 (2006: US$945,000) respectively.

3. Financial Risk Management *(Continued)*

(a) Financial risk factors *(Continued)*

(ii) Credit risk

The Group has no significant concentrations of credit risk. It has policies in place to ensure that money lending transactions are made to borrowers with an appropriate credit history. The Group has policies that limit the amount of credit exposure to any borrower.

The carrying amounts of deposits and receivables included in the consolidated balance sheet represent the Group's maximum exposure to credit risk in relation to its financial assets. The Group considers that adequate provision for unrecoverable loan and other receivables has been made in the relevant accounting period after considering the Group's experience in collection of loan and other receivables.

(iii) Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash and marketable securities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Group aims to maintain flexibility in funding by keeping sufficient cash and marketable securities.

The Group considers that the exposure to liquidity risk is insignificant as the Group does not have any material current liabilities.

(iv) Cash flow and fair value interest rate risk

Except for the loan receivables and cash and cash equivalents which carry floating interest rate, the Group has no significant interest-bearing assets. The Group's income and operating cash flows are substantially independent of changes in market interest rates.

Assuming the balance as 31 December 2007 was the amount for the whole year, if the interest rate was 50 basis points higher or lower and all other variables were held constant, the Group's profit for the year ended 31 December 2007 would increase or decrease by US$121,000 (2006: US$47,000).

3. Financial Risk Management *(Continued)*

(b) Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

The fair values of financial instruments that are not traded in an active market are determined by using valuation techniques, such as estimated discounted cash flows. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date.

The carrying values of the Group's cash and cash equivalents, loan receivables, other receivables, deposit and accounts payables approximate their fair values due to their short maturities.

4. Critical Accounting Estimates and Judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Fair value of financial instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques as detailed in note 3(b). The Group uses its judgement to select from a variety of methods and make assumptions that are mainly based on market conditions existing at balance sheet date. The Group uses discounted cash flow analysis for various available-for-sale financial assets that were not traded in an active markets.

4. Critical Accounting Estimates and Judgements *(Continued)*

(b) Estimated impairment of available-for-sale financial assets

The Group follows the guidance of HKAS 39 to determine when an available-for-sale financial asset is impaired. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow. Based on the Group's estimation, impairment loss on available-for-sale financial assets of US$1.71 million has been recognised during the year. Where the final outcome of these matters is different from the management's estimates and judgements, such differences will impact the profit and loss account and carrying value of investment revaluation reserve in the period in which such determination is made.

(c) Estimated impairment of loan receivables

Provision for impairment of loan receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. In determining whether any of the loan receivables is impaired, significant judgement is required. In making this judgement, the Group evaluates, among other factors, the duration and extent by all means to which the amount will be recovered. Based on the Group's estimation, provision for doubtful debt of approximately US$2.5 million on loan receivable has been made. Where the final outcome of these matters is different from the management's estimates and judgements, such differences will impact the profit and loss account and carrying value of loan receivables in the period in which such determination is made.

(d) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 2(f). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require use of estimates (note 15).

5. Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as debt divided by total capital. Debt is total bank borrowings (including current and non-current bank borrowings). Total capital is calculated as "equity", as shown in the consolidated balance sheet, plus debt.

As at 31 December 2006 and 2007, the Group has no bank borrowings and, accordingly, the gearing ratio for both years is 0%.

6. Investment Management fee

Pursuant to a management agreement ("Management Agreement") dated 28 March 1991 and subsequently amended on 8 April 1992, China Assets Investment Management Limited ("CAIML") (note 26(a)) is entitled to receive from the Company a management fee calculated at the following rates:

(i) 2.75% per annum on the aggregate cost to the Company of the investments (less any provisions in respect thereof) held by it from time to time; and

(ii) 1% per annum on the value of uninvested net assets, representing net asset value of the Company less the aggregate cost of investments made by the Company.

Management fee paid to CAIML for the year ended 31 December 2007 amounted to US$1,686,569 (2006: US$1,548,302).

CAIML is also entitled to receive a performance bonus based on a specified formula as defined in the Management Agreement. No performance bonus had been paid for the year ended 31 December 2007 (2006: nil).

7. Revenue and Segment Information

The principal activity of the Group is investment holding in Hong Kong and the Mainland China. Revenue, which also represents the Group's turnover, recognised during the year are as follows:

	2007	2006
	US$	*US$*
Revenue		
Bank interest income	**1,178,326**	451,394
Loan interest income	**149,670**	207,899
Dividend income from unlisted investments	**65,000**	—
Dividend income from listed investments	**—**	4,140
	1,392,996	663,433

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 year:

- Investments holding
- Manufacturing and distribution of pharmaceutical products
- Property holding

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

Secondary reporting format — geographical segments

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

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

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

7. Revenue and Segment Information *(Continued)*

Primary reporting format — business segments

The segment revenue and segment results for the year ended 31 December 2007 and 2006 and the segment assets and liabilities at 31 December 2007 and 2006 are:

