CHINA ASSETS (HOLDINGS) LIMITED

(Stock Code: 170)

ANNUAL REPORT

2008

Contents

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.

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

Registrar

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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Hong Kong

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Stock Code

170

Chairman's Statement

Chairman's Statement

I am pleased to present the annual report of China Assets (Holdings) Limited (the "Company") and its subsidiaries (together, the "Group") for the year ended 31 December 2008. The Group's consolidated net loss for the year ended 31 December 2008 was US$19.5 million and consolidated net asset value as at 31 December 2008 was US$139.5 million, representing US$1.8218 per share.

Business Review

2008 was undeniably one of the turbulent years in the history of global financial industry, marked by extremely volatile securities markets, high profile corporate failures and unprecedented government bailouts. It was widely believed that the global financial turbulence would be followed by worldwide economic slowdown, which could impact negatively on consumer market to different extent. The Group was not immune and its performance was disappointing. During the year under review, the Group reported a loss of US$19.5 million, compared with a profit of US$9.42 million in 2007. The consolidated net asset value was US$139.5 million, representing a drop of 31.4% from that at the end of 2007. The substantial loss and drop in consolidated net asset value were largely due to impairment loss provisions made for investments in associates and available-for-sale financial assets.

Affected by the global financial turmoil, the Hang Seng Index plunged by nearly 48% and average daily turnover value of the Hong Kong stock market fell by approximately 18% in 2008. As the stock market continued volatile and turnover shrank, First Shanghai Investments Limited ("FSIL") reported loss of HK$111.4 million (approximately US$14.4 million) for 2008, mainly as a result of significant loss recorded in its securities investment business.

Benefited from increased average selling price and improved products mix, Shandong Lukang Pharmaceutical Co., Ltd. ("Lukang") announced a profit of RMB35.2 million (approximately US$5.2 million) for 2008, representing a year-on-year increase of 63%. During the year, Lukang A-share price plummeted by more than 52% to RMB3.40 at the end of 2008, the unrealized fair value loss of approximately US$31 million was transferred to the investment revaluation reserve as a result.

In October 2008, Canton Property Investment Ltd. ("Canton Property") announced that its executive chairman who was also its largest shareholder was uncontactable and the shares of Canton Property were suspended from trading on the Alternative Investment Market ("AIM") of the London Stock Exchange. Canton Property later further announced that attachment orders had been registered on all property assets of Canton Property by the Economic Crime Investigation Unit of the Public Security Bureau of Guangzhou City. On 12 March 2009, shares of Canton Property were delisted from AIM after it failed to appoint a replacement nominated adviser. In view of the uncertainty, full impairment loss of approximately US$7 million was provided against the investment.

Chairman's Statement

China went through a series of natural disasters like snow storm and earthquake in 2008. On the other hand, China organized a successful Olympic Games in August 2008 which attracted attention from all over the world. In 2008, total advertising revenue shrank and most of the revenue went to CCTV for its monopolistic status. iMedia Holdings Ltd. ("iMedia") could not deliver the expected result and continues to incur operating losses. Besides, Smartbuy Group Holdings Ltd. ("Smartbuy") also incurred loss in 2008 and is changing its business model, mainly to e-commerce and value-added payment platform services which will focus on the industrial-based sectors. In view of continuous operating losses, full impairment losses of approximately US$9.8 million in aggregate were provided against iMedia and Smartbuy in 2008.

The Group also made a provision of US$0.98 million against Melco China Resorts (Holdings) Ltd. as its stock price fell substantially during the year and turnaround was not expected in short term.

During the year under review, share price of KongZhong Corporation ("KongZhong") dropped to US$3.35 per American Depositary Shares ("ADS") from US$6.09 per ADS one year ago. The Company held 0.43 million of KongZhong ADS at the end of 2008 and an unrealized fair value loss of US$1.2 million was accounted for in the 2008 consolidated profit and loss account.

Despite the natural disasters and international financial crisis, China's economy managed to achieve a year-on-year growth of 9.0% on the gross domestic product in 2008. The fixed assets investment grew by 24.8% over that of last year. The producer price index increased by 6.9% in 2008 of which the purchasing prices for raw materials, fuels and power rose by 10.5%. The consumer price index became steady in the second half year and went up by 5.9% for the entire year.

China's foreign exchange reserves accumulated to US$1,950 billion at the end of 2008, an increase of 27.3% over the previous year. The exchange rate of RMB against USD was 6.8346, representing an appreciation of 6.9% over that at the end of 2007. For 2008, the foreign capital actually utilized recorded a year-on-year increase of 23.6% to US$92.4 billion.

In response to the global recession crisis, the PRC government announced an economic stimulus plan of RMB4 trillion in November 2008. More government spending would be placed on selected areas such as infrastructure and the rebuilding of earthquake area of Sichuan province. As there are less inflationary pressures, it is expected that the PRC government will switch to a looser monetary policy such as reducing interest rates and bank reserve ratio.

Chairman's Statement

Liquidity and Financial Resources

The financial position of the Group remained healthy during the year. As at 31 December 2008, the Group had cash and cash equivalents of US$41.7 million (2007: US$50.9 million), of which US$13.9 million (2007: US$15.1 million) were held in RMB equivalent in form of the PRC banks' deposit held in Chinese Mainland. Most of the Group's investments are located in Chinese Mainland. RMB is not a freely convertible currency and the RMB exchange rate against US dollar appreciated moderately during the year.

Employees

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

Prospects

In view of the foreseeable financial instabilities and economic slowdown, the Group will adopt a more conservative approach in evaluating new investment opportunities. More efforts will also be spent on monitoring the existing investments closely and effectively.

For those investments against which impairment loss provisions have been made, it will by no means suggest our work will end with them. The investment manager will try the best to recover any remaining value to the Group and will initiate appropriate actions in order to realize these values.

In March 2009, the China Securities Regulatory Commission announced rules for the long-awaited second board for startup companies as well as the resumption of initial public offerings. Although it is unsure when the second board will officially accept IPO application, it does provide new exit channels to many eligible enterprises, which are now blocked by the sluggish overseas capital market.

In late March, the Company entered into agreements to acquire convertible note of approximately US$6.3 million issued by UniMedia Ltd. ("UniMedia"), which could be converted into approximately 23.5% of its fully-converted share capital. UniMedia is mainly engaged in provision of outdoor advertising services through its network of advertising poster frames located in the commercial building all over the major cities of China. The Company is of the view that UniMedia will benefit from the booming PRC consumer market as China is believed to be the earliest country to recover from the global economic slowdown and its consumer market will improve first.

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

By Order of the Board
Lao Yuan Yi
Chairman

Hong Kong, 17 April 2009

Investments

Major Long-term Investments as at 31 December 2008

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	17.74	13,770,330	0	49,086,198	35.19	317,442
Smartbuy Group Holdings Limited	Provision of sale of product and service through internet and terminals	17.65	5,000,000	5,000,000	0	0	0
iMedia Holdings Limited	Provision of muti-media content and digital magazines on internet	*40.00	5,014,299	5,014,299	0	0	0
Dezhou Zhenhua Glass Co., Ltd.	Production and sale of glass products	30.00	3,202,000	3,202,000	0	0	0
Available-for-sale financial assets							
Shandong Lukang Pharmaceutical Co., Ltd.	Manufacture and sale of pharmaceutical products	11.46	9,594,203	0	31,681,278#	22.71	0
PingAn Defeng Collective Fund Trust Plan	Investment fund	N/A	6,940,436	0	5,124,564#	3.67	3,659,358
China Alpha Fund	Investment fund	N/A	1,280,443	0	1,326,162#	0.95	0
Canton Property Investment Ltd.	Development and lease of commercial buildings	1.52	6,999,499	6,999,499	0	0	0
Beijing PanAm International Aviation Academy Co. Ltd.	Provision of civil aviation training services	**2.54	1,710,000	1,710,000	0	0	0
Total			53,511,210	21,925,798	87,218,202	62.52	3,976,800

* 13% are non-voting shares

** indirect interest

\# also represent their fair values

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

Other Major Investments as at 31 December 2008

Name	Nature of business	Number of Shares held	% of total issued capital %	Cost US$	Market value US$	% of net assets value %	Dividend received 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	1,448,634	1.04	0
Industrial and Commercial Bank of China Ltd.	Provision of personal and corporate commercial banking services in China	1,770,000	0.00	749,109	931,819	0.67	0
WSP Holdings Ltd.	Provision of seamless casing tubing and drill pipes	170,250 ADS	0.61	689,795	718,455	0.51	0
China Telecom Corporation Ltd.	Provision of wireline telecommunications services	1,800,000	0.00	1,285,826	671,226	0.48	19,610
HSBC Holdings PLC	Provision of international banking and financial services	45,200	0.00	658,482	429,837	0.31	0
China Railway Group Ltd.	Provision of transportation systems construction services	300,000	0.00	190,974	207,871	0.15	0
Total				3,722,447	4,407,842	3.16	19,610

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 Telecom Corporation Ltd.	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**

Major Long-term Investments

Investments in associates

First Shanghai Investment Limited ("FSIL")

FSIL reported a loss of HK$111.4 million (approximately US$14.4 million) for 2008, compared to the profit of HK$382 million (approximately US$49 million) in 2007. The result was mainly due to the significant loss incurred from its securities investment business, which was suffered from the dwindling stock markets around the world. And as most of the projects were still under development, FSIL did not record any contributions from its hotel and property development business during the year. Combined with a decline in fair value of one of its long-term investments, the total net assets of FSIL also dropped considerably.

