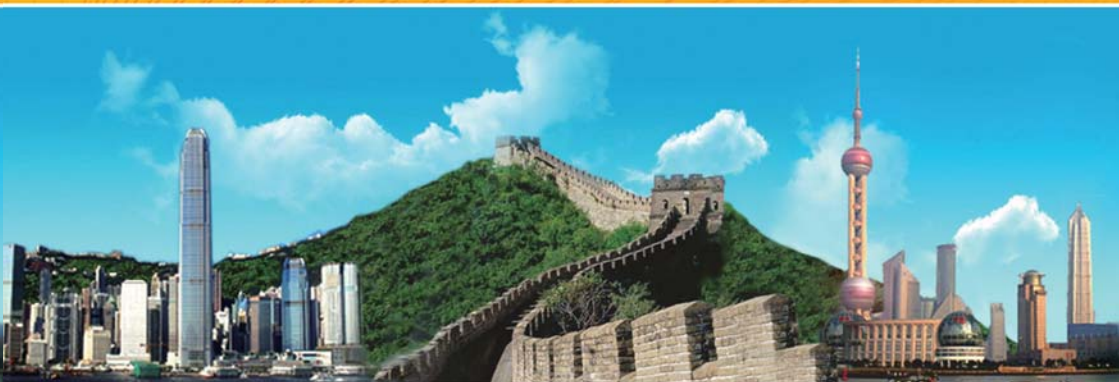


# CHINA ASSETS (HOLDINGS) LIMITED

(Stock Code: 170)



INTERIM REPORT  
2009

## **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

### **Registrars**

Computershare Hong Kong Investor

Services Limited

46th Floor, Hopewell Centre

183 Queen's Road East

Hong Kong

### **Registered Office**

19th Floor, Wing On House

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Website: [www.chinaassets.com](http://www.chinaassets.com)

### **Stock Code**

170

## Unaudited Interim Results

The Board of Directors of China Assets (Holdings) Limited (the “Company”) has pleasure in reporting the following unaudited condensed consolidated financial results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2009:

### Condensed Consolidated Profit and Loss Account

For the six months ended 30 June 2009

		Unaudited Six months ended 30 June	
	Notes	2009 US\$	2008 US\$
Income	2	<b>459,190</b>	4,318,076
Other gains/(losses) – net	3	<b>3,946,716</b>	(113,186)
Administrative expenses	4	<b>(1,023,813)</b>	(1,196,022)
Operating profit		<b>3,382,093</b>	3,008,868
Share of profit/(losses) of associates		<b>917,989</b>	(698,322)
Profit before income tax		<b>4,300,082</b>	2,310,546
Income tax expenses	5	<b>(25,720)</b>	(7,546)
Profit attributable to the equity holders of the Company		<b>4,274,362</b>	2,303,000
Earnings per share for profit attributable to the equity holders of the Company during the period	6		
Basic		<b>0.0558</b>	0.0301
Diluted		<b>0.0556</b>	0.0274

## Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2009

	Unaudited	
	Six months ended 30 June	
	2009	2008
	US\$	US\$
<b>Profit for the period</b>	<b>4,274,362</b>	2,303,000
<b>Other comprehensive income/(loss)</b>		
Share of post-acquisition reserves of associates	<b>1,614,000</b>	(3,259,672)
Release of capital reserve upon deemed disposal of partial interests in an associate	<b>(20,905)</b>	(31,398)
Exchange differences arising on translation of associates and subsidiaries	<b>(4,703)</b>	22,178
Fair value gains/(losses) of available-for-sale financial assets, net of deferred income tax	<b>19,241,450</b>	(30,290,972)
<b>Other comprehensive income/(loss) for the period</b>	<b>20,829,842</b>	(33,559,864)
<b>Total comprehensive income/(loss) for the period</b>	<b>25,104,204</b>	(31,256,864)
<b>Attributable to:</b>		
Equity holders of the Company	<b>25,104,204</b>	(31,256,864)