	2007				
	Investment holding	Manufacturing and distribution of pharmaceutical products	Property holding	Others	Total
	US$	*US$*	*US$*	*US$*	*US$*
Segment revenue	1,392,996	—	—	—	1,392,996
Segment results	1,392,996	—	—	—	1,392,996
Unallocated					(4,158,601)
Share of profits of associates	8,078,825	—	4,500,131	—	12,578,956
Profit before income tax					9,813,351
Income tax expenses					(390,473)
Profit attributable to equity holders of the Company					9,422,878
Segment assets	82,094,141	62,467,267	—	—	144,561,408
Investments in associates	65,131,496	—	111,758	(301,930)	64,941,324
Total assets					209,502,732
Segment liabilities	532,476	—	—	—	532,476
Unallocated liabilities					5,555,612
Total liabilities					6,088,088

7. Revenue and Segment Information *(Continued)*

Primary reporting format — business segments *(Continued)*

	2006				
	Investment holding	Manufacturing and distribution of pharmaceutical products	Property holding	Others	Total
	US$	*US$*	*US$*	*US$*	*US$*
Segment revenue	663,433	—	—	—	663,433
Segment results	663,433	—	—	—	663,433
Unallocated					(3,986,242)
Share of profits of associates	6,199,873	—	879,475	—	7,079,348
Profit before income tax					3,756,539
Income tax expenses	(170,441)	—	—	—	(170,441)
Profit attributable to equity holders of the Company					3,586,098
Segment assets	55,784,976	24,784,581	—	—	80,569,557
Investments in associates	41,883,457	—	17,875,101	(302,416)	59,456,142
Total assets					140,025,699
Segment liabilities	243,715	—	—	—	243,715
Unallocated liabilities					95,236
Total liabilities					338,951

7. Revenue and Segment Information *(Continued)*

Secondary reporting format — geographical segments

The Group's revenue is generated mainly within Hong Kong and Mainland China.

	2007	2006
	US$	*US$*
Revenue		
Hong Kong	**1,071,236**	312,262
Mainland China	**321,760**	351,171
	1,392,996	663,433

Revenue is allocated based on where the revenue is generated.

	2007	2006
	US$	*US$*
Total assets		
Hong Kong	**37,183,767**	13,607,803
Mainland China	**107,377,641**	66,961,754
	144,561,408	80,569,557
Investments in associates	**64,941,324**	59,456,142
	209,502,732	140,025,699

Total assets are allocated based on where the assets are located.

8. Other Gains/(Losses) — Net

	2007	2006
	US$	US$
Gains on disposal of subsidiaries *(note 24(b))*	**463,502**	231,942
Loss on disposal of investment in an associate	**—**	(341,700)
Gain/(loss) on deemed disposal of associates	**342,015**	(1,607,865)
Net realised gain on disposal of available-for-sale financial asset	**1,416,630**	—
Net realised gain/(loss) on disposal of financial assets at fair value through profit or loss	**2,053,552**	(434,697)
Net unrealised fair value losses on financial assets at fair value through profit or loss	**(1,446,115)**	(244,198)
Net exchange gains	**1,406,261**	582,904
Impairment loss on available-for-sale financial asset	**(1,710,000)**	—
Provision for doubtful debt	**(2,501,591)**	—
Others	**24,126**	14,105
	48,380	(1,799,509)

9. Administrative Expenses

Expenses included in administrative expenses are analysed as follows:

	2007	2006
	US$	US$
Investment management fee *(note 6)*	**1,686,569**	1,548,302
Employee benefit expenses (including directors' remuneration) *(note 10)*	**2,159,512**	139,536
Auditor's remuneration	**124,520**	107,163
Other expenses	**236,380**	391,732
	4,206,981	2,186,733

10. Employee Benefit Expenses (Including Directors' Remuneration)

	2007 US$	2006 US$
Wages and salaries	**163,544**	138,359
Share-based payments	**1,994,705**	—
Pension costs — defined contribution plan	**1,263**	1,177
	2,159,512	139,536

(a) Directors' and senior management's emoluments

The remuneration of each Director for the year ended 31 December 2007 and 2006 is set out below:

	2007 Directors' fee HK$	2007 Share-based payments HK$	2007 Total HK$	2006 Directors' fee HK$	2006 Share-based payments HK$	2006 Total HK$
Executive directors						
Mr. Lao Yuan Yi	**80,000**	**1,974,000**	**2,054,000**	60,000	—	60,000
Mr. Xu Xiao Feng#	**80,000**	**1,974,000**	**2,054,000**	60,000	—	60,000
Mr. Wang Jun Yan##	**—**	**—**	**—**	60,000	—	60,000
Mr. Lao Yuan Yuan	**80,000**	**1,974,000**	**2,054,000**	60,000	—	60,000
Non-executive directors						
Mr. Jiang Wei	**80,000**	**1,316,000**	**1,396,000**	60,000	—	60,000
Mr. Yeung Wai Kin	**132,000**	**1,974,000**	**2,106,000**	101,000	—	101,000
Mr. Zhao Yu Qiao	**80,000**	**1,974,000**	**2,054,000**	60,000	—	60,000
Independent non-executive directors						
Mr. Peter Robertson*	**185,000**	**197,400**	**382,400**	147,000	—	147,000
Mr. Fan Jia Yan	**185,000**	**197,400**	**382,400**	147,000	—	147,000
Mr. Wu Ming Yu	**152,000**	**197,400**	**349,400**	121,000	—	121,000
	1,054,000	**11,778,200**	**12,832,200**	876,000	—	876,000
Equivalent to United States dollars	**135,323**	**1,509,581**	**1,644,904**	112,618	—	112,618

#: Appointed on 28 June 2006

##: Resigned on 18 December 2006

*: Deceased on 22 March 2008

10. Employee Benefit Expenses (Including Directors' Remuneration) *(Continued)*

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four (2006: four) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (2006: one) individual during the year are as follows:

	2007	2006
	US$	*US$*
Basic salaries, housing allowances, other allowances and benefits in kind	**28,221**	25,741
Share-based payments	**101,201**	—
Pension costs — defined contribution plan	**1,263**	1,177
	130,685	26,918

The emoluments payable to the remaining one employee in 2007 fell within the band of HK$1,000,001 to HK$1,500,000 (2006: HK$nil to HK$1,000,000).