On the other hand, FSIL recorded a moderate growth in its stockbroking and corporate finance business, which was attributable to the strengthened institutional sales team and research team.

Investments

Available-for-sale financial assets

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

Benefited from an increase of average products selling price in the first half, Lukang achieved a profit of RMB35.2 million (approximately US$5.2 million) for 2008. During the year, Lukang continued its business restructuring which included further integration of veterinary drug business with its group companies and adjustment to a higher proportion of preparation drugs sales. A new chairman was appointed in May 2008, which brought new management perspective to the Lukang group.

During the year, the Company continued its discussion with lawyers and Lukang about formalities of disposal of its restricted shares of Lukang.

As at 31 December 2008, the Company still held a total of 89.9 million Lukang's restricted shares, of which 26.3 million shares were required to return to Lukang according to the share reform agreement before the Company could deal with the remaining 63.6 million shares. Once the abovementioned 26.3 million shares have been returned and the trading application is approved, the Company can dispose of up to 5%, of total issued share 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 RMB3.40 at the end of 2008 and the highest and lowest closing price were RMB8.89 and RMB2.59 respectively. As at 31 December 2008, the fair value of Lukang was stated as US$31.7 million and the unrealized fair value loss of US$30.8 million was transferred to the investment revaluation reserve.

PingAn Defeng Collective Fund Trust Plan ("PingAn Trust")
China Alpha Fund ("China Alpha")

The Group invested approximately US$6.9 million and US$1.3 million in PingAn Trust and China Alpha in 2007 respectively. During the year, a total of RMB25 million (approximately US$3.7 million) was received as dividend from PingAn Trust. Affected by the sluggish stock market, PingAn Fund and China Alpha recorded a drop in its net asset value by 58.7% and 50.5% respectively. As a result, the unrealized fair value loss of US$6.5 million and US$1.3 million were transferred to the investment revaluation reserve for PingAn Trust and China Alpha respectively.

Investments

Melco China Resorts (Holdings) Ltd. ("MCR")

The Group invested approximately US$0.99 million in MCR in 2008 when it first listed on the TSX Venture Exchange. MCR is mainly engaged in development and operation of ski resorts and resorts real estates in China. During 2008, MCR was affected by the global economic downturn and recorded loss of approximately US$112.1 million, mainly as a result of goodwill impairment loss. In February 2009, MCR successfully hosted the 24th World Winter University Games at one of its resorts.

In view of the significant drop of its share price by more than 98% at the end of 2008, an impairment loss provision of US$0.98 million was made against MCR.

Investment For Which Full Provisions Had Been Made

Investments in associates

iMedia Holdings Ltd. ("iMedia")

For 2008, iMedia failed to achieve its expected result and recorded significant loss for the third consecutive years. It was explained that after the Sichuan earthquake in May 2008, the advertising market in China was affected as enterprises cut back their advertising budgets for charity donations. iMedia was also not able to capture any economic benefits from the subsequent Beijing Olympic Games in summer because CCTV had suspended the direct internet link with iMedia platform for security reason. As a result iMedia encountered cash flow difficulties and was strive for survival at the moment. In view of the significant losses and dim prospect, full provision of approximately US$3.5 million was made against the investment.

Smartbuy Group Holdings Ltd. ("Smartbuy")

During the first half, Smartbuy continued to develop its internet sales platform and build up special terminals across Shanghai. The business model was subsequently changed to increase proportion of direct internet sales against special terminal sales. After operation of nearly half year, Smartbuy was unable to meet its revised budget and could not generate adequate cash flow to support its future development and operation. Smartbuy is currently changing its business model, mainly to e-commerce value-add payment platform services which focus on the industrial-based sectors. In consideration of its cash flow situation and uncertain prospect, full provision of approximately US$6.3 million was made against the investment and also the loan due from Smartbuy.

Investments

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

Zhenhua ceased production in August 2005 and a full provision of US$3.2 million was provided against this investment in 1998. The Group signed an agreement in August 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 sales consideration was received in full by the Group in April 2009.

Available-for-sale financial assets

Canton Property Investment Ltd. ("Canton Property")

The Company invested US$5 million and US$2 million in Canton Property in August 2007 and April 2008 respectively. Canton Property was listed on AIM of the London Stock Exchange in 2007 and was mainly engaged in development and lease of commercial real estates in China.

On 2 October 2008, Canton Property announced that the executive chairman which was also the largest shareholder was uncontactable and its shares were suspended from trading on AIM. Canton Property further disclosed on 31 October 2008 that all of its property assets in China were registered with attachment orders by the Economic Crime Investigation Unit of the Public Security Bureau of Guangzhou City, which prohibited Canton Property from sell, transfer or mortgage the properties. Although the board of Canton Property worked hard with its professional advisers to clarify position and seek resolution, nothing was achieved and Canton Property encountered short term funding difficulties. The situation deteriorated after several creditors initiated litigation against Canton Property and its nominated adviser resigned on 12 February 2009. On 12 March 2009, shares of Canton Property were delisted from AIM after it had failed to appoint a replacement adviser.

The Company was in dialogue with the management and its nominated adviser of Canton Property after it announced the disappearance of its chairman. Efforts were also spent in discussion with Canton Property about provision of short term finance against acceptable collateral. Nothing could be concluded as Canton Property failed to provide evidence about the current status of its property assets and its PRC operations. In view of negative uncertainties, a full provision of US$7 million was provided against the investment.

Investments

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. Beijing PanAm incurred operating loss in 2007 and triggered certain price adjustment conditions with another strategic investor which might substantially diluted the Group's interest in Beijing PanAm. As a result a full provision of US$1.7 million was made in 2007.

During the year, the Company actively discussed with the management of Beijing PanAm in the hope of revitalizing the business and enhancing its capital structure. Professional accountants and lawyers were also brought in to study the potential of Beijing PanAm and any possibilities of turnaround in a near future.

Other investments

Financial assets at fair value through profit or loss

Affected by the volatile stock market, the Group did not complete any meaningful disposal of its listed shares during the year. A loss on listed shares disposal of US$0.01 million was recorded for the year, against a gain on disposal of approximately US$1.1 million achieved in 2007. After the Hang Seng Index dropped by about 60% from its peak in 2007, the share valuation became more reasonable and the Company started to build up its listed shares investment portfolio. The shares held at 31 December 2008 had a fair value of US$4.9 million. Unrealised fair value loss of US$1.9 million were included in the consolidated profit and loss account for the year.

KongZhong Corporation ("KongZhong")

KongZhong reported a net loss of US$20.7 million for 2008, mainly due to provision for the impairment of goodwill of US$21.6 million. In October 2008, KongZhong announced the change of management and one of the founders of KongZhong resigned from the board after he sold most of its shares to the new chairman of KongZhong in September 2008. The new chairman was the ex-CEO of Tom Online Inc. which was previously listed on Nasdaq. In February 2009, KongZhong announced that it received an investment of approximately US$6.8 million from Nokia Growth Partners, which was also granted a warrant to purchase an additional 2.0 million KongZhong's American Depositary Shares ("ADS") at US$5.00 per ADS, exercisable within five years.

Affected by a pessimistic stock market, share price of KongZhong dropped considerably from US$6.09 per ADS as at 31 December 2007 to US$3.35 per ADS as at the end of 2008. The Company held 0.43 million of KongZhong's ADS and an unrealized fair value loss of US$1.2 million was recorded at the end of 2008.

Biographical Details of Directors

Mr. LAO Yuan Yi, aged 63, 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 42, has been a director since 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 30, 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 46, 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 Microelectronics 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 47, 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 64, 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. FAN Jia Yan, aged 62, 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 77, 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.

Dr. David William MAGUIRE, aged 56, has been a director since July 2008. Dr. Maguire is an independent non-executive director of the Company. Over a continuing career of more than 30 years in the media he has held senior management positions in newspapers in Shanghai, Hong Kong and Australia and has served as both chairman and director of many corporate and NFP entities. A Doctor of Business Administration from Edith Cowan University, Perth, he has Masters degrees in business administration (James Cook University), regional development (University of Western Australia) and tourism (Southern Cross University) and is a graduate of the Australian Institute of Company Directors.