## Condensed Consolidated Balance Sheet

As at 30 June 2009

	Unaudited 30 June 2009 US\$	Audited 31 December 2008 US\$
<i>Notes</i>		
<b>Non-current assets</b>		
Investments in associates	53,927,770	49,264,048
Available-for-sale financial assets	59,282,503	38,144,369
Loan receivables	—	6,294,095
	<b>113,210,273</b>	93,702,512
<b>Current assets</b>		
Loan receivables	1,774,249	1,508,062
Other receivables, prepayments and deposits	775,939	192,873
Financial assets at fair value through profit or loss	13,584,854	4,931,642
Cash and cash equivalents	7 39,368,517	41,726,193
	<b>55,503,559</b>	48,358,770
Total assets	<b>168,713,832</b>	142,061,282
<b>Equity attributable to the equity holders of the Company</b>		
Share capital	8 7,655,816	7,655,816
Reserves	156,923,229	131,819,025
Total equity	<b>164,579,045</b>	139,474,841
<b>Current liabilities</b>		
Accounts payable	25,108	181,905
Accrued expenses	14,100	156,159
Amounts due to related companies	309,803	310,260
Current income tax liabilities	680,407	731,919
	<b>1,029,418</b>	1,380,243
<b>Non-current liabilities</b>		
Deferred income tax liabilities	3,105,369	1,206,198
Total liabilities	<b>4,134,787</b>	2,586,441
Total liabilities and equity	<b>168,713,832</b>	142,061,282
Net current assets	<b>54,474,141</b>	46,978,527
Total assets less current liabilities	<b>167,684,414</b>	140,681,039

## Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2009

	Unaudited	
	Six months ended 30 June	
	2009	2008
	US\$	US\$
Cash flows used in operating activities	(182,460)	(3,922,092)
Cash flows (used in)/generated from investing activities	(2,146,218)	877,997
Decrease in cash and cash equivalents	(2,328,678)	(3,044,095)
Effect of foreign exchange rate changes	(28,998)	(398,457)
Cash and cash equivalents at 1 January	41,726,193	50,937,382
Cash and cash equivalents at 30 June	39,368,517	47,494,830
Analysis of the balances of cash and cash equivalents:		
Bank balances and cash	39,368,517	47,494,830

## Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2009

	Unaudited						
	Share capital US\$	Share premium US\$	Capital reserve US\$	Share-based compensation reserve US\$	Investment revaluation reserve US\$	Retained earnings US\$	Total US\$
At 1 January 2009	7,655,816	69,059,844	7,678,491	1,927,373	8,329,658	44,823,659	139,474,041
Profit attributable to the equity holders of the company	—	—	—	—	—	4,274,362	4,274,362
Share of post-acquisition reserves of associates	—	—	1,614,000	—	—	—	1,614,000
Release of capital reserve upon deemed disposal of partial interests in an associate	—	—	(20,905)	—	—	—	(20,905)
Exchange differences arising on translation of associates and subsidiaries	—	—	(4,703)	—	—	—	(4,703)
Fair value gains of available-for-sale financial assets, net of deferred income tax	—	—	—	—	19,241,450	—	19,241,450
Total comprehensive income for the period ended 30 June 2009	—	—	1,588,392	—	19,241,450	4,274,362	25,104,204
At 30 June 2009	7,655,816	69,059,844	9,266,883	1,927,373	27,571,108	49,098,021	164,579,045
At 1 January 2008	7,655,816	69,059,844	12,518,248	1,952,623	47,956,191	64,271,922	203,414,644
Profit attributable to the equity holders of the company	—	—	—	—	—	2,303,000	2,303,000
Share of post-acquisition reserves of associates	—	—	(3,259,672)	—	—	—	(3,259,672)
Release of capital reserve upon deemed disposal of partial interests in an associate	—	—	(31,398)	—	—	—	(31,398)
Exchange differences arising on translation of associates and subsidiaries	—	—	22,178	—	—	—	22,178
Fair value losses of available-for-sale financial assets, net of deferred income tax	—	—	—	—	(30,290,972)	—	(30,290,972)
Total comprehensive loss for the period ended 30 June 2008	—	—	(3,268,892)	—	(30,290,972)	2,303,000	(31,256,864)
At 30 June 2008	7,655,816	69,059,844	9,249,356	1,952,623	17,665,219	66,574,922	172,157,780

