

# CHINA ASSETS (HOLDINGS) LIMITED

(Stock Code: 170)



INTERIM REPORT  
2008

## 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

Dr. David William Maguire

### 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

Mr. Wu Ming Yu

### Solicitors

Victor Chu & Co.

### Auditors

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong

### Bankers

Bank of China (Hong Kong) Limited

CITIC Ka Wah Bank Limited

The Hongkong and Shanghai Banking

Corporation Limited

Standard Chartered Bank

### Custodian

Citibank, N.A., Hong Kong Branch

### Registrars

Computershare Hong Kong Investor

Services Limited

46th Floor, Hopewell Centre

183 Queen's Road East

Hong Kong

### Registered Office

19th Floor, Wing On House

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### Stock Code

170

## Unaudited Interim Results

The Board of Directors of China Assets (Holdings) Limited (the “Company”) has pleasure in reporting the following unaudited condensed consolidated financial results of the Company and its subsidiaries (the “Group”) for the six months ended 30th June 2008:

### Condensed Consolidated Profit and Loss Account

For the six months ended 30th June 2008

		Unaudited Six months ended 30th June	
	Notes	2008 US\$	2007 US\$
Revenue	2	<b>4,318,076</b>	470,873
Other losses – net	3	<b>(113,186)</b>	(440,142)
Administrative expenses	4	<b>(1,196,022)</b>	(3,068,996)
Operating profit/(loss)		<b>3,008,868</b>	(3,038,265)
Share of (losses)/profits of associates		<b>(698,322)</b>	10,319,575
Profit before income tax		<b>2,310,546</b>	7,281,310
Income tax expense	5	<b>(7,546)</b>	(18,331)
Profit attributable to the equity holders of the Company		<b>2,303,000</b>	7,262,979
Earnings per share attributable to the equity holders of the Company	6		
Basic		<b>0.0301</b>	0.0958
Diluted		<b>0.0274</b>	0.0937

## Condensed Consolidated Balance Sheet

As at 30th June 2008

	Notes	Unaudited 30th June 2008 US\$	Audited 31st December 2007 US\$
<b>Non-current assets</b>			
Investments in associates		60,668,541	64,941,324
Available-for-sale financial assets		55,944,336	86,256,244
		<b>116,612,877</b>	<b>151,197,568</b>
<b>Current assets</b>			
Loan receivables		6,599,587	2,709,732
Other receivables, prepayments and deposits		1,332,673	546,062
Financial assets at fair value through profit or loss		2,637,313	4,111,988
Cash and cash equivalents	7	47,494,830	50,937,382
		<b>58,064,403</b>	<b>58,305,164</b>
Total assets		<b>174,677,280</b>	<b>209,502,732</b>
<b>Equity attributable to the equity holders of the Company</b>			
Share capital	8	7,655,816	7,655,816
Reserves		164,501,964	195,758,828
Total equity		<b>172,157,780</b>	<b>203,414,644</b>
<b>Current liabilities</b>			
Other payables		100,623	198,355
Accrued expenses		—	95,236
Amount due to a related company		8,816	8,244
Tax payable		374,355	325,877
		<b>483,794</b>	<b>627,712</b>
<b>Non-current liabilities</b>			
Deferred income tax liabilities		2,035,706	5,460,376
Total liabilities		<b>2,519,500</b>	<b>6,088,088</b>
Total liabilities and equity		<b>174,677,280</b>	<b>209,502,732</b>
Net current assets		<b>57,580,609</b>	<b>57,677,452</b>
Total assets less current liabilities		<b>174,193,486</b>	<b>208,875,020</b>

## Condensed Consolidated Cash Flow Statement

For the six months ended 30th June 2008

	Unaudited	
	Six months ended 30th June	
	2008	2007
	US\$	US\$
Cash flows used in operating activities	<b>(3,922,092)</b>	(4,196,515)
Cash flows generated from investing activities	<b>877,997</b>	22,174,661
Cash flow generated from financing activities	—	196,226
(Decrease)/increase in cash and cash equivalents	<b>(3,044,095)</b>	18,174,372
Effect of foreign exchange rate changes	<b>(398,457)</b>	56,267
Cash and cash equivalents at 1st January	<b>50,937,382</b>	16,736,439
Cash and cash equivalents at 30th June	<b>47,494,830</b>	34,967,078
Analysis of the balances of cash and cash equivalents:		
Bank balances and cash	<b>47,494,830</b>	34,967,078