11. Income Tax Expenses

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

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

	2007	2006
	US$	*US$*
Current income tax		
— Hong Kong profits tax	**356,778**	16,764
— Overseas income tax	**33,695**	200,136
	390,473	216,900
Prior year overprovision		
— Hong Kong profits tax	**—**	(46,459)
Income tax expenses	**390,473**	170,441

11. Income Tax Expenses *(Continued)*

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the income tax rate of the home country of the Company as follows:

	2007	2006
	US$	US$
Profit before income tax	**9,813,351**	3,756,539
Less: share of profits of associates	**(12,578,956)**	(7,079,348)
	(2,765,605)	(3,322,809)
Calculated at income tax rate of 17.5% (2006: 17.5%)	**(483,981)**	(581,492)
Effect of different income tax rates in other countries	**5,616**	30,037
Income not subject to income tax	**(856,721)**	(898,547)
Expenses not deductible	**1,725,559**	1,666,902
Over-provision in prior year	**—**	(46,459)
Income tax expenses	**390,473**	170,441

12. Profit Attributable to Shareholders

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of US$22,278,799 (2006: US$7,751,153).

13. Earnings per Share

The calculation of basic earnings per share is based on the Group's profit attributable to equity holders of the Company of US$9,422,878 (2006: US$3,586,098) and the weighted average number of 76,186,297 (2006: 74,868,092) ordinary shares in issue during the year.

The calculation of diluted earnings per share is based on the profit attributable to equity holders of the Company for the year of US$9,422,878 (2006: US$3,586,098). The weighted average number of 79,599,976 (2006: 76,463,465) ordinary shares used in the calculation is the sum of weighted average number of 76,186,297 (2006: 74,868,092) ordinary shares in issue during the year as used in the basic earnings per share calculation and the weighted average number of 3,413,679 (2006: 1,595,373) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the year.

14. Investments in Subsidiaries

	Company 2007 US$	2006 US$
Unlisted shares, at cost *(note (b))*	**140,151**	140,161
Amounts due from subsidiaries *(note (a))*	**39,161,402**	45,914,771
Less: provision for doubtful debts	**(4,211,591)**	—
	34,949,811	45,914,771
	35,089,962	46,054,932

(a) The amounts due from subsidiaries are denominated in United States dollars, unsecured, interest-free and have no fixed repayment terms.

(b) The following is a list of subsidiaries held directly by the Company at 31 December 2007:

Name	Place of incorporation	Principal Activities	Particulars of issued share capital	Interest held 2007	Interest held 2006
Ablewell Investments Limited	British Virgin Islands	Dormant	10 shares of US$1 each	**100%**	100%
Balance Target Investments Limited	British Virgin Islands	Dormant	10 shares of US$1 each	**100%**	100%
Capital Structure Investments Limited	British Virgin Islands	Investment holding	10 shares of US$1 each	**100%**	100%
Direct Investment Enterprises Limited	British Virgin Islands	Investment holding	10 shares of US$1 each	**100%**	100%
Essential Choice Investments Limited	British Virgin Islands	Dormant	10 shares of US$1 each	**100%**	100%
Global Lead Technology Limited	British Virgin Islands	Investment holding	10 shares of US$1 each	**100%**	100%
Global Record Investments Limited	British Virgin Islands	Investment holding	10 shares of US$1 each	**100%**	100%
Pioneer Digital Investments Limited	British Virgin Islands	Dormant	10 shares of US$1 each	**100%**	100%

14. Investments in Subsidiaries *(Continued)*

(b) *(Continued)*

Name	Place of incorporation	Principal Activities	Particulars of issued share capital	Interest held 2007	Interest held 2006
Promise Keep Investments Limited	British Virgin Islands	Investment holding	10 shares of US$1 each	**100%**	100%
Ruby Power Investments Limited	British Virgin Islands	Dormant	10 shares of US$1 each	**100%**	100%
Runway Wish Investments Limited	British Virgin Islands	Investment holding	10 shares of US$1 each	**100%**	100%
Sino Manufacturing Limited	British Virgin Islands	Dormant	1 share of US$1 each	**100%**	100%
Scientific China Investments Limited	Hong Kong	Dormant	2 shares of HK$1 each	**100%**	100%
Shining Avenue Limited	British Virgin Islands	Investment holding	10 shares of US$1 each	**100%**	100%
Truly Partner Limited	British Virgin Islands	Investment holding	10 shares of US$1 each	**100%**	100%
Winner Strength Investments Limited	British Virgin Islands	Inactive	10 shares of US$1 each	**100%**	100%
Wonderful Effort Limited	British Virgin Islands	Dormant	10 shares of US$1 each	**100%**	100%
Zhong Guan Business Consultancy (Shanghai) Co. Ltd.	People's Republic of China	Dormant	Registered capital of US$140,000	**100%**	100%

Note: The subsidiaries operate principally in their places of incorporation. The kind of legal entity of all subsidiaries are limited liability company.