## Notes to Condensed Consolidated Financial Information

### 1. Basis of preparation and accounting policies

These unaudited condensed consolidated interim financial information for the six months ended 30 June 2009 has been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

These condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2008.

Except as described below, the accounting policies and methods of computation used in the preparation of these condensed financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2008.

The following new standard, amendment and revision to existing standards are mandatory for the first time for financial year beginning 1 January 2009:

- HKAS 1 (Revised), “Presentation of Financial Statements”. The Group has elected to present two statements: an income statement and a statement of comprehensive income. The unaudited condensed consolidated interim financial information have been prepared under the revised disclosure requirements;
- HKFRS 7 (Amendment), “Financial Instruments: Disclosures”. The Group will make additional relevant disclosures in its annual financial statements ending 31 December 2009; and
- HKFRS 8, “Operating Segments”. The Group has adopted this Standard on 1 January 2009. Details of the segment information are presented in Note 2.



## Notes to Condensed Consolidated Financial Information (Continued)

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

The following amendments, revision and interpretations to existing standards are mandatory for the first time for financial year beginning 1 January 2009 but are not relevant to the Group's operations:

HKAS 16 (Amendment)	Property, Plant and Equipment;
HKAS 19 (Amendment)	Employee Benefits;
HKAS 20 (Amendment)	Accounting for Government Grants and Disclosure of Government Assistance;
HKAS 23 (Revised)	Borrowing Costs
HKAS 27 (Amendment)	Consolidated and Separate Financial Statements;
HKAS 28 (Amendment)	Investments in Associates;
HKAS 29 (Amendment)	Financial Reporting in Hyperinflationary Economies;
HKAS 31 (Amendment)	Interests in Joint Ventures;
Amendments to HKAS 32 and HKAS 1	HKAS 32 (Amendment), Financial Instruments: Presentation, and HKAS 1 (Amendment), Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation;
HKAS 36 (Amendment)	Impairment of Assets;
HKAS 38 (Amendment)	Intangible Assets;
HKAS 39 (Amendment)	Financial Instruments: Recognition and Measurement;
Amendments to HKAS 39 and HK(IFRIC) – Int 9	HKAS 39 (Amendment), Financial Instruments: Recognition and Measurement and HK(IFRIC) – Int 9, Reassessment of Embedded Derivatives;
HKAS 40 (Amendment)	Investment Property;
HKAS 41 (Amendment)	Agriculture;
HKFRS 2 (Amendment)	Share-based Payment Vesting Conditions and Cancellations;
HK(IFRIC) – Int 13	Customer Loyalty Programmes;
HK(IFRIC) – Int 15	Agreements for Construction of Real Estates; and
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation

## Notes to Condensed Consolidated Financial Information (Continued)

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

The following amendment, revisions and interpretations to existing standards have been issued but are not effective for financial year beginning 1 January 2009 and have not been early adopted:

		<b>Effective for accounting periods beginning on or after</b>
HKAS 27 (Revised)	Consolidated and Separate Financial Statements;	1 July 2009
HKAS 39 (Amendment)	Financial Instruments: Recognition and Measurement – Eligible Hedged Items;	1 July 2009
HKFRS 3 (Revised)	Business Combinations;	1 July 2009
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners; and	1 July 2009
HK(IFRIC) – Int 18	Transfers of Assets from Customers	1 July 2009

The Group has already commenced an assessment of the related impact of adopting the above amendment, revisions and interpretations to existing standards to the Group. The Group is not yet in a position to state whether substantial changes to the Group's accounting policies and presentation of the financial statements will be resulted.