# Condensed Consolidated Statement of Changes in Equity

For the six months ended 30th June 2008

	Unaudited						
	Share	Share	Share-based	Capital	Investment	Retained	Total
	Capital	premium	compensation	reserve	revaluation	earnings	
US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$
At 1st January 2007	7,571,316	68,765,940	—	3,710,944	4,789,504	54,849,044	139,686,748
Share of post-acquisition reserves of associates	—	—	—	8,581,202	—	—	8,581,202
Exchange differences arising on translation of the accounts of associates and subsidiaries	—	—	—	(136,779)	—	—	(136,779)
Fair value gain of available-for-sale financial assets	—	—	—	—	31,774,924	—	31,774,924
Release upon disposal of available-for-sale financial assets	—	—	—	—	375,779	—	375,779
Release of capital reserve upon deemed disposal of partial interests in an associate	—	—	—	(1,565,721)	—	—	(1,565,721)
Net gains not recognised in the condensed consolidated profit and loss account	—	—	—	6,878,702	32,150,703	—	39,029,405
Profit attributable to the equity holders of the Company	—	—	—	—	—	7,262,979	7,262,979
Issue of new shares	52,000	144,226	—	—	—	—	196,226
Employee share option benefits	—	—	1,994,705	—	—	—	1,994,705
At 30th June 2007	7,623,316	68,910,166	1,994,705	10,589,646	36,940,207	62,112,023	188,170,063
At 1st January 2008	7,655,816	69,059,844	1,952,623	12,518,248	47,956,191	64,271,922	203,414,644
Share of post-acquisition reserves of associates	—	—	—	(3,259,672)	—	—	(3,259,672)
Release of capital reserve upon deemed disposal of partial interests in an associate	—	—	—	(31,398)	—	—	(31,398)
Exchange differences arising on translation of associates and subsidiaries	—	—	—	22,178	—	—	22,178
Fair value losses of available-for-sale financial assets, net of deferred income tax	—	—	—	—	(30,290,972)	—	(30,290,972)
Net losses not recognised in the condensed consolidated profit and loss account	—	—	—	(3,268,892)	(30,290,972)	—	(33,559,864)
Profit attributable to the equity holders of the Company	—	—	—	—	—	2,303,000	2,303,000
At 30th June 2008	7,655,816	69,059,844	1,952,623	9,249,356	17,665,219	66,574,922	172,157,780

## Notes to Condensed Consolidated Financial Information

### 1. Basis of preparation and accounting policies

These unaudited condensed consolidated interim financial information for the six months ended 30th June 2008 has been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants and the applicable requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

These condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31st December 2007.

The significant accounting policies and method of computation used in the preparation of these unaudited condensed consolidated interim financial information is consistent with those used in the annual financial statements for the year ended 31st December 2007 except for the adoption of HK(IFRIC) – Int 11 “HKFRS 2 – Group and Treasury Share Transaction” which is relevant and effective for the year ending 31st December 2008. The adoption of this Interpretation does not have any significant impact on these condensed consolidated interim financial information.

The following standards, amendments and interpretation have been issued but are not effective for the year ending 31st December 2008 and have not been early adopted:

HKAS 1 (Revised)	Presentation of Financial Statements
HKFRS 2 (Amendment)	Share-based Payment – Vesting Conditions and Cancellations
HKFRS 3 (Revised)	Business Combinations
HKFRS 8	Operating Segments
HKAS 23 (Revised)	Borrowing Costs
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 32 (Amendment)	Financial Instruments: Presentation
HK(IFRIC) – Int 13	Customer loyalty Programmes

## Notes to Condensed Consolidated Financial Information (Continued)

### 2. Revenue and segment information

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

	Unaudited	
	Six months ended 30th June	
	2008	2007
	US\$	US\$
Revenue		
Interest income	655,621	405,873
Dividend income from listed investments	19,892	—
Dividend income from unlisted investments	3,642,563	65,000
	<b>4,318,076</b>	<b>470,873</b>