15. Investments in Associates

	Group		Company	
	2007	2006	**2007**	2006
	US$	*US$*	***US$***	*US$*
Share of net assets other than goodwill	**57,111,324**	57,002,607	**—**	—
Goodwill on acquisition	**6,482,717**	2,755,951	**—**	—
Shares listed in Hong Kong, at cost	**—**	—	**13,770,330**	13,770,330
Unlisted investments, at cost	**—**	—	**627**	627
Convertible loan stock	**—**	—	**735,000**	735,000
	63,594,041	59,758,558	**14,505,957**	14,505,957
Provision for impairment losses	**—**	—	**(735,627)**	(735,627)
	63,594,041	59,758,558	**13,770,330**	13,770,330
Amount due from an associate	**1,649,213**	—	**—**	—
Amount due to associates	**(301,930)**	(302,416)	**(301,930)**	(302,416)
	1,347,283	(302,416)	**(301,930)**	(302,416)
	64,941,324	59,456,142	**13,468,400**	13,467,914
Investments at cost:				
Shares listed in Hong Kong	**13,770,330**	13,770,330		
Unlisted investments	**12,402,877**	20,702,877		
Convertible loan stock	**735,000**	735,000		
	26,908,207	35,208,207		
Provision for impairment losses	**(3,937,627)**	(3,937,627)		
	22,970,580	31,270,580		
Market value of listed shares in Hong Kong	**76,418,178**	26,746,362	**76,418,178**	26,746,362

Note: Amount due from an associate is denominated in Renminbi, secured by certain assets of the associate, bearing interest at 3% per annum. The amount due from an associate is past due but not impaired. This amount is overdue by one month up to 31 December 2007.

Amounts due to associates are denominated in United States dollars, unsecured, interest-free and have no fixed repayment terms.

15. Investments in Associates *(Continued)*

Impairment test for goodwill

Goodwill acquired through business combination has been allocated to the lowest level within which the goodwill is monitored by internal management purpose for impairment testing.

The recoverable amount of the lowest level of cash-generating unit has been determined based on value-in-use calculation using cash flow projections based on financial budgets approved by management covering a period of five years. The discount rate applied to cash flow projection is 6.25%.

(a) The following is a list of associates held by the Company at 31 December 2007:

Name	Particulars of issued shares held	Place of incorporation	Principal activities	Interest held 2007	Interest held 2006
First Shanghai Investments Limited ("FSIL") *(see note (i) below)*	Ordinary shares of 247,674,500 of HK$0.2each	Hong Kong	Investment holding	**17.80%**	20.75%
CITIC Capital China Property Investment Fund, L.P. (the "Fund") *(see note (ii) below)*	N/A	Cayman Islands	Dormant	**—***	17.42%*
CITIC Capital China Partners Ltd.	Ordinary shares of 250 of US$1 each	Cayman Islands	Provision for management services	**25%***	25%*
iMedia Holdings Limited ("iMedia") *(see note (iii) below)*	Series A Preferred shares of 2,200,000 of US$0.001 each	Cayman Islands	Provision for multi-media content and digital magazines	**31.03%***	31.03%*
Smartbuy Group Holdings Limited ("Smartbuy") *(see note (iv) below)*	Series A Preferred shares of 2,580,000 of US$0.001 each	Cayman Islands	Provision of sale of product and service through internet and terminals	**15.56%***	—
Holygene Corporation ("Holygene") *(see note (v) below)*	Ordinary shares of 900,000 of US$1 each	British Virgin Islands	Research and Development of drugs	**30%***	—
Dezhou Zhenhua Glass Co., Ltd. *(see note (vi) below)*	US$3,202,000	People's Republic of China	Production and sale of glass products	**30%***	30%*
Hong Kong Strong Profit Limited *(See note (vii) below)*	Ordinary shares of 4,900 of HK$1 each	Hong Kong	Dormant	**49%**	49%

*: Held indirectly by the Company

15. Investments in Associates *(Continued)*

(a) *(Continued)*

Notes:

(i) FSIL is a company listed on the Stock Exchange with issued share capital of HK$278,292,603 (2006: HK$238,773,330). Notwithstanding interest in FSIL is less than 20%, FSIL is considered as an associate of the Company because there are two common directors on the board of FSIL who can exercise significant influence over FSIL's operation and management decisions.

(ii) After distributing all assets to the shareholders, the Fund completed liquidation on 30 November 2007.

(iii) iMedia is a company registered in the Cayman Islands with total authorised capital of US$50,000 divided into 45,000,000 ordinary shares and 5,000,000 Series A preferred shares of a par value of US$0.001 each. As the financing procedure of other investors have not been completed, the shares held by the Group represented 31.03% interests in iMedia as at 31 December 2007.

(iv) Smartbuy is a company registered in the Cayman Islands with total authorised capital of US$50,000 divided into 44,000,000 ordinary shares and 6,000,000 Series A preferred shares of a par value of US$0.001 each. Notwithstanding interest in Smartbuy is less than 20%, Smartbuy is considered as an associate of the Company because the Company can appoint three directors on the board of Smartbuy who can exercise significant influence over Smartbuy operation and management decisions.