In addition, HKICPA also published a number of amendments to existing Standards under its annual improvement project. These amendments are not expected to have a significant financial impact on the interim results and financial position of the Group.

## Notes to Condensed Consolidated Financial Information (Continued)

### 2. Income and segment information

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

	Unaudited	
	Six months ended 30 June	
	2009	2008
	US\$	US\$
Income		
Bank interest income	149,731	508,510
Loan interest income	190,542	147,111
Dividend income from listed investments	118,917	19,892
Dividend income from unlisted investments	—	3,642,563
	<b>459,190</b>	<b>4,318,076</b>

The chief operating decision-maker has been identified as the Board of Directors. Management determines the operating segments based on the Group's internal reports, which are then submitted to the Board of Directors for performance assessment and resources allocation.

The Board of Directors assesses the performance of the operating segment based on a measure of profit before tax. The measurement policies the Group uses for segment reporting under HKFRS 8 are the same as those used in its HKFRS financial statements.

The Group has identified one operating segment — investment holding. Accordingly, segment disclosures are not presented.

## Notes to Condensed Consolidated Financial Information (Continued)

### 3. Other gains/(losses) — net

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2009</b>	<b>2008</b>
	<i>US\$</i>	<i>US\$</i>
Gain on disposal of financial assets at fair value through profit or loss	<b>821,395</b>	—
Net exchange (loss)/gain	<b>(10,625)</b>	1,388,168
Loss on deemed disposal of partial interests of an associate	<b>(44,195)</b>	(68,750)
Unrealised fair value gains/(losses) on financial assets at fair value through profit or loss	<b>2,763,240</b>	(1,490,648)
Profit on disposal of an associate	<b>293,040</b>	—
Others	<b>123,861</b>	58,044
	<b>3,946,716</b>	(113,186)

### 4. Administrative expenses

Expenses included in administrative expenses are analysed as follows:

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2009</b>	<b>2008</b>
	<i>US\$</i>	<i>US\$</i>
Management fee paid/payable to a related company	<b>746,542</b>	982,573

### 5. Income tax expense

Hong Kong profits tax has been provided for at the rate of 16.5% (2008: 16.5%) on the estimated assessable profit for the period. Income tax expense on overseas profits has been calculated on the estimated assessable profit for the period at the rates of income tax prevailing in the countries in which the Group operates.

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

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2009</b>	<b>2008</b>
	<i>US\$</i>	<i>US\$</i>
Current overseas income tax	<b>25,720</b>	7,546

## Notes to Condensed Consolidated Financial Information (Continued)

### 6. Earnings per share

The calculation of basic earnings per share are based on the Group's profit attributable to the equity holders of the Company of US\$4,274,362 (2008: US\$2,303,000) and the weighted average number of 76,558,160 (2008: 76,558,160) ordinary shares in issue during the period.

The calculation of diluted earnings per share are based on the Group's profit attributable to the equity holders of the Company of US\$4,274,362 (2008: profit of US\$2,303,000). The diluted earnings per share is based on 76,859,054 (2008: 84,108,160) ordinary shares which is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has share options outstanding during the year which are dilutive potential ordinary shares. Calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options.

### 7. Cash and Cash equivalents

Included in the cash and cash equivalents of the Group are Renminbi deposits and cash in the Mainland China of US\$13,385,937 (31 December 2008: US\$12,908,321). Renminbi is not a freely convertible currency.