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

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

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

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

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

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



## Notes to Condensed Consolidated Financial Information (Continued)

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

#### Primary Reporting Format – Business segments

The segment revenue and results for the six months ended 30th June 2008 by business segments are as follows:

	Investment holding (Unaudited) US\$	Manufacturing and distribution of pharmaceutical products (Unaudited) US\$	Property holding (Unaudited) US\$	Others (Unaudited) US\$	Total (Unaudited) US\$
Segment revenue	4,318,076	—	—	—	4,318,076
Segment results	4,318,076	—	—	—	4,318,076
Net unallocated expenses					(1,309,208)
Operating profit					3,008,868
Share of losses of associates	(697,995)	—	(327)	—	(698,322)
Income tax expense					(7,546)
Profit attributable to the equity holders of the Company					2,303,000

The segment assets and liabilities at 30th June 2008 are as follows:

	Investment holding (Unaudited) US\$	Manufacturing and distribution of pharmaceutical products (Unaudited) US\$	Property holding (Unaudited) US\$	Others (Unaudited) US\$	Total (Unaudited) US\$
Segment assets	74,032,381	39,976,358	—	—	114,008,739
Investments in associates	60,868,222	—	111,431	(311,112)	60,668,541
Total assets					174,677,280
Segment liabilities	483,794	—	—	—	483,794
Unallocated liabilities					2,035,706
Total liabilities					2,519,500

## Notes to Condensed Consolidated Financial Information (Continued)

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

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

The segment revenue and results for the six months ended 30th June 2007 by business segments are as follows:

	Investment holding (Unaudited) US\$	Manufacturing and distribution of pharmaceutical products (Unaudited) US\$	Property holding (Unaudited) US\$	Others (Unaudited) US\$	Total (Unaudited) US\$
Segment revenue	470,873	—	—	—	470,873
Segment results	470,873	—	—	—	470,873
Net unallocated expenses					(3,509,138)
Operating loss					(3,038,265)
Share of profits of associates	8,053,094	—	2,266,481	—	10,319,575
Income tax expense					(18,331)
Profit attributable to the equity holders of the Company					7,262,979

The segment assets and liabilities at 31st December 2007 are as follows:

	Investment holding (Audited) US\$	Manufacturing and distribution of pharmaceutical products (Audited) US\$	Property holding (Audited) US\$	Others (Audited) US\$	Total (Audited) US\$
Segment assets	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

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

## Notes to Condensed Consolidated Financial Information (Continued)

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

#### Secondary Reporting Format — Geographical segments

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

	Unaudited	
	Six months ended 30th June	
	2008	2007
	US\$	US\$
Revenue		
Hong Kong	394,227	343,709
Mainland China	3,923,849	127,164
	<b>4,318,076</b>	<b>470,873</b>

Revenue is allocated based on the place in which the revenue is generated.

	Unaudited		Audited
	As at 30th June		As at 31st
	2008	2007	December
	US\$	US\$	US\$
Total assets			
Hong Kong	48,139,818	37,183,767	
Mainland China	65,868,921	107,377,641	
	<b>114,008,739</b>	<b>144,561,408</b>	
Investments in associates	60,668,541	64,941,324	
	<b>174,677,280</b>	<b>209,502,732</b>	

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

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

## Notes to Condensed Consolidated Financial Information (Continued)

### 3. Other losses — net

	Unaudited	
	Six months ended 30th June	
	2008	2007
	US\$	US\$
Gain on disposal of a subsidiary	—	463,502
Gain on disposal of financial assets at fair value through profit or loss	—	2,199,717
Net exchange gain	1,388,168	531,077
(Loss)/gain on deemed disposal of partial interests in associates	(68,750)	410,786
Unrealised fair value losses on financial assets at fair value through profit or loss	(1,490,648)	(4,060,030)
Others	58,044	14,806
	<b>(113,186)</b>	<b>(440,142)</b>

### 4. Administrative expenses

Expenses included in administrative expenses are analysed as follows:

	Unaudited	
	Six months ended 30th June	
	2008	2007
	US\$	US\$
Management fees paid/payable to a related company (Note 10(a))	982,573	916,663

## Notes to Condensed Consolidated Financial Information (Continued)

### 5. Income tax expense

Hong Kong profits tax has been provided for at the rate of 16.5% (2007: 17.5%) on the estimated assessable profit for the period. Income tax expense on overseas profits has been calculated on the estimated assessable profit for the period at the rates of income tax prevailing in the countries in which the Group operates.