(v) Holygene is a company registered in the British Virgin Islands with total authorised capital of US$5,000,000 divided into 5,000,000 ordinary shares of a par value of US$1 each.

(vi) Dezhou Zhenhua Glass Co., Ltd. is a joint venture between a Company's subsidiary and Shandong Dezhou Zhenhua Glass Factory. The joint venture is for a period of 30 years from May 1994. The registered and paid-up capital of the joint venture is US$10,673,300, of which the Group contributed US$3,202,000 for its 30% share. Full provision for impairment losses was made against this investment in prior years.

(vii) Hong Kong Strong Profit Limited ("HKSP") is in the negotiation of a proposed liquidation. Full provision for impairment losses was made against the investment in HKSP in prior years.

All the above investments are regarded by the directors as associates as the Group can exercise significant influence over these investments.

15. Investments in Associates *(Continued)*

(b) Additional information in respect of the Group's principal associates is given as follows:

	Assets	Liabilities	Revenue	Profit/(loss) before income tax
	US$'000	*US$'000*	*US$'000*	*US$'000*
Year 2007:				
FSIL	**457,509**	**93,646**	**98,080**	**54,136**
The Fund	**—**	**—**	**26,086**	**22,976**
Smartbuy	**4,732**	**1,874**	**67**	**(726)**
iMedia	**1,261**	**1,022**	**410**	**(2,813)**
Year 2006:				
FSIL	268,960	50,965	169,607	31,678
The Fund	187,853	82,684	15,334	5,927
iMedia	3,580	526	33	(950)

16. Available-for-sale Financial Assets

	Group		Company	
	2007	2006	**2007**	2006
	US$	*US$*	***US$***	*US$*
As at 1 January	**32,204,551**	19,549,968	**24,784,581**	15,931,833
Additions	**14,260,562**	1,710,000	**6,279,943**	—
Disposals	**(5,715,153)**	—	**—**	—
Disposal of a subsidiary *(Note 24(b))*	**(1,035,000)**	—	**—**	—
Fair value gains transfer to investment revaluation reserve	**48,251,284**	10,944,583	**43,548,967**	8,852,748
Impairment loss	**(1,710,000)**	—	**—**	—
As at 31 December	**86,256,244**	32,204,551	**74,613,491**	24,784,581

16. Available-for-sale Financial Assets *(Continued)*

Available-for-sale financial assets include the following:

	Group		Company	
	2007	2006	**2007**	2006
	US$	*US$*	***US$***	*US$*
Listed equity securities:				
— Mainland China	**62,467,268**	30,494,551	**62,467,268**	24,784,581
— United Kingdom	**9,485,770**	—	**9,485,770**	—
Unlisted equity securities	**14,303,206**	1,710,000	**2,660,453**	—
	86,256,244	32,204,551	**74,613,491**	24,784,581
Market value of listed securities	**71,953,038**	30,494,551	**71,953,038**	24,784,581

Available-for-sale financial assets are denominated in the following currencies:

	Group		Company	
	2007	2006	**2007**	2006
	US$	*US$*	***US$***	*US$*
Hong Kong dollars	**2,660,453**	5,709,970	**2,660,453**	—
Renminbi	**74,110,021**	24,784,581	**62,467,268**	24,784,581
United Kingdom pounds	**9,485,770**	—	**9,485,770**	—
US dollars	**—**	1,710,000	**—**	—
	86,256,244	32,204,551	**74,613,491**	24,784,581

16. Available-for-sale Financial Assets *(Continued)*

At 31 December 2007, the carrying amount of interests in the following company exceeded 10% of total assets of the Company and the Group.

Name	Place of incorporation	Principal activities	Particulars of issued share capital held	Interest held 2007	Interest held 2006
Shandong Lukang Pharmaceutical Co., Ltd. ("Lukang")	People's Republic of China	Manufacture and sale of pharmaceutical products	89,911,568 restricted floating shares #	**11.46%**	11.46%

\# In 2006, Lukang issued 26,252,698 new shares to the Company as bonus issue in order to obtain the Company's approval of Lukang's equity reform scheme. Pursuant to an agreement entered into among the Company, Lukang and the major shareholder of Lukang's legal person shares, these new shares together with any respective dividend to be declared by Lukang are required to be returned to Lukang at the time when the original 63,658,870 restricted floating shares being converted to floating shares. The Company does not recognise the 26,252,698 new shares as addition of financial assets because the Company has no contractual right to receive the cash flows of the new shares. Accordingly, only the original 63,658,870 restricted floating shares were measured at fair value as of the balance sheet date.

17. Loan Receivables

Loan receivables are denominated in the following currencies:

	Group		Company	
	2007	2006	**2007**	2006
	US$	*US$*	***US$***	*US$*
Renminbi	**1,209,732**	5,123,940	**—**	2,561,410
US dollars	**1,500,000**	—	**1,500,000**	—
	2,709,732	5,123,940	**1,500,000**	2,561,410

17. Loan Receivables *(Continued)*

The effective interest rates on the loan receivables of the Group and the Company were as follows:

	Group		Company	
	2007	2006	**2007**	2006
Loan receivables	**6.22%-7.47%**	3.00%-8.75%	**6.22%**	8.75%

As at 31 December 2007, no loan receivable was past due (2006: Nil).