### 8. Share Capital

	30 June 2009 (Unaudited) US\$	31 December 2008 (Audited) US\$
Authorised:		
160,000,000 shares of US\$0.10 each	<b>16,000,000</b>	16,000,000
	<b>Number of shares of US\$0.10 each</b>	<b>Ordinary shares US\$</b>
Issued and fully paid:		
At 1 January 2008 and 30 June 2008	76,558,160	7,655,816
At 1 January 2009 and 30 June 2009	76,558,160	7,655,816

## Notes to Condensed Consolidated Financial Information (Continued)

### 9. Capital commitment

As at 30 June 2009 and 31 December 2008, the Group's share of capital commitments of an associate is as follows:

	<b>30 June 2009 (Unaudited) US\$</b>	31 December 2008 (Audited) US\$
Contracted but not provided for	<b>7,295,644</b>	6,646,033
Authorised but not contracted for	<b>13,974,481</b>	16,953,186
	<b>21,270,125</b>	23,599,219

The Group did not have any other material commitments at 30 June 2009 (2008: Nil).

### 10. Related party transactions

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

- (a) During the period, the Company paid management fee totalling US\$746,542 (2008: US\$982,573) to China Assets Investment Management Limited ("CAIML") under the management agreement signed between the Company and CAIML.

CAIML is an associate of First Shanghai Investments Limited ("FSIL") which is an associate of the Company. Mr. Lao Yuan Yi, the Chairman and an executive director of the Company, Mr. Xu Xiao Feng and Ms. Lao Yuan Yuan, executive directors of the Company, and Mr. Yeung Wai Kin, an 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) As at 30 June 2009, management fee payable to CAIML amounted to US\$8,850 (31 December 2008: US\$9,307) The balance is denominated in United States dollar, unsecured, interest-free and will be settled in the third quarter of 2009.

## Dividend

The Directors do not recommend the payment of an interim dividend (2008: US\$Nil).

## Net Asset Value

The unaudited consolidated net asset value per share of the Group at 30 June 2009 was US\$2.1497 (31 December 2008: US\$1.8218).

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

As at 30 June 2009, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, were as follows:

### Shares in the Company

Name of director	Number of shares held			% of the issued share capital
	Personal interests	Corporate interests	Total	
Lao Yuan Yi	100,000	—	100,000	0.13%
Yeung Wai Kin	100,000	—	100,000	0.13%
Fan Jia Yan	75,000	—	75,500	0.09%

## Director's and Chief Executives' Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Company and its Associated Corporations (Continued)

### Options in respect of shares in the Company

Details of the share options granted under the share option scheme approved on 19 May 2004 (the "Scheme") remain outstanding as at 30 June 2009 are as follows:

	Options held at 1 January 2009	Options exercised during the period	Options held at 30 June 2009	Exercise price HK\$	Closing price before the date of grant	Date of grant	Exercise period
<b>Directors:</b>							
Lao Yuan Yi	725,000	—	725,000	2.65	2.50	21/05/2004	25/05/2004-23/05/2014
	750,000	—	750,000	5.74	5.62	25/04/2007	25/04/2007-24/04/2017
Xu Xiao Feng	750,000	—	750,000	5.74	5.62	25/04/2007	25/04/2007-24/04/2017
Lao Yuan Yuan	750,000	—	750,000	5.74	5.62	25/04/2007	25/04/2007-24/04/2017
Jiang Wei	50,000	—	50,000	2.65	2.50	21/05/2004	25/05/2004-23/05/2014
	500,000	—	500,000	5.74	5.62	25/04/2007	25/04/2007-24/04/2017
Yeung Wai Kin	500,000	—	500,000	2.65	2.50	21/05/2004	25/05/2004-23/05/2014
	750,000	—	750,000	5.74	5.62	25/04/2007	25/04/2007-24/04/2017
Zhao Yu Qiao	305,000	—	305,000	2.65	2.50	21/05/2004	25/05/2004-23/05/2014
	750,000	—	750,000	5.74	5.62	25/04/2007	25/04/2007-24/04/2017
Wu Ming Yu	70,000	—	70,000	2.65	2.50	21/05/2004	25/05/2004-23/05/2014
	75,000	—	75,000	5.74	5.62	25/04/2007	25/04/2007-24/04/2017
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
	7,475,000	—	7,475,000				

Apart from the above, as at 30 June 2009, none of the Directors or the chief executive of the Company had or was deemed to have any interests and short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules.