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

	Unaudited	
	Six months ended 30th June	
	2008	2007
	US\$	US\$
Current overseas income tax	7,546	18,331

### 6. Earnings per share

The calculation of basic earnings per share are based on the Group's profit attributable to the equity holders of the Company of US\$2,303,000 (2007: US\$7,262,979) and the weighted average number of 76,558,160 (2007: 75,801,845) ordinary shares in issue during the period.

The calculation of diluted earnings per share are based on the Group's profit attributable to the equity holders of the Company of US\$2,303,000 (2007: profit of US\$7,262,979). The weighted average number of 84,108,160 (2007: 77,490,092) ordinary shares used in the calculation is the sum of weighted average number of 76,558,160 (2007: 75,801,845) ordinary shares in issue during the period as used in the basic earnings per share calculation and the weighted average number of 7,550,000 (2007: 1,688,247) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the period.

## Notes to Condensed Consolidated Financial Information (Continued)

### 7. Cash and Cash equivalents

Included in the cash and cash equivalents of the Group are Renminbi deposits and cash in the Mainland China of US\$12,908,321 (31st December 2007: US\$15,086,852). Renminbi is not a freely convertible currency.

### 8. Share Capital

	<b>Unaudited</b>			
	<b>Six months ended 30th June</b>			
	<b>2008</b>		2007	
	<i>US\$</i>		<i>US\$</i>	
Authorised:				
160,000,000 shares of US\$0.10 each	<b>16,000,000</b>		16,000,000	
	<b>Number of</b>	<b>Ordinary</b>	<b>Share</b>	<b>Total</b>
	<b>shares of</b>	<b>shares</b>	<b>premium</b>	<b></b>
	<b>US\$0.10 each</b>	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>
Issued and fully paid:				
At 1st January 2007	75,713,160	7,571,316	68,765,940	76,337,256
Shares issued under employee share option scheme	520,000	52,000	144,226	196,226
At 30th June 2007	76,233,160	7,623,316	68,910,166	75,533,482
At 1st January 2008 and 30th June 2008	76,558,160	7,655,816	69,059,844	76,715,660

## Notes to Condensed Consolidated Financial Information (Continued)

### 9. Commitments

As at 30th June 2008 and 31st December 2007, the Group's share of capital commitments are as follows:

	<b>30th June 2008 (Unaudited) US\$</b>	31st December 2007 (Audited) US\$
Investment in associates		
Contracted but not provided for	<b>4,125,792</b>	5,700,000

As at 30th June 2008 and 31st December 2007, the Group's share of capital commitments of an associate is as follows:

	<b>30th June 2008 (Unaudited) US\$</b>	31st December 2007 (Audited) US\$
Contracted but not provided for	<b>1,297,916</b>	2,208,078
Authorised but not contracted	<b>30,138,361</b>	23,760,978
	<b>31,436,277</b>	25,969,056

The Group did not have any other material commitments at 30th June 2008 (2007: Nil).

### 10. Related party transactions

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

- (a) During the period, the Company paid management fee totalling US\$982,573 (2007: US\$916,663) to China Assets Investment Management Limited ("CAIML") under the management agreement signed between the Company and CAIML.

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

- (b) As at 30th June 2008, management fee paid in advance to CAIML amounted to US\$ 8,816 (31 December 2007: US\$8,244). The balance was denominated in United States dollar, unsecured, interest-free and will be settled in the third quarter of 2008.

## Dividend

The Directors do not recommend the payment of an interim dividend (2007: US\$Nil).

## Net Asset Value

The unaudited consolidated net asset value per share of the Group at 30th June 2008 was US\$2.2487 (31st December 2007: US\$2.6570).