The carrying values of loan receivables approximate to its fair value due to their short maturities. The maximum exposure to credit risk at the reporting date is the fair values (i.e. their carrying values) of the loan receivables.

18. Other Receivables, Prepayments and Deposits

	Group		Company	
	2007	2006	**2007**	2006
	US$	*US$*	***US$***	*US$*
Other receivables	**3,021,128**	3,272,490	**137,085**	23,618
Prepayments	**24,804**	25,123	**24,804**	25,123
Deposits	**1,721**	4,249,280	**1,721**	1,726
	3,047,653	7,546,893	**163,610**	50,467
Provision for doubtful debt	**(2,501,591)**	—	**—**	—
	546,062	7,546,893	**163,610**	50,467
Less: non-current portion	**—**	(1,921,057)	**—**	—
Current portion	**546,062**	5,625,836	**163,610**	50,467

The current portion of other receivables and deposits are either repayable within one year or on demand. Accordingly, the fair value of the Group's and the Company's current portion of other receivables and deposits are approximately the same as the carrying value. The effective interest rate on non-current other receivable in 2006 was 2.79%.

18. Other Receivables, Prepayments and Deposits *(Continued)*

Movements on the Group's provision for doubtful debt are as follows:

	2007	2006
	US$	US$
At 1 January	—	—
Provision for doubtful debt	2,501,591	—
At 31 December	2,501,591	—

The creation and release of provision for doubtful debt have been included in "other gains/(losses) — net" in the consolidated profit and loss account (Note 8).

19. Financial Assets at Fair Value Through Profit or Loss

	Group		Company	
	2007	2006	2007	2006
	US$	US$	US$	US$
Listed equity securities:				
— Hong Kong	1,478,502	1,203,317	1,478,502	1,203,317
— United States	2,633,486	13,897,459	—	—
Derivative financial instruments				
— Equity options	—	3,797,240	—	—
Market value of financial assets	4,111,988	18,898,016	1,478,502	1,203,317

The carrying amounts of the above financial assets are classified as follows:

	Group		Company	
	2007	2006	2007	2006
	US$	US$	US$	US$
Held for trading	4,111,988	15,100,776	1,478,502	1,203,317
Designated as fair value through profit or loss on initial recognition	—	3,797,240	—	—
Market value of financial assets	4,111,988	18,898,016	1,478,502	1,203,317

19. Financial Assets at Fair Value Through Profit or Loss *(Continued)*

Changes in fair values of these financial assets are recorded in "other gains/(losses) — net" in the consolidated profit and loss account *(Note 8)*.

Financial assets at fair value through profit or loss are presented within the section on operating activities as part of changes in working capital in the cash flow statement *(Note 24(a))*.

The fair value of equity securities is based on their current bid prices in an active market.

20. Cash and Cash Equivalents

	Group		**Company**	
	2007	2006	**2007**	2006
	US$	*US$*	***US$***	*US$*
Cash at bank and in hand	**10,774,390**	8,714,693	**4,067,859**	682,242
Short-term bank deposits	**40,162,992**	8,021,746	**30,638,622**	3,626,983
	50,937,382	16,736,439	**34,706,481**	4,309,225
Maximum exposure to credit risk	**50,927,035**	16,603,597	**34,706,481**	4,309,225

The effective interest rates on short-term bank deposits of the Group and the Company were as follows:

	Group		**Company**	
	2007	2006	**2007**	2006
Short-term bank deposits	**1.62%-4.70%**	0.25%-5.00%	**1.62%-4.70%**	3.35%-5.00%

The carrying amounts of cash and cash equivalents are denominated in the following currencies:

	Group		**Company**	
	2007	2006	**2007**	2006
	US$	*US$*	***US$***	*US$*
United States dollars	**22,192,706**	4,090,514	**21,048,657**	3,656,236
Hong Kong dollars	**13,657,824**	652,989	**13,657,824**	652,989
Renminbi	**15,086,852**	11,992,936	**—**	—
	50,937,382	16,736,439	**34,706,481**	4,309,225

Renminbi is not a freely convertible currency.

21. Share Capital and Share Premium

	Group and Company	
	2007	2006
	US$	*US$*
Authorised:		
160,000,000 shares of US$0.10 each	**16,000,000**	16,000,000

	Number of shares of US$0.10 each	Ordinary Shares	Share premium	Total
		US$	*US$*	*US$*
			(Note 22)	
Issued and fully paid:				
As at 1 January 2006	74,398,160	7,439,816	68,448,959	75,888,775
Shares issued under employee share option scheme	1,315,000	131,500	316,981	448,481
As at 31 December 2006 and 1 January 2007	75,713,160	7,571,316	68,765,940	76,337,256
Shares issued under employee share option scheme	845,000	84,500	293,904	378,404
As at 31 December 2007	76,558,160	7,655,816	69,059,844	76,715,660

Share options

Share options were granted to certain directors of the Company and employees of CAIML as incentives and rewards for their contribution to the Group. Each share option entitles the holder to subscribe for one share in the capital of the Company at an exercise price of HK$2.65 or HK$5.74 per share, and is exercisable at any time from 25 May 2004 to 23 May 2014 or from 25 April 2007 to 24 April 2017 respectively.