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

The register of substantial shareholders' interests maintained under section 336 of the SFO reveals that as at 30 June 2009, the Company had been notified of the following interests of the substantial shareholders of the Company, being 5% or more of the Company's issued shares that carry a right to vote at general meetings of the Company.

Name	Type of interest	Capacity	Number of ordinary Shares held	Percentage of Issued share capital
First Shanghai Investments Limited ("FSIL") (Note 1)	Corporate	Interest of Controlled Corporation	25,162,866	32.87%
First Shanghai Direct Investments Limited ("FSDI") (Note 1)	Corporate	Interest of Controlled Corporation	25,162,866	32.87%
Golad Resources Limited (Note 1)	Corporate	Beneficial Owner	25,162,866	32.87%
Deutsche Bank Aktiengesellschaft	Corporate	Security Interest	16,738,918	21.86%
QVT Financial LP (Note 2)	Corporate	Beneficial owner	3,176,082	4.15%
QVT Financial GP LLC (Note 2)	Corporate	Investment Manager	19,915,000	26.01%
QVT Associates GP LLC (Note 3)	Corporate	Interest of Controlled Corporation	19,915,000	26.01%
QVT Fund LP (Note 3)	Corporate	Interest of Controlled Corporation	16,863,526	22.03%
Chen Dayou (Note 4)	Corporate	Beneficial Owner	15,337,878	20.03%
Team Assets Group Limited (Note 4)	Personal	Interest of Controlled Corporation	8,075,000	10.55%
	Corporate	Beneficial Owner	8,075,000	10.55%

## 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 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.
4. Chen Dayou had interest in the issued share capital of the Company through its interest in Team Assets Group Limited.

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 30 June 2009.

## Purchase, Sale or Redemption of Shares

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

## Code on Corporate Governance Practices

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

During the six months ended 30 June 2009, the Company has complied with the code provisions in the CG Code.

## Audit Committee

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

## Model Code for Securities Transactions by the Directors

The Company has adopted Appendix 10 of the Listing Rules “Model Code for Securities Transactions by Directors of Listed Issuers” as rules for securities transactions initiated by the directors of the Company. Following specific enquiry by the Company, all directors have confirmed that they fully complied with the standard laid down in the said rules at any time during the period ended 30 June 2009.

## Investment Review

China Assets (Holdings) Limited (the “Company”) and its subsidiaries (together, the “Group”) reported a profit of approximately US\$4.3 million for the six months ended 30 June 2009, representing increase of 86% over the same period of 2008. The substantial improvement was mainly contributed by increased realised and unrealised gain from its trading portfolio and a higher share of profit from its associates.

As a result of relaxed monetary policy across the world, the global stock market rebounded strongly during the period. KongZhong Corporation recorded strong growth in its mobile games business and its share price climbed rapidly to US\$10.74 as at 30 June 2009 from US\$3.35 per ADS at the end of 2008. Taking the opportunity, the Company sold part of the shares and achieved a disposal gain of US\$0.82 million. An unrealised gain of approximately US\$2.23 million was also recorded accordingly.

The Hong Kong stock market followed the global trend and the Hang Seng Index increased by nearly 28% during the first half of 2009. First Shanghai Investments Ltd. recorded increased income from its securities investment business and reported a profit of HK\$51 million (approximately US\$6.6 million) for the period.

As at 30 June 2009, the consolidated net asset value of the Group was US\$165 million, an increase of 18% from that of 31 December 2008. Apart from the factors mentioned earlier, the increase was also attributable to the unrealised fair value gains of approximately US\$21.1 million recorded from the two investment funds and Shandong Lukang Pharmaceutical Co. Ltd..