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

As at 30th June 2008, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, were as follows:

### Shares in the Company

Name of director	Number of shares held			% of the issued share capital
	Personal interests	Corporate interests	Total	
Yeung Wai Kin	100,000	—	100,000	0.13%
Fan Jia Yan	75,000	—	<u>75,000</u>	0.09%



## Director's Interests and Short Positions in the Securities of the Company and its Associated Corporations (Continued)

### Options in respect of shares in the Company

Details of the share options granted under the share option scheme approved on 19 May 2004 (the "Scheme") remain outstanding as at 30th June 2008 are as follows:

	Options held at 1st January 2008	Options exercised during the period	Options held at 30th June 2008	Exercise price HK\$	Closing price before the date of grant	Date of grant	Exercise period
<b>Directors:</b>							
Lao Yuan Yi	725,000	—	725,000	2.65	2.50	21/05/2004	25/05/2004 — 23/05/2014
	750,000	—	750,000	5.74	5.62	25/04/2007	25/04/2007 — 24/04/2017
Xu Xiao Feng	750,000	—	750,000	5.74	5.62	25/04/2007	25/04/2007 — 24/04/2017
Lao Yuan Yuan	750,000	—	750,000	5.74	5.62	25/04/2007	25/04/2007 — 24/04/2017
Jiang Wei	50,000	—	50,000	2.65	2.50	21/05/2004	25/05/2004 — 23/05/2014
	500,000	—	500,000	5.74	5.62	25/04/2007	25/04/2007 — 24/04/2017
Yeung Wai Kin	500,000	—	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	305,000	—	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
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
<b>Ex-director:</b>							
Peter Duncan Neil Robertson (deceased)	75,000	—	75,000	5.74	5.62	25/04/2007	25/04/2007 — 24/04/2017
Employees of the Manager	100,000	—	100,000	2.65	2.50	21/05/2004	25/05/2004 — 23/05/2014
	1,400,000	—	1,400,000	5.74	5.62	25/04/2007	25/04/2007 — 24/04/2017
	<u>7,550,000</u>	<u>—</u>	<u>7,555,000</u>				

## Director's Interests and Short Positions in the Securities of the Company and its Associated Corporations *(Continued)*

Apart from the above, as at 30th June 2008, none of the Directors or the chief executive of the Company had or was deemed to have any interests and short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules.

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

The register of substantial shareholders' interests maintained under section 336 of the SFO reveals that as at 30th June 2008, 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%
QVT Financial LP (Note 2)	Corporate	Beneficial owner	3,176,082	4.15%
QVT Financial GP LLC (Note 2)	Corporate	Investment Manager	19,915,000	26.01%
QVT Associates GP LLC (Note 3)	Corporate	Interest of Controlled Corporation	19,915,000	26.01%
QVT Fund LP (Note 3)	Corporate	Interest of Controlled Corporation	16,863,526	22.03%
Chen Dayou	Personal	Beneficial Owner	15,337,878	20.03%
		Owner	8,405,000	10.98%

## Substantial Shareholders' Interests and Short Positions in the Shares 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 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 30th June 2008.

### Purchase, Sale or Redemption of Shares

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

### Code on Corporate Governance Practices

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

During the six months ended 30th June 2008, the Company has complied with the code provisions in the CG Code except for the following deviation:

#### Code provision B1.1

Under the code provision B1.1, a majority of the members of the remuneration committee should be independent non-executive directors. Subsequent to the pass-away of an independent non-executive director on 22nd March 2008, the remuneration committee only consists of one executive director and one independent non-executive director. On 19th September 2008, the Company invites another independent non-executive director to join the remuneration committee and has hence complied with the code provision.

## Audit Committee

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

## Model Code for Securities Transactions by the Directors

The Company has adopted Appendix 10 of the Listing Rules “Model Code for Securities Transactions by Directors of Listed Issuers” as rules for securities transactions initiated by the directors of the Company. Following specific enquiry by the Company, all directors have confirmed that they fully complied with the standard laid down in the said rules at any time during the period ended 30th June 2008.

## Investment Review

China Assets (Holdings) Limited (the “Company”) and its subsidiaries (together, the “Group”) reported a profit of US\$2.30 million for the six months ended 30th June 2008, representing decrease of 68% over the same period of 2007. The profit drop was mainly due to share of losses from its major associates including First Shanghai Investments Ltd. (“FSIL”), iMedia Holdings Ltd. (“iMedia”) and Smartbuy Group Holdings Ltd. (“Smartbuy”).