21. Share Capital and Share Premium *(Continued)*

Share options *(Continued)*

Movement in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2007		2006	
	Average exercise price in HK$ per Share	**Options (thousands)**	Average exercise price in HK$ per share	Options (thousands)
As at 1 January	**2.65**	**2,470**	2.65	3,785
Granted	**5.74**	**5,925**	—	—
Exercised	**3.11**	**(845)**	2.65	(1,315)
As at 31 December	**5.02**	**7,550**	2.65	2,470

During the year, 720,000 (2006: 1,315,000) and 125,000 (2006: Nil) share options were exercised to subscribe for a total of 845,000 (2006: 1,315,000) shares in the Company at a consideration of HK$2.65 and HK$5.74 per share, respectively. The related weighted average share price at the time of exercise was HK$7.77 per share.

The fair value of the options granted during the year determined using the Black-Scholes valuation model was US$0.337 per option. The significant inputs into the model were share price of HK$5.40 as at the grant date, exercise price as shown above, volatility of the share of 31%, expected life of options of ten years, dividend yield of 0% and annual risk-free interest rate of 4.14%. The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of daily share prices of the Company over one year prior to the grant date.

Notes to the Accounts

22. Reserves

Group

	Share premium US$	Capital reserve US$ (Note)	Share-based compensation reserve US$	Investment revaluation reserve US$	Retained earnings US$	Total US$
As at 1 January 2006	68,448,959	1,329,489	—	(6,155,079)	51,262,946	114,886,315
Fair value gains of available-for-sale financial assets	—	—	—	10,944,583	—	10,944,583
Share of post-acquisition reserves of associates	—	2,442,705	—	—	—	2,442,705
Exchange difference arising on translation of associates	—	(85,656)	—	—	—	(85,656)
Exchange difference arising on translation of a subsidiary	—	24,406	—	—	—	24,406
Profit attributable to equity holders of the Company	—	—	—	—	3,586,098	3,586,098
Shares issued under employee share option scheme	316,981	—	—	—	—	316,981
As at 31 December 2006	68,765,940	3,710,944	—	4,789,504	54,849,044	132,115,432
Company and subsidiaries	68,765,940	(718,810)	—	4,789,504	15,435,846	88,272,480
Associates	—	4,429,754	—	—	39,413,198	43,842,952
	68,765,940	3,710,944	—	4,789,504	54,849,044	132,115,432
As at 1 January 2007	68,765,940	3,710,944	—	4,789,504	54,849,044	132,115,432
Fair value gains of available-for-sale financial assets, net of deferred income tax	—	—	—	42,790,908	—	42,790,908
Release of investment revaluation reserve upon disposal of available-for-sale financial assets	—	—	—	375,779	—	375,779
Share of post-acquisition reserves of associates	—	10,521,170	—	—	—	10,521,170
Release of capital reserve upon deemed disposal of an associate	—	(1,803,932)	—	—	—	(1,803,932)
Exchange difference arising on translation of associates	—	(49,358)	—	—	—	(49,358)
Exchange difference arising on translation of a subsidiary	—	139,424	—	—	—	139,424
Profit attributable to equity holders of the Company	—	—	—	—	9,422,878	9,422,878
Employee share option benefits	—	—	1,994,705	—	—	1,994,705
Shares issued under employee share option scheme	293,904	—	(42,082)	—	—	251,822
As at 31 December 2007	69,059,844	12,518,248	1,952,623	47,956,191	64,271,922	195,758,828
Company and subsidiaries	69,059,844	(628,744)	1,952,623	47,956,191	12,279,768	130,619,682
Associates	—	13,146,992	—	—	51,992,154	65,139,146
	69,059,844	12,518,248	1,952,623	47,956,191	64,271,922	195,758,828

Note: Capital reserve includes exchange differences on translation of the accounts of associates and share of post acquisition reserves of associates.

22. Reserves *(Continued)*

Company

	Share Premium US$	Share-based compensation reserve US$	Investment revaluation reserve US$	(Accumulated losses)/ retained earnings US$	Total US$
As at 1 January 2006	68,448,959	—	6,337,630	(7,019,526)	67,767,063
Fair value gains of available-for-sale financial assets	—	—	8,852,748	—	8,852,748
Profit attributable to equity holders of the Company	—	—	—	7,751,153	7,751,153
Shares issued under employee share option scheme	316,981	—	—	—	316,981
As at 31 December 2006	68,765,940	—	15,190,378	731,627	84,687,945
As at 1 January 2007	68,765,940	—	15,190,378	731,627	84,687,945
Fair value gains of available-for-sale financial assets, net of deferred income tax	—	—	39,264,170	—	39,264,170
Profit attributable to equity holders of the Company	—	—	—	22,278,799	22,278,799
Employee share option benefits	—	1,994,705	—	—	1,994,705
Shares issued under employee share option scheme	293,904	(42,082)	—	—	251,822
As at 31 December 2007	69,059,844	1,952,623	54,454,548	23,010,426	148,477,441

23. Deferred income tax liabilities

The gross movement on the deferred income tax liabilities is as follows:

	Group		Company	
	2007	2006	**2007**	2006
	US$	*US$*	***US$***	*US$*
As at 1 January	**—**	—	**—**	—
Charged to investment revaluation reserve	**5,460,376**	—	**4,284,797**	—
As at 31 December	**5,460,376**	—	**4,284,797**	—

Deferred income tax liabilities represented capital gain tax on unrealised fair value gain on available-for-sale financial assets.