Corporate Governance Report

This Corporate Governance Report contains information for the year ended 31 December 2008 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.

Code on Corporate Governance Practices

During the year ended 31 December 2008, the Company has complied with Code provisions in the Code on Corporate Governance Practices setting out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") 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 22 March 2008, the remuneration committee only consisted of one executive director and one independent non-executive director. On 19 September 2008, the Company invited another independent non-executive director to join the remuneration committee and has hence complied with the code provision.

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 31 December 2008.

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.

Board of Directors *(Continued)*

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 judgment 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 14 to 15.

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

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 2008, the Board mainly 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 2008 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

Board of Directors *(Continued)*

Independent Non-executive Directors:

Mr. Fan Jia Yan
Mr. Wu Ming Yu
Dr. David William Maguire (appointed on 4 July 2008)
Mr. Peter Duncan Neil Robertson (deceased on 22 March 2008)

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.

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 four board meetings during the year ended 31 December 2008. 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 four board meetings for the year ended 31 December 2008 is set out as follows:

Name of Director	Attendance
Mr. Lao Yuan Yi	4/4
Mr. Xu Xiao Feng	4/4
Ms. Lao Yuan Yuan	2/4
Mr. Jiang Wei	1/4
Mr. Yeung Wai Kin	4/4
Mr. Zhao Yu Qiao	4/4
Mr. Fan Jia Yan	4/4
Mr. Wu Ming Yu	4/4
Dr. David William Maguire (appointed on 4 July 2008)	2/2
Mr. Peter Duncan Neil Robertson (deceased on 22 March 2008)	0/1

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 2008, the Remuneration Committee was composed of three members including one Executive Director, Mr. Lao Yuan Yi and two Independent Non-executive Directors, Mr. Fan Jia Yan and Mr. Wu Ming Yu who was appointed on 19 September 2008 to replace Mr. Peter Duncan Neil Robertson. The Remuneration Committee was chaired by Mr. Lao Yuan Yi.

The Remuneration Committee has not held any meeting to discuss the remuneration related matters during the year ended 31 December 2008.

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.

Since 22 March 2008, the Audit Committee was composed of three members including two Independent Non-executive Directors, Mr. Fan Jia Yan, Mr. Wu Ming Yu and one Non-Executive Director, Mr. Yeung Wai Kin. Mr. Fan is the chairman 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 director. The Audit Committee comprises a minimum of three members, at least one of whom is an independent non-executive director with appropriate professional qualifications.

Audit Committee *(Continued)*

The Audit Committee has held three meetings during the year ended 31 December 2008. The individual attendance of each member at the committee meetings for the year ended 31 December 2008 is set out as follows:

Name of Director	Attendance
Mr. Fan Jia Yan	3/3
Mr. Wu Ming Yu	3/3
Mr. Yeung Wai Kin	3/3
Mr. Peter Duncan Neil Robertson (deceased on 22 March 2008)	0/0

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 2008:

	US$
Annual audit fee	191,105
Non-audit fee	5,799
	196,904

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 29 and 30.

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 the 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 2009, 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 2008.

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 15 and 16 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 31.

The directors do not recommend the payment of a dividend for the year ended 31 December 2008.

Reserves

Movements in the reserves of the Group and the Company during the year are set out in note 23 to the accounts.

Share Capital

Detail of the movements in share capital of the Company are set out in note 22 to the accounts.

Distributable Reserves

Distributable reserves of the Company as at 31 December 2008 amounted to US$3,485,733 (2007: US$23,010,426).

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. Fan Jia Yan
* Mr. Wu Ming Yu
* Dr. David William Maguire (appointed on 4 July 2008)
* Mr. Robertson Peter Duncan Neil (deceased on 22 March 2008)

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

Dr. David William Maguire was appointed as Director of the Company on 4 July 2008 to fill the casual vacancy. In accordance with Article 90 of the Articles of Association of the Company, Dr. Maguire will hold office until the forthcoming Annual General Meeting and shall be eligible for election.

In accordance with Articles 87B, 90 and 98 of the Company's Articles of Association, Ms. Lao Yuan Yuan, Mr. Zhao Yu Qiao and Mr. Wu Ming Yu 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 14 and 15.

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 2008, the Amended Management Agreement was renewed for another term of 2 years to 31 December 2010. 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 2008. On the other hand, the Company is a substantial shareholder of FSIL holding approximately 17.74% equity interests in FSIL as at 31 December 2008.

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 is a director of CAIML and a director and shareholder of FSIL; (b) Mr. Yeung Wai Kin is a director and a shareholder of CAIML and FSIL, (c) Mr. Xu Xiao Feng is a director and a shareholder of CAIML; (d) Ms. Lao Yuan Yuan is a director of CAIML and a shareholder of FSIL.

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 2008 are as follows:

	Options held at 1 January 2008	Options lapsed during the year	Options held at 31 December 2008	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	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
Ex-director:							
Peter Duncan Neil Robertson *(Note)*	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
	7,550,000	(75,000)	7,475,000				

Note: Pursuant to the terms of the Scheme, the options lapsed six months after Mr. Robertson ceased as director of the Company.

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 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 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.

Apart from the above, as at 31 December 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).

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 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%
		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 2008.

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.

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, 17 April 2009

PRICEWATERHOUSECOOPERS

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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 31 to 83, which comprise the consolidated and company balance sheets as at 31 December 2008, 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 2008 and of the Group's loss 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, 17 April 2009

Consolidated Profit and Loss Account

For the year ended 31 December 2008

	Notes	2008 US$	2007 US$
Income	7	**5,004,158**	1,392,996
Other (losses)/gains — net	8	**(335,057)**	4,235,845
Other expenses	9	**(8,530,926)**	(4,211,591)
Administrative expenses	10	**(2,467,391)**	(4,182,855)
Operating loss		**(6,329,216)**	(2,765,605)
Share of (losses)/profits of associates	16	**(2,583,098)**	12,578,956
Impairment loss on investments in associates	16	**(9,791,983)**	—
(Loss)/profit before income tax		**(18,704,297)**	9,813,351
Income tax expenses	12	**(769,216)**	(390,473)
(Loss)/profit attributable to equity holders of the Company	13	**(19,473,513)**	9,422,878
(Loss)/earnings per share for (loss)/profit attributable to the equity holders of the Company during the year			
— Basic	14	**(0.254)**	0.124
— Diluted	14	**(0.254)**	0.118

The notes on pages 36 to 83 are an integral part of these consolidated accounts.

Consolidated Balance Sheet

As at 31 December 2008

	Notes	2008 US$	2007 US$
Non-current assets			
Investments in associates	16	**49,264,048**	65,243,254
Available-for-sale financial assets	17	**38,144,369**	86,256,244
Loan receivables	18	**6,294,095**	—
		93,702,512	151,499,498
Current assets			
Loan receivables	18	**1,508,062**	2,709,732
Other receivables, prepayments and deposits	19	**192,873**	546,062
Financial assets at fair value through profit or loss	20	**4,931,642**	4,111,988
Cash and cash equivalents	21	**41,726,193**	50,937,382
		48,358,770	58,305,164
Total assets		**142,061,282**	209,804,662
Equity attributable to the equity holders of the Company			
Share capital	22	**7,655,816**	7,655,816
Reserves	23	**131,819,025**	195,758,828
Total equity		**139,474,841**	203,414,644
Current liabilities			
Accounts payable		**181,905**	198,355
Accrued expenses		**156,159**	95,236
Amounts due to related companies	27	**310,260**	310,174
Current income tax liabilities		**731,919**	325,877
		1,380,243	929,642
Non-current liabilities			
Deferred income tax liabilities	24	**1,206,198**	5,460,376
Total liabilities		**2,586,441**	6,390,018
Total liabilities and equity		**142,061,282**	209,804,662
Net current assets		**46,978,527**	57,375,522
Total assets less current liabilities		**140,681,039**	208,875,020

Lao Yuan Yi
Director

Xu Xiao Feng
Director

The notes on pages 36 to 83 are an integral part of these consolidated accounts.