During the period, FSIL suffered from the volatile stock market and incurred losses in its securities investment business. Business of iMedia was negatively affected by the Sichuan earthquake and macro-environment changes in the PRC advertising market and incurred operating loss as a result. In view of market situation and resource constraints, Smartbuy adjusted its business model in the hope of lifting the proportion of direct sales income against advertising revenue. Smartbuy reported operating loss for the 6 months ended 30th June 2008.

As at 30th June 2008, the consolidated net asset value of the Group was US\$172 million, a 15.4% decrease compared with US\$203 million as at the end of 2007. The decrease was mainly attributable to the unrealised fair value losses totalling US\$30.29 million incurred on the two investment funds and the listed securities investments including Shandong Lukang Pharmaceutical Co., Ltd..

During the first half of 2008, the PRC government continued to adopt macro-economic policy to prevent the economy from going overheated. The gross domestic product slowed down and reported a year-on-year growth of 10.4% as a result. Inflation also eased and the consumer price index moderated to a year-on-year growth of 7.9% in the first half of 2008. Despite this, the producer price index and the purchaser prices for raw material, fuel and power jumped by 7.6% and 11.1% year-on-year respectively and added more pressure on manufacturers. Together with the tightened credit market, appreciating Renminbi and rising cost of labour, thousands of small and medium export enterprises went bankrupt in the coastal areas. It is now widely believed that the PRC government will find a balance between inflation and economy growth and gradually shift its focus towards preventing a major economic slowdown.

## Investment Review *(Continued)*

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

### Major Long-Term Investments

#### *Investments in Associates*

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

Performance of FSIL was seriously affected by the market downturn and its interim profit plummeted to HK\$2.89 million (approximately US\$0.37 million). As a result of the volatile stock market, FSIL recorded substantial loss on its securities investment business during the period. Its securities brokerage services grew moderately during the period and most of the projects in its properties and hotel investment business were under development.

##### *iMedia Holdings Ltd. ("iMedia")*

During the period, iMedia continued to develop its video internet platform and consolidate its co-operation with CCTV. In March 2008, the Group entered into agreement with iMedia to further invest another US\$1 million to support its business development and improve its operating cash flow.

iMedia's advertising business was affected by the Sichuan earthquake in China in May 2008. In early August 2008, iMedia was informed by CCTV that due to security reason, the direct web hyperlink of its CCTV interactive digital media platform would be suspended during the Olympics period. Revenue income was negatively affected as a result and iMedia swiftly adopted cost cutting measures such as office relocation and headcounts downward adjustment.

##### *Smartbuy Group Holdings Ltd. ("Smartbuy")*

During the period, Smartbuy continued to develop its internet platform for direct sales on one hand and build up special terminals across the city of Shanghai on the other hand. In view of market situation and resources constraint, Smartbuy is now adjusting its business model in the hope of focusing and increasing the proportion of sales income against advertising revenue.

In order to support further business development and complete the capital registration process, the Group subscribed convertible notes of US\$0.7 million in September 2008.

#### ***Investment in an Associate for Which Full Provision Had Been Made***

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

Due to the obsolete production equipment and technology, Zhenhua had ceased production since August 2005. A full provision of US\$3.2 million was made against this investment in 1998.

## Investment Review *(Continued)*

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

#### ***Investment in an Associate for Which Full Provision Had Been Made*** *(Continued)*

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

After lengthy negotiation and persistent efforts, the Group signed an agreement in June 2008 with the PRC shareholder of Zhenhua to dispose of its 30% interest in Zhenhua at a consideration of RMB2 million (approximately US\$0.29 million). The consideration was due in July 2008 but not yet settled as the buyer's bank accounts were frozen by the court due to litigation.

#### ***Available-for-sale Financial Assets***

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

As a result of adoption of measures for improving production efficiency and development of new markets, Lukang recorded increased turnover and higher operating income for the first half of 2008. Lukang reported a profit of RMB20.04 million for the 6 months ended 30th June 2008, representing a growth of 61% over that of the previous year.

During the period, the Group engaged a lawyer to continue discussion with the PRC major shareholder of Lukang — Shandong Lukang Pharmaceutical Group Company Limited ("Lukang Group") about the formalities in relation to the disposal of its 63,658,870 restricted shares of Lukang.

