CHINA ASSETS (HOLDINGS) LIMITED

(Stock Code: 170)

ANNUAL REPORT

2009

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Corporate Information

Board of Directors

Executive Directors
Mr. Lao Yuan Yi *(Chairman)*
Mr. Xu Xiao Feng
Ms. Lao Yuan Yuan

Non-executive Directors
Mr. Jiang Wei
Mr. Yeung Wai Kin
Mr. Zhao Yu Qiao

Independent Non-executive Directors
Mr. Fan Jia Yan
Mr. Wu Ming Yu
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

Stock Code

170

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 2009. The Group's consolidated net profit for the year ended 31 December 2009 was US$7.63 million and consolidated net asset value as at 31 December 2009 was US$183.48 million, representing US$2.40 per share.

Business Review

After the global financial turbulence in 2008, there was a strong recovery in the financial market in 2009, mainly as a result of continued and timely actions by government and central banks around the world. China was no exception and the PRC government rolled out massive stimulus plan in 2009, which did not only help achieved the GDP growth of 8.7%, but also boosted up assets price in general. Amid such environment, the Group accomplished a turnaround and recorded a profit of US$7.63 million for 2009. The consolidated net asset value also increased by US$44.00 million to US$183.48 million as at 31 December 2009. The substantial improvement was mainly due to the realised and unrealised gains of its listed portfolio as well as increased share of profits from its major associated company.

During 2009, the Hong Kong stock market was lifted by influx of hot money and the Hang Seng Index climbed by 52% year-on-year. The IPO market also regained momentum and total fund raised in 2009 increased by 48%. Benefited from strong performance of its securities trading and brokerage business, First Shanghai Investments Ltd. ("FSIL") reported a net profit of HK$186.30 million for the year of 2009.

Despite a drop in average selling price on its major products during the first half year, Shandong Lukang Pharmaceutical Co. Ltd. ("Lukang") managed to achieve an improved result and reported net profit of RMB40.68 million for 2009. During the year, Lukang implemented major changes in its products mix, sales and marketing strategy. The preliminary result was positive and Lukang's share price rebounded to RMB6.82 per share as at 31 December 2009 from RMB3.40 as at 31 December 2008. An unrealised fair value gain of approximately US$30.71 million was transferred to the investment revaluation reserve accordingly.

In September 2009, the Group entered into a set of secured loan and warrant agreements with Junhui International Holdings Ltd. ("Junhui"), pursuant to which the Group committed to provide a total of RMB50 million loan to Junhui to finance part of the construction cost of a dredging ship. As China's economy continued to grow rapidly, coastal engineering works became more intensive and dredging service was at a high demand. It was expected the Group could receive satisfying return from Junhui as the dredging capacity shortage would last for a period of time.

During the year, the Group followed up closely with the latest development of Canton Property Investment Ltd. ("Canton Property"). The liquidators were contacted regularly but no significant progress had been accomplished. The Group would continue to explore different alternatives to recover its investment in Canton Property.

Chairman's Statement

After the management and shareholding change in late 2008, KongZhong ("KongZhong") became more active in mobile games and online games business. Its share price also recovered strongly from US$3.35 per American Depositary Shares ("ADS") a year ago to US$12.39 per ADS as at 31 December 2009. The Group took the opportunity and disposed most of its KongZhong shares during the year. Accordingly, a total of US$2.57 million disposal profit and an unrealised fair value gain of US$0.60 million was recorded in 2009.

Economic Outlook

As a result of RMB4 trillion economic stimulus plan, China's gross domestic product rose 8.7% in 2009 from a year earlier, above the 8% target set by the PRC government at the beginning of 2009. The fixed assets investment increased by 30.1% year-on-year. Due to a drop in export demand, the producer price index fell by 5.4% in 2009 of which the purchasing prices for raw materials, fuels and power decreased by 7.9%. The consumer price index declined by 0.7% in 2009, mainly attributed to price drop in housing, transportation and communication.