Balance Sheet

As at 31 December 2008

	Notes	2008 US$	2007 US$
Non-current assets			
Investments in subsidiaries	15	**25,485,366**	35,089,962
Investments in associates	16	**13,770,330**	13,770,330
Available-for-sale financial assets	17	**33,019,804**	74,613,491
		72,275,500	123,473,783
Current assets			
Loans receivable	18	**1,500,000**	1,500,000
Other receivables, prepayments and deposits	19	**10,426**	163,610
Financial assets at fair value through profit or loss	20	**3,483,008**	1,478,502
Cash and cash equivalents	21	**27,627,575**	34,706,481
		32,621,009	37,848,593
Total assets		**104,896,509**	161,322,376
Equity attributable to the equity holders of the Company			
Share capital	22	**7,655,816**	7,655,816
Reserves	23	**95,400,921**	148,477,441
Total equity		**103,056,737**	156,133,257
Current liabilities			
Accounts payable		**181,905**	198,355
Accrued expenses		**141,409**	95,236
Amounts due to related companies	27	**310,260**	310,174
Current income tax liabilities		**—**	300,557
		633,574	904,322
Non-current liabilities			
Deferred income tax liabilities	24	**1,206,198**	4,284,797
Total liabilities		**1,839,772**	5,189,119
Total liabilities and equity		**104,896,509**	161,322,376
Net current assets		**31,987,435**	36,944,271
Total assets less current liabilities		**104,262,935**	160,418,054

Lao Yuan Yi
Director

Xu Xiao Feng
Director

The notes on pages 36 to 83 are an integral part of these consolidated accounts.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2008

	Note	2008 US$	2007 US$
Total equity as at 1 January		**203,414,644**	139,686,748
Fair value (losses)/gains of available-for-sale financial assets, net of deferred income tax		**(39,626,533)**	42,790,908
Release of investment revaluation reserve upon disposal of available-for-sale financial assets		**—**	375,779
Share of post-acquisition reserves of associates	16	**(5,517,462)**	10,521,170
Release of capital reserve upon deemed disposal of partial interest of an associate	16	**(31,398)**	(1,803,932)
Exchange differences arising on translation of accounts of associates	16	**382,410**	(49,358)
Exchange difference arising on translation of accounts of a subsidiary		**326,693**	139,424
Net income recognised directly in equity for the year		**158,948,354**	191,660,739
(Loss)/profit attributable to equity holders		**(19,473,513)**	9,422,878
Total recognised income and expense for the year		**139,474,841**	201,083,617
Employee share option benefits		**—**	1,994,705
Shares issued under employee share option scheme		**—**	336,322
Total equity as at 31 December		**139,474,841**	203,414,644

The notes on pages 36 to 83 are an integral part of these consolidated accounts.

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	Note	2008 US$	2007 US$
Cash flows from operating activities			
Cash (used in)/generated from operations	25(a)	**(8,804,251)**	21,597,881
Hong Kong profits tax paid		**(316,989)**	—
Overseas profit tax paid		**(50,172)**	(114,851)
Net cash (used in)/generated from operating activities		**(9,171,412)**	21,483,030
Cash flows from investing activities			
Interest received		**1,324,289**	1,327,996
Dividends received from associates		**317,442**	9,453,368
Dividends received from investments		**3,679,869**	65,000
Purchase of investments in associates		**(1,849,300)**	(5,200,000)
Purchase of available-for-sale financial assets		**(2,986,193)**	(14,260,562)
Movements in amounts with associates		**(99,217)**	(1,649,699)
Net proceeds from disposal of a subsidiary	25(b)	**—**	1,498,502
Net proceeds from disposal of an associate		**—**	13,500,000
Net proceeds from disposal of an available-for-sale financial asset		**—**	7,507,562
Net cash generated from investing activities		**386,890**	12,242,167
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		**—**	336,322
Net cash generated from financing activities		**—**	336,322
(Decrease)/increase in cash and cash equivalents		**(8,784,522)**	34,061,519
Cash and cash equivalents at 1 January		**50,937,382**	16,736,439
Effect of foreign exchange rate changes		**(426,667)**	139,424
Cash and cash equivalents at 31 December		**41,726,193**	50,937,382
Analysis of the balances of cash and cash equivalents:			
Bank balances and cash		**41,726,193**	50,937,382

The notes on pages 36 to 83 are an integral part of these consolidated accounts.

Notes to the 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.

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 17 April 2009.

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 all the years presented, unless otherwise stated.

(a) Basis of preparation

These consolidated accounts of China Assets (Holdings) Limited have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") 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.

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

(a) Basis of preparation *(Continued)*

(a) Amendments and interpretations effective in 2008

- HKAS 39, "Financial instruments: Recognition and measurement", amendment on reclassification of financial assets permits reclassification of certain financial assets out of the held-for-trading and available-for-sale categories if specified conditions are met. The related amendment to HKFRS 7, "Financial instruments: Disclosures", introduces disclosure requirements with respect to financial assets reclassified out of the held-for-trading and available-for-sale categories. The amendment is effective prospectively from 1 July 2008. This amendment does not have any impact on the Group's accounts, as the Group has not reclassified any financial assets.

- 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 Group's accounts.

- HK(IFRIC) — Int 14, "HKAS 19 — The limit on a defined benefit asset, minimum funding requirements and their interaction", provides guidance on assessing the limit in HKAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. This interpretation does not have any impact on the Group's accounts, as none of the group companies operate a defined benefit pension scheme.

- HK(IFRIC) — Int 12, "Service concession arrangements", deals primarily with public to private service concession arrangements for the delivery of the public services. It applies only to concession arrangements where the use of the infrastructure and significant residual interest in the infrastructure are controlled by the grantor. The interpretation does not have any impact on the Group's accounts.

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

(a) Basis of preparation *(Continued)*

(b) Standards and amendments to existing standards that are not yet effective and have not been early adopted by the Group

The following standards and amendments to existing 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). The revised standard will prohibit the presentation of items of income and expenses (that is, "non-owner changes in equity") in the statement of changes in equity, requiring "non-owner changes in equity" to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the consolidated income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. The Group will apply HKAS 1 (Revised) from 1 January 2009.

- HKAS 27 (Revised), "Consolidated and separate financial statements" (effective from 1 July 2009). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognised in profit or loss. The Group will apply HKAS 27 (Revised) prospectively to transactions with non-controlling interests from 1 January 2010.

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

(a) Basis of preparation *(Continued)*

(b) Standards and amendments to existing standards that are not yet effective and have not been early adopted by the Group *(Continued)*

- HKAS 32 (Amendment), "Financial instruments: Presentation", and HKAS 1 (Amendment), "Presentation of financial statements" — "Puttable financial instruments and obligations arising on liquidation" (effective from 1 January 2009). The amended standards require entities to classify puttable financial instruments and instruments, or components of instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation as equity, provided the financial instruments have particular features and meet specific conditions. The Group will apply the HKAS 32 (Amendment) and HKAS 1 (Amendment) from 1 January 2009, but it is not expected to have any impact on the Group's accounts.

- HKFRS 2 (Amendment), "Share-based payment" (effective from 1 January 2009). The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. As such these features would need to be included in the grant date fair value for transactions with employees and others providing similar services, that is, these features would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group will apply HKFRS 2 (Amendment) from 1 January 2009, but it is not expected to have a material impact on the Group's financial statements.

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

(a) Basis of preparation *(Continued)*

(b) Standards and amendments to existing standards that are not yet effective and have not been early adopted by the Group *(Continued)*

- HKFRS 3 (Revised), "Business combinations" (effective from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the consolidated profit and loss account. There is a choice on an acquisition by acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply HKFRS 3 (Revised) prospectively to all business combinations from 1 January 2010.

- HKFRS 8, "Operating segments" (effective from 1 January 2009). HKFRS 8 replaces HKAS 14, "Segment reporting", 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.

Apart from the above, the Hong Kong Institute of Certified Public Accountants has also issued improvements to HKFRS primarily with a view to remove inconsistencies and clarify wording. These amendments are primarily effective for annual periods beginning on or after 1 January 2009, with earlier application permitted. The Group is currently assessing the impact of these amendments on the Group's consolidated accounts and is not yet in a position to state whether substantial changes to the Group's accounting policies and presentation of the accounts will be resulted.

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

(a) Basis of preparation *(Continued)*

(c) Interpretations and amendments to existing standards that are not yet effective and not relevant for the Group's operations

The following interpretations and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods but are not relevant for the Group's operations:

		Effective for accounting periods beginning on or after
HKAS 23 (Revised)	Borrowing Costs	1 January 2009
HKAS 39 (Amendment)	Financial Instruments: Recognition and Measurement	1 January 2009
HKAS 39 and HK(IFRIC) -Int 9 (Amendment)	Ressessment of Embedded Derivatives	30 June 2009
HKFRS 1 (Amendment)	First Time Adoption of HKFRS	1 July 2009
HK(IFRIC)-Int 13	Customer Loyalty Programmes	1 July 2008
HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate	1 January 2009
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation	1 October 2008
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners	1 July 2009
HK(IFRIC)-Int 18	Transfers of Assets from Customers	1 July 2009

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 all 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. Accounting policies of subsidiaries have been changed where necessary in the consolidated accounts 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(e)). 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 identified on acquisition, net of any accumulated impairment loss. See note 2(e) for the impairment of non-financial assets including goodwill.