## Investment Review *(Continued)*

During the first half of 2009, the PRC government continued to implement the RMB4 trillion economic stimulus plan in order to avoid the deflationary pressure and achieve the 8% growth target. For the six months ended 30 June 2009, the gross domestic product reported a year-on-year growth of 7.1% and the fixed assets investment surged to 33.5% over that of the previous year. Despite a solid growth in GDP, the consumer price index fell 1.1% year-on-year as a result of lower food, clothing and telecommunications prices. The producer price index and the purchaser prices for raw material, fuel and power further went down by 5.9% and 8.7% year-on-year respectively. As most of the government funding and bank loans were extended to state-owned enterprises and infrastructure projects, recovery of the private sectors could not follow at the same pace. It is expected that the central government will maintain its current loose monetary policy. However, the economy recovery will continue to be overshadowed by excess liquidity, overinvestment and asset price inflation.

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

### Major Long-Term Investments

#### *Investments in associates*

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

During the period, First Shanghai strongly recovered and achieved a profit of HK\$51 million (approximately US\$6.6 million), representing a year-on-year growth of 17 times. Benefited from the stock market rebound, FSIL recorded substantial unrealised gain from its securities investment business. Its stock broking business also performed positively and its corporate finance division completed various underwriting and advisory engagements in the first half year.

##### *Holygene Corporation ("Holygene")*

During the period, Holygene continued its EPO certification plan and the progress was satisfactory. As there was no income before certification, Holygene recorded a loss of US\$0.17 million for the six months ended 30 June 2009. In June, the Group acquired a convertible note of US\$2.2 million issued by Holygene in order to finance its EPO certification in EU.

## Investment Review *(Continued)*

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

#### **Available-for-sale financial assets**

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

Affected by the global financial turmoil, overseas customers reduced their inventory and selling price of bulk pharmaceutical products declined as a result. In response to the negative impact, Lukang adjusted its products mix and restructure its sales team and network. For the six months ended 30 June 2009, Lukang reported net profit of RMB11.48 million (approximately US\$1.68 million), representing a year-on-year drop of 59% over that of the previous year.

During the period, the Group continued discussion with the PRC major shareholder of Lukang — Shandong Lukang Pharmaceutical Group Company Limited about the formalities in relation to the disposal of its 63,658,870 restricted shares of Lukang.

Boosted by the economic stimulus plan, Lukang A-share price surged up to RMB5.44 on 30 June 2009 from RMB3.40 per share as at the end of 2008. The unrealized fair value gain of approximately US\$17.09 million was transferred to the investment revaluation reserve accordingly.

##### *PingAn Defeng Collective Fund Trust Plan (“PingAn Trust”) China Alpha Fund (“China Alpha”)*

Benefited from the buoyant stock market in Hong Kong and Mainland China, both PingAn Trust and China Alpha recorded significant growth on the net assets value during the period. As at 30 June 2009, net asset value per unit of PingAn Trust and China Alpha increased by 32% and 38% respectively. As a result, the unrealized fair value gain of US\$1.6 million and US\$0.5 million were transferred to the investment revaluation reserve for PingAn Trust and China Alpha respectively.

#### **Other investments**

##### *Financial assets at fair value through profit or loss*

Taking the rebound opportunity, the Group partly disposed of its listed portfolio during the period. The shares held at 30th June 2009 had a fair value of US\$13.6 million. Unrealised fair value gain of US\$2.76 million was included in the consolidated profit and loss account for the period.

## Investment Review *(Continued)*

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

#### *Other investments (Continued)*

##### *UniMedia Limited (“UniMedia”)*

In March 2009, the Company entered into an agreement with UniMedia to acquire convertible notes of US\$6.3 million which could be converted into approximately 23.45% equity shares of UniMedia. UniMedia is engaged in provision of outdoor advertising services which targets to establish a network of advertising poster frames placed mainly at the elevators lobbies of commercial buildings. Since its inception in 2007, UniMedia gained fast expansion and installed nearly 70,000 frames over the major cities across China.