China's foreign exchange reserves climbed to US$2,399 billion at the end of 2009, representing an increase of 23.28% over the previous year. The exchange rate of RMB against USD fluctuated within a narrow range around 6.83 in 2009. Total foreign capital actually utilised dropped by 3.62% from 2008 to US$91.80 billion in 2009.

In order to avoid the asset price bubble getting out of control, the PRC central bank starts to control the bank lending by increasing bank reserve ratio gradually since January 2010. More restrictions on loan to industries with high energy consumption, high emissions or overcapacity are also unveiled. The RMB exchange rate is also expected to appreciate gradually so that the import price will be reduced and the consumers spending power can be boosted. In the longer term, China will continue to shift its economic growth pattern to promote domestic consumption as a bigger driver of growth.

Liquidity and Financial Resources

The financial position of the Group was healthy throughout the year. As at 31 December 2009, the Group had cash and cash equivalents of US$31.08 million (2008: US$41.73 million), of which US$13.66 million (2008: US$13.90 million) were held in RMB equivalent in form of the PRC banks' deposit held in Mainland China. Most of the Group's investments are located in Mainland China. RMB is not a freely convertible currency and the RMB exchange rate against US dollar remained stable 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, there were other benefits including mandatory provident funds scheme and discretionary employee share option scheme.

Prospects

In January 2010, the Group entered into agreements to invest indirectly in a PRC fund which mainly targeted at investing in rare earth mining, energy or related industries in the PRC. Total commitment by the Group was RMB30 million. As the rare earth was indispensable in high-technology applications and was in high demand, it was considered that the investment could bring satisfactory return to the Group.

During the first quarter, the Group also looked into different investment opportunities, paying attention to companies in the domestic consumption industry as well as the primary resource industry. As the global macro-economy remains uncertain and fragile, the Group will continue to take a cautious approach in assessing the new investment opportunities.

Last but not least, I would like to thank our fellow directors, shareholders and the investment manager for their valuable contributions and support during the previous year.

By Order of the Board
Lao Yuan Yi
Chairman
Hong Kong, 9 April 2010

Investments

Major Long-term Investments as at 31 December 2009

Name	Nature of business	% of total issued capital %	Invested amount US$	Impairment loss US$	Carrying value US$	% of net asset value %	Dividend received US$
Investments in associates							
First Shanghai Investments Limited	Investment holding	17.71	13,770,330	0	54,379,518	29.63	0
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 Ltd.	Provision of muti-media content and digital magazines on internet	*40.00	5,014,299	5,014,299	0	0	0
Available-for-sale financial assets							
Shandong Lukang Pharmaceutical Co., Ltd.	Manufacture and sale of pharmaceutical products	10.95	9,594,203	0	63,594,122#	34.65	0
China Pacific Insurance (Group) Co., Ltd.	Provision of insurance services and management of insurance funds	0.03	10,094,180	0	11,028,371#	6.00	0
PingAn Defeng Collective Fund Trust Plan	Investment fund	N/A	6,940,436	0	8,228,831#	4.48	0
China Alpha Fund	Investment fund	N/A	1,280,443	0	2,719,907#	1.48	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			60,403,390	18,723,798	139,950,749	76.24	0

* 13% are non-voting shares

** indirect interest

also represent their fair values

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 asset 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 Ltd.	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

Other Major Investments as at 31 December 2009

Name	Nature of business	Number of shares held	% of total issued capital %	Cost *US$*	Fair value/ market value *US$*	% of net asset value	Dividend received *US$*
Financial assets at fair value through profit and loss							
Holygene Corporation	Provision of pharmaceutical research and development services	Convertible note	N/A	2,200,000	2,339,628	1.27	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	1,469,865	0.80	38,482
KongZhong Corporation	Provision of wireless value-added services	66,387 ADS	0.19	22,761	822,535	0.45	0
China Telecom Corporation Ltd.	Provision of basic telecommunications services	1,800,000	0.00	1,285,826	752,031	0.41	17,745
HSBC Holdings PLC	Provision of international banking and financial services	45,200	0.00	658,482	738,175	0.40	21,952
Total				4,916,178	6,122,234	3.33	78,179