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 arising in investments 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(e)). 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 the Group's 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 or valuation where items are remeasured. 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 consolidated 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 the carrying amount are recognised in equity.

Translation differences on non-monetary financial assets 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 consolidated 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 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 consolidated 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.

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

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

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. 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.

(f) Financial assets

Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivable and available-for-sale. The classification depends on the purpose 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 also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

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

(f) Financial assets *(Continued)*

Classification *(Continued)*

(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. The Group's loans and receivables comprise "loans receivable", "other receivables, prepayments and deposits" and "cash and cash equivalents" in the balance sheet (Note 2(g) and (h)).

(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.

Recognition and Measurements

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

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

(f) Financial assets *(Continued)*

Recognition and Measurements *(Continued)*

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 "other (losses)/gains — net".

Interest on available-for-sale securities calculated using the effective interest method is recognised in the consolidated profit and loss account as part of "income". Dividends on available-for-sale equity instruments are recognised in the consolidated profit and loss account as part of "income" 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 consolidated profit and loss account. Impairment losses recognised in the consolidated profit and loss account on equity instruments are not reversed through the consolidated profit and loss account. Impairment testing of loans receivable and other receivables is described in Note 2(g).

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

(g) Loans receivable and other receivables

Loans receivable 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 loans receivable 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 the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. 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 carrying amount of the assets is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated profit and loss account within "other expenses". When a receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited against "other expenses" in the consolidated accounts.

(h) 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.

(i) 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.

(j) Accounts payable

Accounts payable are recognised initially at fair value and subsequent measured at amoritsed cost using the effective interest method.

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

(k) Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognised in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively 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. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, 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 substantively 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, 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.

(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.

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

(l) Provisions *(Continued)*

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 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 benefits

(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.

(ii) Share-based compensation

The Group operates an equity-settled, share-based compensation plan under which the entity receives services from employee as consideration for equity instruments (options) of the Group. 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 service and performing vesting conditions (for example, profitability and sales growth targets and remaining an employee of the entity over a specified time period). Non-market vesting conditions are included in the assumptions about the number of options that are expected to become exercisable. The total amount expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. 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 consolidated profit and loss account, and a corresponding adjustment to equity over the remaining vesting period.

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

(m) Employee benefits *(Continued)*

(ii) Share-based compensation *(Continued)*

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

(iii) Termination benefits

Termination benefits are payable when employment is terminated by the Group 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) Income 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.

(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.

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

(o) Contingent liabilities and contingent assets *(Continued)*

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.

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, price risk and cash flow and fair value interest rate 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.

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 Hong Kong dollars ("HK$") and Renminbi ("RMB"). Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. The Group currently does not have a foreign currency hedging policy.

In respect of the Group's monetary assets and liabilities denominated in HK$, as HK$ is pegged to US$, the exposure to fluctuations in exchange rate of HK$ is considered to be insignificant.

Majority of other Group's monetary assets and liabilities are denominated in the respective entities' functional currencies, US$ and RMB. Based on a sensitivity analysis performed by management, the impact to the Group would not be significant if the US dollars strengthened or weakened against the relevant currencies by less than 5%.

(2) Price risk

The Group is exposed to equity securities price risk because 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. The Group is not exposed to commodity price risk. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio.

3. Financial Risk Management *(Continued)*

(a) Financial risk factors *(Continued)*

(i) Market risk (Continued)

(2) Price risk (Continued)

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 15% as at 31 December 2008 (2007: 5%), the Group's investment revaluation reserve would increase or decrease by approximately US$5,722,000 (2007: US$4,313,000) and the loss for the year ended 31 December 2008 would decrease or increase US$740,000 (2007: the profit would increase or decrease by US$206,000) respectively.

(3) Cash flow and fair value interest rate risk

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.

The Group's interest rate risk arises from cash deposits which carry floating interest rate. Assuming the balance as 31 December 2008 was the amount for the whole year, if the interest rate was 20 (2007: 50) basis points higher or lower and all other variables were held constant, the Group's loss for the year ended 31 December 2008 would decrease or increase by US$69,000 (2007: the profit would increase and decrease by US$121,000).

(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 cash and cash equivalents, loans receivable and other receivables included in the consolidated balance sheet represent the Group's maximum exposure to credit risk in relation to its financial assets.

3. Financial Risk Management *(Continued)*

(a) Financial risk factors *(Continued)*

(ii) Credit risk *(Continued)*

As at 31 December 2007 and 2008, all the bank deposits are deposited with major banks in Hong Kong and state-owned banks in Mainland China. The credit quality of cash and cash equivalents has been assessed by reference to external credit ratings or to historical information about the counterparty default rates. The existing counterparties do not have defaults in the past.

In respect of loans receivable and other receivables, 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 loans receivable and other receivables.

(iii) Liquidity risk

Prudent liquidity risk management implies 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.

(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, loans receivable, other receivables, accounts payables and amounts due to related companies approximate their fair values due to their short maturities.

Loans receivable with maturities over one year are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

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) 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 approximately US$7.97 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.

(b) Estimated impairment of loans receivable

Provision for impairment of loans receivable 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 loans receivable 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$0.56 million 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.

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

(c) Estimated impairment of investments in associates

The Group tests whether the carrying amount of investment has suffered any impairment, in accordance with the accounting policy stated in note 2(e). The recoverable amount of cash-generating unit has been determined based on higher of its fair value less costs to sell and value-in-use. These calculations require use of estimates (Note 16).

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.

Capital of the Group for regulatory and capital management purpose includes share capital, share premium, retained earnings, other reserves and subordinated liabilities. Capital is allocated to various business activities of the Group depending on the risk taken by each business unit and in accordance with the requirements of relevant regulatory bodies, taking into account current and future activities within a time frame.

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

As at 31 December 2007 and 2008, the Group had no bank borrowings and, accordingly, the gearing ratio for both year 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 27(a)(i)) 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

6. Investment Management Fee *(Continued)*

(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 2008 amounted to US$1,886,064 (2007: US$1,686,569).

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 2008 (2007: nil).

7. Income and Segment Information

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

	2008	2007
	US$	*US$*
Income		
Bank interest income	**832,940**	1,178,326
Loan interest income	**491,349**	149,670
Dividend income from unlisted investments	**3,659,358**	65,000
Dividend income from listed investments	**20,511**	—
	5,004,158	1,392,996

Primary reporting format — business segments

The principal activity of the Group is investment holding carried out in Hong Kong and the Mainland China and has only one major business segment.

Secondary reporting format — geographical segments

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

- Hong Kong — investment holding
- Mainland China — investment holding

There are no sales between the geographical segments.

7. Income and Segment Information *(Continued)*

Secondary reporting format — geographical segments

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

	2008	2007
	US$	*US$*
Income		
Hong Kong	**775,272**	1,071,236
Mainland China	**4,228,886**	321,760
	5,004,158	1,392,996

Income is allocated based on the place in which the income is generated.

	2008	2007
	US$	*US$*
Total assets		
Hong Kong	**31,156,931**	37,183,767
Mainland China	**61,640,303**	107,377,641
	92,797,234	144,561,408
Investments in associates	**49,264,048**	65,243,254
	142,061,282	209,804,662

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

8. Other (Losses)/Gains — Net

	2008	2007
	US$	*US$*
Gains on disposal of subsidiaries *(Note 25(b))*	**—**	463,502
(Loss)/gain on deemed disposal of partial interest of an associate	**(68,750)**	342,015
Net realised gain on disposal of an available-for-sale financial asset	**—**	1,416,630
Net realised (loss)/gain on disposal of financial assets at fair value through profit or loss	**(11,598)**	2,053,552
Net unrealised fair value losses on financial assets at fair value through profit or loss	**(1,865,323)**	(1,446,115)
Net exchange gains	**1,610,614**	1,406,261
	(335,057)	4,235,845

9. Other Expenses

	2008	2007
	US$	*US$*
Impairment loss on available-for-sale financial assets	**7,974,704**	1,710,000
Provision for doubtful debt	**556,222**	2,501,591
	8,530,926	4,211,591

10. Administrative Expenses

Expenses included in administrative expenses are analysed as follows:

	2008	2007
	US$	*US$*
Investment management fee *(Note 6)*	**1,886,064**	1,686,569
Employee benefit expenses (including directors' remuneration) *(Note 11)*	**148,146**	2,159,512
Auditor's remuneration	**191,105**	124,520
Other expenses	**242,076**	212,254
	2,467,391	4,182,855