Pursuant to an independent valuation, an unrealised fair value loss for the investment in convertible notes of UniMedia of approximately US\$0.49 million was provided at 30 June 2009.

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

KongZhong recorded a profit of US\$6.07 million for the first half, a growth of more than 15 times over that of the previous year. As at 30 June 2009, KongZhong’s share price closed at US\$10.74 per ADS, representing an increase of approximately 221% over US\$3.35 at the end of 2008. An unrealised fair value gain of US\$2.23 million was credited into the consolidated profit and loss account as a result.

### Investments For Which Full Provision Had Been Made

#### *Investments in associates*

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

During the period, Smartbuy continued to consolidate its current business model while exploring new business opportunities. In order to maintain operating cash flow, Smartbuy adopted stringent cost-cutting measures including headcount reduction and contraction of office space. On the other hand, Smartbuy also discussed with different potential investors to seek additional funding for new projects which could generate synergy effect with its existing business. Smartbuy recorded a loss of RMB5.3 million (approximately US\$0.77 million) for the first six months of 2009.

## Investment Review *(Continued)*

### Investments For Which Full Provision Had Been Made *(Continued)*

#### *iMedia Holdings Limited (“iMedia”)*

Due to limited cash resources, iMedia contracted its business scale and maintained minimum operation for survival. iMedia recorded a loss of RMB1.6 million (approximately US\$0.25 million) for the first six months of 2009.

#### **Available-for-sale financial assets**

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

During the period, the Company continued its discussion with the management of Canton Property. As a winding-up petition was filed by a creditor of Canton Property, a provisional liquidator had been appointed in the first half of 2009.

In August 2009, the Chinese financial magazine *Caijing* reported that the ex-chairman of Canton Property was arrested for involving in a bank fraud with estimated amount as high as RMB9.8 billion. It was further disclosed that assets of Canton Property had been frozen by the court as a result of mortgage agreements signed with the lending bank. Since these bank loans have never been disclosed by Canton Property to the shareholders at any IPO or listing documents before, the Company is now seeking further advices and considers taking appropriate actions against any wrongdoing of those relevant parties.

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

During the period, the Group together with other investors engaged a professional team to look into the business of Beijing PanAm in the hope of working out a rescue plan. After careful consideration, the Group decided not to pursue further on the plan.

Operation of Beijing PanAm was suspended in the first quarter of 2009 and its management is now negotiating for a restructuring plan.

#### *Dezhou Zhenhua Glass Co., Ltd. (“Zhenhua”)*

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). In April 2009, the Group received the total consideration in full.

## Liquidity And Financial Resources

The financial position of the Group remained stable during the period. As at 30 June 2009, the Group had cash and cash equivalents of US\$39.37 million (31 December 2008: US\$41.73 million), of which US\$13.39 million (31 December 2008: US\$13.90 million) were held in RMB equivalent in form of the PRC banks' deposit held in Mainland China, and no debt. Most of the Group's investments are located in Mainland China. RMB is not a freely convertible currency and the RMB exchange rate against US dollar remained stable during the period.

## 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 share option scheme.

## Prospects

After lengthy discussion with Lukang, its PRC major shareholder and relevant governing bodies, the Company entered into supplementary share reform agreement in June 2009 and subsequently fulfilled its share reform obligation by returning the additional 26,252,698 shares to Shandong Hualu Holdings Ltd. ("Hualu"), which was a state-owned enterprise under the Shandong State-owned Assets Supervision and Administration Commission. The share transfer is completed in July and the Company is now in the process of applying release of trading restriction for its 63,658,870 restricted shares of Lukang.

In August 2009, FSIL reported that it had completed a disposal of a subsidiary which owned two pieces of land at Kunshan, the PRC. A disposal gain of HK\$33.2 million (approximately US\$4.3 million) will be recorded in its second half result.

By Order of the Board

**Lao Yuan Yi**

*Chairman*

Hong Kong, 18 September 2009