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 asset value	Dividend received US$
Financial assets at fair value through profit and 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 basic 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	300,00	0.00	190,974	207,871	0.15	0
Total				3,722,447	4,407,842	3.16	19,610

Investments

Major Long-Term Investments

Investments in associates

First Shanghai Investments Limited ("FSIL")

FSIL reported a net profit of HK$186.30 million (approximately US$23.95 million) for 2009 compared to the loss of HK$111.39 million in 2008. During the year, FSIL benefited from a robust capital market and recorded profitable result from its securities trading business. Income from its property development also increased substantially following the completion of its property development project in Kunshan, China. In August 2009, FSIL disposed the entire interest of its subsidiary which owned two pieces of land in Kunshan. FSIL recorded a disposal gain of approximately HK$33 million from the transaction.

Available-for-sale financial assets

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

During the year, Lukang successfully implemented major change in products mix which saw substantial reduction of its production capacity in low-margin products. Meanwhile, production capacity for higher margin products such as pharmaceuticals for veterinary use and preparation drugs were expanded. More focus was also placed on streamlining its sale and marketing function. As a result, Lukang achieved a net profit of RMB41 million for 2009.

After returning 26.3 million shares to Lukang's designated party in accordance with the share reform agreement, the Group was allowed to trade the first and second batch of restricted shares totaled 58,157,548 shares freely on the stock exchange from September 2009. A small amount of Lukang shares were sold subsequently to test run the disposal mechanism for the future disposal. The Group would apply for release of trading restriction for the last batch of 5,501,322 shares in 2010.

Share price of Lukang closed at RMB6.82 at the end of 2009 and the highest and lowest closing price in 2009 were RMB7.25 and RMB3.41 respectively. As at 31 December 2009, the fair value of Lukang was stated as US$63.59 million and the unrealised fair value gain (net) of US$30.71 million was transferred to the investment revaluation reserve.

Investments

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. Benefited from massive capital inflow, PingAn Trust and China Alpha recorded an increase in its net asset value by 61% and 105% respectively. As a result, the unrealised fair value gain of US$0.97 million and US$1.39 million were transferred to the investment revaluation reserve for PingAn Trust and China Alpha respectively.

Other investments

Holygene Corporation ("Holygene")

Holygene was established in January 2007 to collaborate with a qualified EPO manufacturer in China for developing the global market of the bio-similar EPO. Holygene would assist the EPO manufacturer to improve its operation procedure and quality so that its bio-similar EPO could meet EU standard and obtain EU registration. In June, the Group acquired convertible note of US$2.20 million issued by Holygene in order to finance its EPO certification.

As the certification process was still in early stage, Holygene did not receive any income and hence recorded a loss of US$0.61 million for 2009. To facilitate the capital restructuring, the Group sold its entire interests in Holygene to First Shanghai Investments Ltd. in the second half year. The consideration was mainly referred to the net asset value of Holygene and the Group recorded a loss of US$15,520 from the disposal.

UniMedia Ltd. ("UniMedia")

UniMedia was engaged mainly in provision of outdoor advertising services through a network of advertising poster frames installed at the elevator lobbies of commercial building across major cities of China. The Group entered into an agreement in March 2009 to acquire convertible note of US$6.3 million from UniMedia which could be converted into 23.45% equity interest in UniMedia. UniMedia had encountered serious liquidity problem and sought additional funding urgently since the fourth quarter of 2009. After careful consideration, the Group decided not to invest further into UniMedia and UniMedia agreed to terminate the convertible note arrangement. The convertible note consideration of US$6.3 million would be reclassified as loan and repaid in 5 years from 2011 to 2015. An interest of 6% would be charged on the outstanding amount annually.