11. Employee Benefit Expenses (Including Directors' Remuneration)

	2008	2007
	US$	US$
Wages and salaries	**146,879**	163,544
Share-based payments	**—**	1,994,705
Pension costs — defined contribution plan	**1,267**	1,263
	148,146	2,159,512

The remuneration of each Director for the year ended 31 December 2008 and 2007 is set out below:

	2008		2007		
	Directors' fee	**Total**	Directors' fee	Share-based payments	Total
	HK$	**HK$**	HK$	HK$	HK$
Executive directors					
Mr. Lao Yuan Yi	**80,000**	**80,000**	80,000	1,974,000	2,054,000
Mr. Xu Xiao Feng	**80,000**	**80,000**	80,000	1,974,000	2,054,000
Ms. Lao Yuan Yuan	**80,000**	**80,000**	80,000	1,974,000	2,054,000
Non-executive directors					
Mr. Jiang Wei	**80,000**	**80,000**	80,000	1,316,000	1,396,000
Mr. Yeung Wai Kin	**132,000**	**132,000**	132,000	1,974,000	2,106,000
Mr. Zhao Yu Qiao	**80,000**	**80,000**	80,000	1,974,000	2,054,000
Independent non-executive directors					
Mr. Fan Jia Yan	**185,000**	**185,000**	185,000	197,400	382,400
Mr. Wu Ming Yu	**152,000**	**152,000**	152,000	197,400	349,400
Dr. David William Maguire#	**50,000**	**50,000**	—	—	—
Mr. Peter Robertson*	**—**	**—**	185,000	197,400	382,400
	919,000	**919,000**	1,054,000	11,778,200	12,832,200
Equivalent to United States dollars	**118,581**	**118,581**	135,323	1,509,581	1,644,904

#: Appointed on 4 July 2008

*: Deceased on 22 March 2008

11. 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 (2007: four) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (2007: one) individual during the year are as follows:

	2008	2007
	US$	*US$*
Basic salaries, housing allowances, other allowances and benefits in kind	**28,298**	28,221
Share-based payments	**—**	101,201
Pension costs — defined contribution plan	**1,267**	1,263
	29,565	130,685

The emoluments payable to the remaining employee in 2008 and 2007 fell within the band of HK$nil to HK$1,000,000.

12. Income Tax Expenses

Hong Kong profits tax has been provided for at the rate of 16.5% (2007: 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.

12. Income Tax Expenses *(Continued)*

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

	2008	2007
	US$	*US$*
Current income tax:		
— Hong Kong profits tax	**—**	356,778
— Overseas income tax	**755,124**	33,695
	755,124	390,473
Prior year under-provision		
— Hong Kong profits tax	**14,092**	—
Income tax expenses	**769,216**	390,473

The tax on the Group's (loss)/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:

	2008	2007
	US$	*US$*
(Loss)/profit before income tax	**(18,704,297)**	9,813,351
Less: share of losses/(profits) of associates	**2,583,098**	(12,578,956)
	(16,121,199)	(2,765,605)
Calculated at income tax rate of 16.5% (2007: 17.5%)	**(2,659,998)**	(483,981)
Effect of different income tax rates in other countries	**54,209**	5,616
Income not subject to income tax	**(396,643)**	(856,721)
Expenses not deductible	**3,563,999**	1,725,559
Tax loss not recognised	**193,557**	—
Under-provision in prior year	**14,092**	—
Income tax expenses	**769,216**	390,473

13. (Loss)/Profit Attributable to Equity Holders of the Company

The loss attributable to equity holders of the Company is dealt with in the accounts of the Company to the extent of US$19,549,943 (2007: profit of US$22,278,799).

14. (Loss)/Earnings per Share

The calculation of basic loss per share is based on the Group's loss attributable to equity holders of the Company of US$19,473,513 (2007: earnings of US$9,422,878) and the weighted average number of 76,558,160 (2007: 76,186,297) ordinary shares in issue during the year.

The diluted earnings per share for 2007 is based on 79,599,976 ordinary shares which is the weighted average number of ordinary shares in issue during 2007 plus the weighted average number of 3,413,679 ordinary shares deemed to be issued at no consideration if all outstanding options had been exercised.

Diluted loss per share for 2008 is the same as the basic loss per share as the potential additional ordinary shares are anti-dilutive.

15. Investments in Subsidiaries

	Company	
	2008	2007
	US$	*US$*
Unlisted shares, at cost *(Note (b))*	**140,151**	140,151
Amounts due from subsidiaries *(Note (a))*	**38,104,484**	39,161,402
Less: provision for doubtful debts	**(12,759,269)**	(4,211,591)
	25,345,215	34,949,811
	25,485,366	35,089,962

(a) The amounts due from subsidiaries are denominated in United States dollars, unsecured, interest-free and quasi-equity in nature.

15. Investments in Subsidiaries *(Continued)*

(b) The following is a list of subsidiaries held directly by the Company at 31 December 2008:

Name	Place of incorporation	Principal Activities	Particulars of issued share capital	Interest held 2008	Interest held 2007
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%
Promise Keep Investments Limited	British Virgin Islands	Investment holding	10 shares of US$1 each	**100%**	100%

15. Investments in Subsidiaries *(Continued)*

(b) The following is a list of subsidiaries held directly by the Company at 31 December 2008: *(Continued)*

Name	Place of incorporation	Principal Activities	Particulars of issued share capital	Interest held	
				2008	2007
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	Dormant	10 shares of US$1 each	**100%**	100%
Winner Strength Investments Limited	British Virgin Islands	Investment holding	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.

16. Investments in Associates

	Group	
	2008	2007
	US$	*US$*
Share of net assets as at 1 January	**57,111,325**	57,002,608
Increase in investments in associates	**545,528**	1,473,234
Share of associates' (loss)/profits	**(2,583,098)**	12,578,956
Share of associates' reserves	**(5,517,462)**	10,521,170
Release of capital reserve upon deemed disposal of partial interest of an associate	**(31,398)**	(1,803,932)
Dividend received	**(317,442)**	(9,453,368)
Disposal of an associate	**—**	(13,500,000)
(Loss)/gain on deemed disposal of partial interest of an associate	**(68,750)**	342,015
Exchange differences	**382,410**	(49,358)
Share of net assets as at 31 December	**49,521,113**	57,111,325
Goodwill on acquisition	**7,786,488**	6,482,716
Provision for impairment loss	**(8,043,553)**	—
	49,264,048	63,594,041
Amount due from an associate *(Note)*	**1,748,430**	1,649,213
Provision for impairment loss	**(1,748,430)**	—
	49,264,048	65,243,254
Market value of listed shares in Hong Kong	**23,329,340**	76,418,178

	Company	
	2008	2007
	US$	*US$*
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
	14,505,957	14,505,957
Provision for impairment loss	**(735,627)**	(735,627)
	13,770,330	13,770,330
Market value of listed shares in Hong Kong	**23,329,340**	76,418,178

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 and impaired.

16. Investments in Associates *(Continued)*

(a) The following is a list of associates held directly/indirectly by the Company at 31 December 2008:

Name	Particulars of issued shares held	Place of incorporation	Principal activities	Interest held 2008	Interest held 2007
First Shanghai Investments Limited ("FSIL") *(see note a(i) below)*	Ordinary shares of 247,674,500 of HK$0.2 each	Hong Kong	Investment holding	**17.74%**	17.80%
CITIC Capital China Property Partners Ltd. ("CITIC Partners") *(see note a(ii) below)*	Ordinary shares of 250 of US$1 each	Cayman Islands	Provision for management services	**25%***	25%*
iMedia Holdings Limited ("iMedia") *(see note a(iii) below)*	Series A Preferred shares of 3,259,215 of US$0.001 each	Cayman Islands	Provision for multi-media content and digital magazines	**40%***	31.03%*
Smartbuy Group Holdings Limited ("Smartbuy") *(see note a(iv) below)*	Series A Preferred shares of 2,999,992 of US$0.001 each	Cayman Islands	Provision of sale of product and service through internet and terminals	**17.65%***	15.56%*
Holygene Corporation ("Holygene") *(see note a(v) below)*	Ordinary shares of 900,000 of US$1 each	British Virgin Islands	Research and development of drugs	**30%***	30%*
Dezhou Zhenhua Glass Co., Ltd. *(see note a(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 a(vii) below)*	Ordinary shares of 4,900 of HK$1 each	Hong Kong	Dormant	**49%**	49%

*: Held indirectly by the Company

16. Investments in Associates *(Continued)*

Note:

(a) (i) FSIL is a company listed on The Stock Exchange of Hong Kong Limited with issued share capital of HK$279,276,602 (2007: HK$278,292,603). 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) CITIC Partners is the general partner of CITIC Capital China Property Investment Fund, L.P. (the "Fund") which completed liquidation in November 2007 after distributing all assets to the shareholders.