Negatively affected by the bearish sentiments over the A-share market, Lukang share price also dropped from RMB7.14 at the end of 2007 to RMB4.31 at 30th June 2008. The unrealised fair value loss of approximately US\$22.49 million was transferred to the investment revaluation reserve as a result.

##### *Canton Property Investment Ltd. ("Canton Property")*

During the period, Canton Property made good progress in its property development projects. It had completed acquisition of Canton Finance Project which would triple its portfolio size in terms of the gross floor area. Occupancy rate for another project – Comic City was improved to reach 96.6% as at 30th June 2008. In April 2008, the Group subscribed for 1.55 million new shares from Canton Property at a consideration of US\$2 million, making aggregate investments of US\$7 million for approximately 1.5% interest in Canton Property.

## Investment Review *(Continued)*

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

#### **Available-for-sale Financial Assets** *(Continued)*

##### *Canton Property Investment Ltd. (“Canton Property”) (Continued)*

In August 2008, Canton Property reported revenue and loss of RMB32.98 million and RMB3.06 million respectively for the first half year of 2008. Adversely affected by the PRC property market adjustment and a volatile stock market, the share price of Canton Property plummeted to GBP0.55 per share at 30 June 2008 from GBP0.855 per share at the end of 2007. The unrealised fair value loss of approximately US\$3.62 million was transferred to the investment revaluation reserve at 30th June 2008.

#### **Available-for-sale Financial Asset of Which Full Provision Had Been Made**

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

In November 2006, the Company acquired 2.54% indirect interest in Beijing PanAm, which is engaged in provision of civil aviation training services in China. An impairment loss of US\$1.7 million was provided against Beijing PanAm in 2007 as the Group’s indirect interest in Beijing PanAm might be substantially diluted after Beijing PanAm failed to meet the profit milestone imposed by another strategic shareholder.

During the period, the management of Beijing PanAm held repeated discussions with the strategic shareholder about measures for improving profitability and operating cash flows. Discussion for mitigating the loss of shareholders resulted from the price adjustment conditions was also underway.

#### **Other Major Investments**

##### *Financial Assets at Fair Value Through Profit or Loss*

During the period, the Group did not make any trading transactions for its listed portfolio. The shares held at 30th June 2008 had a fair value of US\$2.64 million. Unrealised fair value loss of US\$1.49 million was included in the consolidated profit and loss account for the period.

##### *KongZhong Corporation (“KongZhong”)*

KongZhong recorded a profit of US\$0.39 million for the first half, a drop of 75% over that of the previous year. On 3rd July 2008, KongZhong was awarded the “Best Wireless Media” award at the 2008 iResearch New Market Conference. KongZhong will continue pursuing their wireless internet strategic initiative.

As at 30th June 2008, KongZhong’s ADS price closed at US\$3.73 per ADS, representing a decrease of approximately 39% over that of 31st December 2007. An unrealised fair value loss of US\$1.02 million was charged against the consolidated profit and loss account as a result.

## Liquidity and Financial Resources

The financial position of the Group remained sound and healthy during the period. As at 30th June 2008, the Group had cash and cash equivalents of US\$47.49 million (31st December 2007: US\$50.94 million), of which US\$12.91 million (31st December 2007: US\$15.09 million) were held in RMB equivalent in form of the PRC banks' deposit held in Mainland China, and no debt. Most of the Group's investments are located in Mainland China. RMB is not a freely convertible currency and the RMB exchange rate against US dollar appreciates slightly during the period.

## Employees

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

## Prospects

Pursuant to the agreement signed in March 2008, the Group completed further capital investment of US\$1 million in iMedia in July to support iMedia's business in interactive video market and improve its operating cash flow. In September 2008, the Group subscribed convertible note of US\$0.7 million of Smartbuy in the hope of completing the capital requirement for Smartbuy's business license registration and support its change of business model.

As the US sub-prime loan crisis is far from over and the credit crunch woes are spreading across the world, stock markets in Mainland China and Hong Kong stumbles heavily and the IPO activities are almost at a standstill. Many enterprises with listing potential are now turning to private equity investors for new funds. The Group believes it is in a good position to look for value investments with high return potential. Despite this, the Group will continue to adopt cautious approach for evaluating any new investment opportunities.

By Order of the Board

**Lao Yuan Yi**  
*Chairman*

Hong Kong, 19th September 2008