KongZhong Corporation ("KongZhong")

After the change of major shareholder and management team in late 2008, KongZhong became more active in the capital market and completed more acquisitions in 2009. More focus was placed on both mobile and internet online games. Despite another round of new policies implemented by its mobile operator partners on value-added services, KongZhong managed to achieve a turnaround and reported a profit of US$12.58 million for 2009.

Impacted by improved performance, share price of KongZhong increased significantly to US$12.39 per ADS as at 31 December 2009 from US$3.35 per ADS a year ago. The Group disposed of most of its shares in KongZhong during the year. As at the end of 2009, the Group held 0.07 million ADS of KongZhong and an unrealised gain of US$0.60 million was recorded.

Investment For Which Full Provisions Had Been Made

Investments in associates

iMedia Holdings Ltd. ("iMedia")

As iMedia was running out of financial resource, it maintained a minimum operation for survival. In 2008, the Group made full provision against its investment cost of US$5 million in iMedia.

Smartbuy Group Holdings Ltd. ("Smartbuy")

Smartbuy ran into serious liquidity problem at the last quarter of 2009. In order to rescue its operation from suspension, the Group extended a loan of RMB1 million to Smartbuy in November 2009. A team was also sent by the investment manager to study the existing projects maintained by Smartbuy. After careful studies, the Group considered not to provide further funding and would try recovering any remaining assets from Smartbuy. A full provision of US$6.3 million was made against the investment in 2008 and a further provision of US$0.15 million was provided against the loan due from Smartbuy in 2009.

Investments

Available-for-sale financial assets

Canton Property Investment Ltd. ("Canton Property")

During the year, the Group continued to follow up with the provisional liquidators of Canton Property about its latest status. The Group also made different contact with the ex-management as well as the main bankers of Canton Property in the hope of recovering its investment in Canton Property. It was understood that the criminal investigation was still underway and the major assets of Canton Property remained frozen by its bankers. A full provision of US$7 million had been provided against the investment in 2008.

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

The Group engaged a team of professionals to explore any rescue plan for Beijing PanAm in 2009. After careful consideration, the Group decided not to pursue further on the plan. Operation of Beijing PanAm was suspended totally and a full provision of US$1.7 million had been made by the Group in 2007.

Biographical Details of Directors

Mr. LAO Yuan Yi, aged 64, 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. Also, he is the chairman of Public Holdings (Australia) Limited, which is a listed company in Australia. 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 43, has been a director since 2006. He is also the director and 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 31, 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 47, has been a director since 1996. He is currently the director and vice president of China Resources (Holdings) Company Limited and China Resources National Corporation. Mr. Jiang is a non-executive director of China Resources Enterprise, Limited, China Resources Power Holdings Company Limited, China Resources Land Limited as well as China Resources Microelectronics Limited. He is an executive director of Cosmos Machinery Enterprises Limited, an independent non-executive director of Greentown China Holdings Limited and is also a director of China Vanke Co., Ltd., which is a listed company in China. 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.

Biographical Details of Directors

Mr. YEUNG Wai Kin, aged 48, 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. Also, he is the deputy chairman of Public Holdings (Australia) Limited, which is a listed company in Australia. 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.

Mr. ZHAO Yu Qiao, aged 65, 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 63, 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 78, 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. At present, he is an independent non-executive director of Venturepharm Laboratories Limited and a director of Creat Group. Mr. Wu was an independent director of Beijing Shougang Company Limited. Also, 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, Chongqing 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 57, 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 2009 and was prepared in accordance with Appendix 23 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

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

Corporate Governance Practices

The Code on Corporate Governance Practices setting out in Appendix 14 of the Listing Rules (the "CG Code") was introduced on 1 January 2005. Accordingly, the Company adopted the code provisions in the CG Code as its own code on corporate governance practices in January 2005. During the year ended 31 December 2009, the Company has complied with the code provisions in the CG Code.