(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. Of the 40% interest held, 13% are shares on which the Company have no voting rights. Full provision for impairment loss was made against this investment in 2008.

(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 decisisons. Full provision for impairment loss was made against this investment in 2008.

(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 negotiation of a proposed liquidation. Full provision for impairment loss was made against the investment in HKSP in prior years.

All the above investments are regarded by the directors as associates as the Company is able to exercise significant influence over these investments.

16. 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 2008:				
FSIL	**343,295**	**34,426**	**25,639**	**(14,373)**
iMedia	**800**	**762**	**117**	**(126)**
Smartbuy	**3,798**	**2,142**	**1,766**	**(2,083)**
Year 2007:				
FSIL	457,509	93,646	98,080	54,136
The Fund	—	—	26,086	22,976
iMedia	1,261	1,022	410	(2,813)
Smartbuy	4,732	1,874	67	(726)

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 amounts of the cash-generating units are determined based on the higher of its fair value less costs to sell and value-in-use. The value-in-use calculations use cash flow projections based on financial budgets approved by management covering a four-year period for investment in iMedia and two-year period for Smartbuy. The discount rate applied to the cash flow projection is 18% and 15% respectively and the cash flows beyond the period covered in approved budgets are extrapolated using a steady growth rate.

Management has determined the budgeted gross margins based on past performance and its expectation for market development. The discount rates used are before tax and reflects specific risks relating to the unit.

17. Available-for-sale Financial Assets

	Group		Company	
	2008	2007	**2008**	2007
	US$	*US$*	***US$***	*US$*
As at 1 January	**86,256,244**	32,204,551	**74,613,491**	24,784,581
Additions	**2,986,193**	14,260,562	**2,986,193**	6,279,943
Disposals	**—**	(5,715,153)	**—**	—
Disposal of a subsidiary *(Note 25(b))*	**—**	(1,035,000)	**—**	—
Fair value (losses)/gains transfer to investment revaluation reserve	**(43,880,711)**	48,251,284	**(36,605,176)**	43,548,967
Impairment loss	**(7,974,704)**	(1,710,000)	**(7,974,704)**	—
Exchange difference	**757,347**	—	**—**	—
As at 31 December	**38,144,369**	86,256,244	**33,019,804**	74,613,491

Available-for-sale financial assets include the following:

	Group		Company	
	2008	2007	**2008**	2007
	US$	*US$*	***US$***	*US$*
Listed equity securities				
— Canada	**12,364**	—	**12,364**	—
— Mainland China	**31,681,278**	62,467,268	**31,681,278**	62,467,268
— United Kingdom	**—**	9,485,770	**—**	9,485,770
Unlisted equity securities	**6,450,727**	14,303,206	**1,326,162**	2,660,453
	38,144,369	86,256,244	**33,019,804**	74,613,491
Market value of listed securities	**31,693,642**	71,953,038	**31,693,642**	71,953,038

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

The fair value of unlisted equity securities is determined by reference to published price quotations in an active market.

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

	Group		Company	
	2008	2007	**2008**	2007
	US$	*US$*	***US$***	*US$*
Canadian dollars	**12,364**	—	**12,364**	—
Hong Kong dollars	**1,326,162**	2,660,453	**1,326,162**	2,660,453
Renminbi	**36,805,843**	74,110,021	**31,681,278**	62,467,268
United Kingdom Pounds	**—**	9,485,770	**—**	9,485,770
	38,144,369	86,256,244	**33,019,804**	74,613,491

At 31 December 2008, 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 2008	Interest held 2007
Shandong Lukang Pharmaceutical Co., Ltd. ("Lukang")	People's Republic of China	Manufacture and sale of pharmaceutical products	89,911,568 foreign legal person shares#	**11.46%**	11.46%

#: In 2007, 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 non-floating foreign legal person 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 any cash flows attached to the new shares. Accordingly, only the original 63,658,870 non-floating foreign legal person shares were measured at fair value as of the balance sheet date.

18. Loans Receivable

Loans receivable are denominated in the following currencies:

	Group		Company	
	2008	2007	**2008**	2007
	US$	*US$*	***US$***	*US$*
Renminbi	**6,858,379**	1,209,732	**—**	—
US dollars	**1,500,000**	1,500,000	**1,500,000**	1,500,000
	8,358,379	2,709,732	**1,500,000**	1,500,000
Provision for doubtful debt	**(556,222)**	—	**—**	—
Loans receivable — net	**7,802,157**	—	**1,500,000**	1,500,000
Less: non-current portion	**(6,294,095)**	—	**—**	—
Current portion	**1,508,062**	2,709,232	**1,500,000**	1,500,000

The effective interest rates on the loans receivable of the Group and the Company were as follows:

	Group				Company	
	2008		2007		**2008**	2007
	RMB	***US$***	*RMB*	*US$*	***US$***	*US$*
Loans receivable	**5.00%**	**9.75%**	7.39%	6.22%	**9.75%**	6.22%

As at 31 December 2008, no loans receivable was past due (2007: Nil).

The carrying values of loans receivable approximate its fair value as at 31 December 2008. The maximum exposure to credit risk at the reporting date is the fair values (i.e. their carrying values) of the loans receivable. The loans receivable are secured by certain assets of the borrowers as stipulated in the respective loan agreements.

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

	Group	
	2008	2007
	US$	*US$*
At 1 January	**—**	—
Provision for doubtful debt	**556,222**	—
At 31 December	**556,222**	—

The creation and release of provision for doubtful debt have been included in "other expenses" in the consolidated profit and loss account (Note 9).

19. Other Receivables, Prepayments and Deposits

	Group		Company	
	2008	2007	**2008**	2007
	US$	*US$*	***US$***	*US$*
Other receivables	**2,688,603**	3,021,128	**4,565**	137,085
Prepayments	**5,806**	24,804	**5,806**	24,804
Deposits	**55**	1,721	**55**	1,721
	2,694,464	3,047,653	**10,426**	163,610
Provision for doubtful debt	**(2,501,591)**	(2,501,591)	**—**	—
	192,873	546,062	**10,426**	163,610

The 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 other receivables and deposits are approximately the same as the carrying value.

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

	2008	2007
	US$	*US$*
At 1 January	**2,501,191**	—
Provision for doubtful debt	**—**	2,501,591
At 31 December	**2,501,191**	2,501,591

The creation and release of provision for doubtful debt have been included in "other expenses" in the consolidated profit and loss account (Note 9).

20. Financial Assets at Fair Value Through Profit or Loss

	Group		Company	
	2008	2007	**2008**	2007
	US$	*US$*	***US$***	*US$*
Listed equity securities held for trading:				
— Hong Kong	**2,764,553**	1,478,502	**2,764,553**	1,478,502
— United States	**2,167,089**	2,633,486	**718,455**	—
Market value of listed securities	**4,931,642**	4,111,988	**3,483,008**	1,478,502

Changes in fair values of these financial assets are recorded in "Other (losses)/gains — 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 25(a)).

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

21. Cash and Cash Equivalents

	Group		Company	
	2008	2007	**2008**	2007
	US$	*US$*	***US$***	*US$*
Cash at bank and on hand	**7,100,482**	10,774,390	**211,410**	4,067,859
Short-term bank deposits	**34,625,711**	40,162,992	**27,416,165**	30,638,622
	41,726,193	50,937,382	**27,627,575**	34,706,481
Maximum exposure to credit risk	**41,725,495**	50,936,294	**27,627,575**	34,706,481

21. Cash and Cash Equivalents *(Continued)*

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

	Group		Company	
	2008	2007	**2008**	2007
Short-term bank deposits	**0.05%-4.75%**	1.62%-4.70%	**0.05%-4.75%**	1.62%-4.70%

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

	Group		Company	
	2008	2007	**2008**	2007
	US$	*US$*	***US$***	*US$*
United States dollars	**10,428,065**	22,192,706	**10,230,080**	21,048,657
Hong Kong dollars	**17,397,495**	13,657,824	**17,397,495**	13,657,824
Renminbi	**13,900,633**	15,086,852	**—**	—
	41,726,193	50,937,382	**27,627,575**	34,706,481

Renminbi is not a freely convertible currency.

22. Share Capital and Share Premium

	Group and Company	
	2008	2007
	US$	*US$*
Authorised:		
160,000,000 shares of US$0.10 each	**16,000,000**	16,000,000

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

	Number of shares of US$0.10 each	Ordinary Shares *US$*	Share premium *US$* *(Note 23)*	Total *US$*
Issued and fully paid:				
As at 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 and 31 December 2008	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 either 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.