24. Note to Cash Flow Statement

(a) Reconciliation of operating loss to cash generated from operations

	2007	2006
	US$	*US$*
Operating loss	**(2,765,605)**	(3,322,809)
Bank interest income	**(1,178,326)**	(451,394)
Loan interest income	**(149,670)**	(207,899)
Dividend income from investments	**(65,000)**	(4,140)
Gains on disposal of subsidiaries	**(463,502)**	(231,942)
Loss on disposal of investment in an associate	**—**	341,700
(Gain)/loss on deemed disposal of associates	**(342,015)**	1,607,865
Net realised gain on disposal of available-for-sale financial asset	**(1,416,630)**	—
Impairment loss on available-for-sale financial assets	**1,710,000**	—
Provision for doubtful debt	**2,501,591**	
Share-based payments	**1,994,705**	—
Operating losses before working capital changes	**(174,452)**	(2,268,619)
Decrease in loan receivables	**2,414,208**	1,479,541
Decrease/(increase) in other receivables, prepayments and deposits	**4,499,240**	(4,705,435)
Decrease in financial assets at fair value through profit or loss	**14,786,028**	9,043,546
Movement in amounts with a related company	**11,569**	(2,699)
Movement in amounts with associates	**(1,649,699)**	(2,148)
Increase/(decrease) in accounts payable	**61,288**	(29,127)
Decrease in accrued expenses	**—**	(9,511)
Cash generated from operations	**19,948,182**	3,505,548

24. Note to Cash Flow Statement *(Continued)*

(b) Disposal of subsidiaries

	As at date of disposal	
	2007	2006
	US$	*US$*
Available-for-sale financial asset	**1,035,000**	—
Prepayment	**—**	797,990
Net asset	**1,035,000**	797,990
Gains on disposal of subsidiaries *(Note 8)*	**463,502**	231,942
Sale consideration satisfied by cash	**1,498,502**	1,029,932

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	As at date of disposal	
	2007	2006
	US$	*US$*
Cash consideration	**1,498,502**	1,029,932

25. Capital Commitments

Capital commitments of the Group at the balance sheet date are as follows:

	2007	2006
	US$	*US$*
Contracted but not provided for:		
Investment in an associate	**5,700,000**	—
Available-for-sale financial asset	**—**	1,035,000
	5,700,000	1,035,000

The Group's share of capital commitments of associates not included in the above are as follows:

	2007	2006
	US$	*US$*
Contracted but not provided for	**2,208,078**	1,249,850
Authorised but not contracted	**23,760,978**	8,543,974

The Company did not have any material commitments at 31 December 2007 (2006: Nil).

26. Related Party Transactions

(a) Transactions with related parties

	2007	2006
	US$	*US$*
Management fee paid/payable to:		
CAIML	**1,686,569**	1,548,302

CAIML is an associate of FSIL, an associate of the Company. Mr. Lao Yuan Yi, the Chairman and an executive director of the Company, Mr. Xu Xiao Feng, an executive director of the Company, and Mr. Yeung Wai Kin, a non-executive director of the Company, are also the directors of CAIML. Both Mr. Lao and Mr. Yeung are the directors of FSIL.

(b) Key management compensation

	2007	2006
	US$	*US$*
Salaries and other short-term employee benefits	**163,544**	138,359
Share-based payments	**1,610,782**	—
Pension costs — defined contribution plan	**1,263**	1,177
	1,775,589	139,536

(c) As at 31 December 2007, management fee payable to CAIML amounted to US$8,244 (2006: US$3,325 paid in advance). The balance was denominated in United States dollars, unsecured and interest-free.

27. Events after the Balance Sheet Date

(a) In March 2008, the Company signed a supplemental agreement to increase its investment in iMedia Holdings Limited by a further US$1 million.

(b) In March 2008, the Company entered into a subscription agreement to invest approximately US$1 million in Melco China Resorts (Holding) Limited ("MCR"). MCR is mainly engaged in development and operation of ski resorts and related real estates in Mainland China.

Five Year Financial Summary

	2007	2006	2005	2004	2003
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Consolidated profit and loss account					
Revenue	**1,393**	663	470	935	315
Profit attributable to equity holders of the Company	**9,422**	3,586	13,873	22,059	9,848
Consolidated balance sheet					
Investments in associates	**64,942**	59,456	49,116	29,066	29,201
Available-for-sale financial assets	**86,256**	32,205	19,550	—	—
Investments	**—**	—	—	19,619	30,593
Other non-current assets	**—**	1,921	—	—	591
Current assets	**58,305**	46,444	54,079	64,634	30,957
	209,503	140,026	122,745	113,319	91,342
Current liabilities	**(628)**	(339)	(419)	(244)	(285)
Deferred income tax liabilities	**(5,460)**	—	—	—	—
	203,415	139,687	122,326	113,075	91,057
Financed by:					
Share capital	**7,656**	7,571	7,440	7,438	7,438
Reserves	**195,759**	132,116	114,886	105,637	83,619
	203,415	139,687	122,326	113,075	91,057