Director's Securities Transactions

The Company has adopted Appendix 10 of the Listing Rules "Model Code for Securities Transactions by Directors of Listed Issuers" as rules for securities transactions initiated by the directors of the Company. After specifically inquiring with all the directors of the Company, the Company confirms that its directors' securities transactions have been fully complied with the standard laid down in the said rules at any time during the year ended 31 December 2009.

Board of Directors

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

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

Board of Directors *(Continued)*

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

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

Composition

During 2009, the Board composed of nine directors, of whom three were Executive Directors, three were Non-executive Directors and three were Independent Non-executive Directors.

The members of the Board during the year ended 31 December 2009 and up to the date of this report are set out as follows:

Executive Directors:

Mr. Lao Yuan Yi, *Chairman*
Mr. Xu Xiao Feng
Ms. Lao Yuan Yuan

Non-executive Directors:

Mr. Jiang Wei
Mr. Yeung Wai Kin
Mr. Zhao Yu Qiao

Independent Non-executive Directors:

Mr. Fan Jia Yan
Mr. Wu Ming Yu
Dr. David William Maguire

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

Board of Directors *(Continued)*

Composition *(Continued)*

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 2009. 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.

The individual attendance of each director at the four board meetings for the year ended 31 December 2009 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	4/4
Mr. Jiang Wei	0/4
Mr. Yeung Wai Kin	4/4
Mr. Zhao Yu Qiao	1/4
Mr. Fan Jia Yan	4/4
Mr. Wu Ming Yu	4/4
Dr. David William Maguire	4/4

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.

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 2009, the Remuneration Committee was composed of three members of whom one Executive Director, Mr. Lao Yuan Yi and two Independent Non-executive Directors, Mr. Fan Jia Yan and Mr. Wu Ming Yu. 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 2009.

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 is composed of three members of whom two Independent Non-executive Directors, Mr. Fan Jia Yan and 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.

The Audit Committee has held three meetings during the year ended 31 December 2009. The individual attendance of each member at the committee meetings for the year ended 31 December 2009 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	2/3

Auditor's Remuneration

The following is a schedule setting out the remuneration in respect of the audit and non-audit services provided by the external auditor, PricewaterhouseCoopers to the Company and the Group during the year ended 31 December 2009:

	US$
Annual audit fee	149,146
Non-audit fee	57,299
	206,445

Internal Control

The directors acknowledge their responsibilities to ensure a sound and effective internal control system, which is designed to provide reasonable, but not absolute, assurance that material misstatement or loss can be avoided, and to manage and minimise risks of failure in achieving Company's objectives. The Audit Committee is delegated by the board to review the internal control system on an ongoing basis. During the review performed by the Audit Committee held in April 2010, the Audit Committee was satisfied that the internal control system had been in place and functioned effectively.

Directors' Responsibility for Preparing the Financial Statements

The directors acknowledge their responsibilities for preparing the Financial Statements 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 external auditor of the Company and the Group, PricewaterhouseCoopers, in connection with their reporting responsibilities on the consolidated financial statements of the Company and the Group is set in the Independent Auditor's Report on pages 29 and 30.

Investment Committee

The Board has established an Investment Committee as a committee of the Board with power to make investment decisions and to approve the valuations of the Company's investment prepared by the Investment Manager.

The Investment Committee currently consists of six members of which four are the Directors of the Company and two are appointed by the Investment Manager.

Report of the Directors

The directors submit their report together with the audited financial statements for the year ended 31 December 2009.

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 consolidated financial statements respectively.

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

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 income statement on page 31.

The directors do not recommend the payment of a dividend for the year ended 31 December 2009.

Reserves

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

Share Capital

Detail of the movement in share capital of the company are set out in note 22 to the consolidated financial statements.