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

	2008		2007	
	Average exercise price in HK$ per Share	**Options (thousands)**	Average exercise price in HK$ per share	Options (thousands)
As at 1 January	**5.02**	**7,550**	2.65	2,470
Granted	**—**	**—**	5.74	5,925
Exercised	**—**	**—**	3.11	(845)
Lapsed	**5.74**	**(75)**	—	—
As at 31 December	**5.01**	**7,475**	5.02	7,550

During the year, no share options were granted and exercised. 75,000 share options were lapsed. The related weighted average share price at the time of exercise in 2007 was HK$7.77 per share.

23. 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 2007	68,765,940	3,710,944	—	4,789,504	54,849,044	132,115,432
Fair value gain 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 avaiable-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 partial interest 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 shareholders	—	—	—	—	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
As at 1 January 2008	**69,059,844**	**12,518,248**	**1,952,623**	**47,956,191**	**64,271,922**	**195,758,828**
Fair value loss of available-for-sale financial assets, net of deferred income tax	**—**	**—**	**—**	**(39,626,533)**	**—**	**(39,626,533)**
Share of post-acquisition reserves of associates	**—**	**(5,517,462)**	**—**	**—**	**—**	**(5,517,462)**
Release of capital reserve upon deemed disposal of partial interest of an associate	**—**	**(31,398)**	**—**	**—**	**—**	**(31,398)**
Exchange difference arising on translation of associates	**—**	**382,410**	**—**	**—**	**—**	**382,410**
Exchange difference arising on translation of a subsidiary	**—**	**326,693**	**—**	**—**	**—**	**326,693**
Loss attributable to shareholders	**—**	**—**	**—**	**—**	**(19,473,513)**	**(19,473,513)**
Transfer of reserve upon lapse of share option	**—**	**—**	**(25,250)**	**—**	**25,250**	**—**
As at 31 December 2008	**69,059,844**	**7,678,491**	**1,927,373**	**8,329,658**	**44,823,659**	**131,819,025**
Company and subsidiaries	**69,059,844**	**(302,051)**	**1,927,373**	**8,329,658**	**5,206,586**	**84,221,410**
Associates	**—**	**7,980,542**	**—**	**—**	**39,617,073**	**47,597,615**
	69,059,844	**7,678,491**	**1,927,373**	**8,239,658**	**44,823,659**	**131,819,025**

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

23. Reserves *(Continued)*

Company

	Share Premium US$	Share-based compensation reserve US$	Investment revaluation reserve US$	Retained earnings US$	Total US$
As at 1 January 2007	68,765,940	—	15,190,378	731,627	84,687,945
Employee share option benefits	—	1,994,705	—	—	1,994,705
Shares issued under employee share option scheme	293,904	(42,082)	—	—	251,822
Profit for the year	—	—	—	22,278,799	22,278,799
Fair value gain of available-for-sale financial assets, net of deferred income tax	—	—	39,264,170	—	39,264,170
As at 31 December 2007	69,059,844	1,952,623	54,454,548	23,010,426	148,477,441
As at 1 January 2008	**69,059,844**	**1,952,623**	**54,454,548**	**23,010,426**	**148,477,441**
Transfer of reserve upon lapse of share option	**—**	**(25,250)**	**—**	**25,250**	**—**
Loss for the year	**—**	**—**	**—**	**(19,549,943)**	**(19,549,943)**
Fair value loss of available-for-sale financial assets, net of deferred income tax	**—**	**—**	**(33,526,577)**	**—**	**(33,526,577)**
As at 31 December 2008	**69,059,844**	**1,927,373**	**20,927,971**	**3,485,733**	**95,400,921**

24. Deferred Income Tax Liabilities

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

	Group		Company	
	2008 US$	2007 US$	**2008 US$**	2007 US$
As at 1 January	**5,460,376**	—	**4,284,797**	—
(Credited)/Charged to investment revaluation reserve	**(4,254,178)**	5,460,376	**(3,078,599)**	4,284,797
As at 31 December	**1,206,198**	5,460,376	**1,206,198**	4,284,797

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

24. Deferred Income Tax Liabilities *(Continued)*

Deferred income tax assets are recognised for tax losses carry-forwards to the extent that the realisation of the related tax benefits through the future taxable profits is probable. The Group did not recognised deferred income tax assets of US$193,557 (2007: Nil) in respect of losses amounting to US$1,173,070 (2007: Nil) that can be carried forward against future taxable income. Such loss has no expiry date.

Deferred income tax liabilities of US$144,303 (2007: Nil) have not been recognised for the withholding tax and other taxes that would be payable on the unremitted earnings of a subsidiary in the PRC. Such temporary differences are not expected to be reversed in the foreseeable future. At 31 December 2008, total unremitted earnings accounted to US$2,886,057 (2007: Nil).

25. Notes to Cash Flow Statement

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

	2008	2007
	US$	*US$*
(Loss)/profit before income tax	**(18,704,297)**	9,813,351
Share of losses/(profits) of associates	**2,583,098**	(12,578,956)
Impairment loss on investments in associates	**9,791,983**	—
Loss/(gain) on deemed disposal of partial interest of an associate	**68,750**	(342,015)
Bank interest income	**(832,940)**	(1,178,326)
Loan interest income	**(491,349)**	(149,670)
Dividend income from investments	**(3,679,869)**	(65,000)
Gains on disposal of subsidiaries	**—**	(463,502)
Net realised gain on disposal of an available-for-sale financial asset	**—**	(1,416,630)
Impairment loss on available-for-sale financial assets	**7,974,704**	1,710,000
Provision for doubtful debt	**556,222**	2,501,591
Share-based payments	**—**	1,994,705
Operating losses before working capital changes	**(2,733,698)**	(174,452)
(Increase)/decrease in loans receivable	**(5,648,647)**	2,414,208
Decrease in other receivables, prepayments and deposits	**353,189**	4,499,240
(Increase)/decrease in financial assets at fair value through profit or loss	**(819,654)**	14,786,028
Movement in amounts due to related companies	**86**	11,569
(Decrease)/increase in accounts payable	**(16,450)**	61,288
Increase in accrued expenses	**60,923**	—
Cash (used in)/generated from operations	**(8,804,251)**	21,597,881

25. Notes to Cash Flow Statement *(Continued)*

(b) Disposal of a subsidiary

	As at date of disposal 2007 *US$*
Available-for-sale financial asset	1,035,000
Net asset	1,035,000
Gains on disposal of subsidiaries *(Note 8)*	463,502
Sale consideration satisfied by cash	1,498,502

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

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

26. Capital Commitments

Capital expenditure at the balance sheet date of the Group but not yet incurred is as follows:

	2008 ***US$***	2007 *US$*
Contracted but not provided for:		
Investment in an associate	—	5,700,000

26. Capital Commitments *(Continued)*

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

	2008 **US$**	2007 US$
Contracted but not provided for	**6,646,033**	2,208,078
Authorised but not contracted	**16,953,186**	23,760,978
	23,599,219	25,969,056

The Company did not have any other material commitments at 31 December 2008 (2007: Nil).

27. Related Party Transactions

(a) Transactions with a related party

		2008 **US$**	2007 US$
Management fee paid/payable to:			
CAIML	*Note*	**1,886,064**	1,686,569

Note: 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. Ms. Lao is the shareholder of FSIL.

(b) Key management compensation

	2008 **US$**	2007 US$
Salaries and other short-term employee benefits	**153,330**	163,544
Share-based payments	**—**	1,610,782
Pension costs — defined contribution plan	**1,267**	1,263
	154,597	1,775,589

(c) As at 31 December 2008, management fee payable to CAIML amounted to US$9,307 (2007: US$8,244). The balance was denominated in United States dollars, unsecured and interest-free.

(d) The amounts due to related companies are denominated in United States dollars, unsecured, interest-free and repayable on demand.

Five Year Financial Summary

	2008	2007	2006	2005	2004
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Consolidated profit and loss account					
Income	**5,004**	1,393	663	470	935
(Loss)/profit attributable to equity holders of the Company	**(19,474)**	9,423	3,586	13,873	22,059
Consolidated balance sheet					
Investments in associates	**49,264**	65,243	59,456	49,116	29,066
Available-for-sale financial assets	**38,144**	86,256	32,205	19,550	—
Investments	**—**	—	—	—	19,619
Other non-current assets	**6,294**	—	1,921	—	—
Current assets	**48,359**	58,305	46,444	54,079	64,634
	142,061	209,804	140,026	122,745	113,319
Current liabilities	**(1,380)**	(929)	(339)	(419)	(244)
Deferred income tax liabilities	**(1,206)**	(5,460)	—	—	—
	139,475	203,415	139,687	122,326	113,075
Financed by:					
Share capital	**7,656**	7,656	7,571	7,440	7,438
Reserves	**131,819**	195,759	132,116	114,886	105,637
	139,475	203,415	139,687	122,326	113,075