Distributable Reserves

Distributable reserves of the Company as at 31 December 2009 amount to US$6,947,504 (2008: US$3,485,733).

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 86.

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

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

In accordance with Articles 87B, 90 and 98 of the Company's Articles of Association, Mr. Xu Xiao Feng, Mr. Jiang Wei and Dr. David William Maguire 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 2009. On the other hand, the Company is a substantial shareholder of FSIL holding approximately 17.71% equity interests in FSIL as at 31 December 2009.

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.

Further details of the above transaction are disclosed in note 27(a) to the consolidated financial statements.

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 2009 are as follows:

	Options held at 1 January 2009	Options held at 31 December 2009	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
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				

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 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 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' Interest and Short Positions in the Shares, Underlying Shares and Debentures of the Company and its Associated Corporations

As at 31 December 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 were as follows:

Shares in the Company

	Number of shares held			
Name of director	**Personal interests**	**Corporate interests**	**Total**	**% of the issued share capital**
Lao Yuan Yi	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 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 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 corporation (within the meaning of Part XV of the SFO).

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

The register of substantial shareholders' interests maintained under section 336 of the SFO reveals that as at 31 December 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%
		Beneficial owner	3,176,082	4.15%
QVT Financial LP *(Note 2)*	Corporate	Investment Manager	17,093,918	22.33%
QVT Financial GP LLC *(Note 2)*	Corporate	Interest of Controlled Corporation	17,093,918	22.33%
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 *(Note 4)*	Personal	Interest of Controlled Corporation	8,075,000	10.55%
Team Assets Group Limited *(Note 4)*	Corporate	Beneficial Owner	8,075,000	10.55%

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

Note:

(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.

(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 31 December 2009.

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 consolidated financial statements 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, 9 April 2010

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 financial statements of China Assets (Holdings) Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 31 to 85, which comprise the consolidated and company balance sheets as at 31 December 2009, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements 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 financial statements 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 financial statements 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 financial statements 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 financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, 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 financial statements 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 financial statements.

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 financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 9 April 2010

Consolidated Income Statement

For the year ended 31 December 2009

	Notes	2009 US$	2008 US$
Income	7	**1,167,606**	5,004,158
Other gains/(losses) — net	8	**4,755,898**	(335,057)
Other expenses	9	**(29,300)**	(8,530,926)
Administrative expenses	10	**(2,131,108)**	(2,467,391)
Operating profit/(loss)		**3,763,096**	(6,329,216)
Share of profits/(losses) of associates		**3,973,587**	(2,583,098)
Impairment loss on investments in associates		**—**	(9,791,983)
Profit/(loss) before income tax		**7,736,683**	(18,704,297)
Income tax expenses	12	**(107,799)**	(769,216)
Profit/(loss) attributable to equity holders of the Company	13	**7,628,884**	(19,473,513)
Earnings/(losses) per share for profit/(loss) attributable to equity holders of the Company	14		
— Basic		**0.100**	(0.254)
— Diluted		**0.099**	(0.254)

The notes on pages 37 to 85 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009

	2009	2008
	US$	*US$*
Profit/(loss) for the year	**7,628,884**	(19,473,513)
Other comprehensive income/(loss)		
Share of post-acquisition reserves of associates	**1,386,447**	(5,517,462)
Release of capital reserve upon deemed disposal of partial interests in an associate	**(26,135)**	(31,398)
Exchange differences arising on translation of financial statements of associates	**(31,648)**	382,410
Exchange differences arising on translation of financial statements of a subsidiary	**(4,251)**	326,693
Release of investment revaluation reserve upon disposal of available-for-sale financial assets	**(7,465)**	—
Fair value gains/(losses) of available-for-sale financial assets, net of deferred income tax	**35,058,033**	(39,626,533)
Other comprehensive income/(loss) for the year	**36,374,981**	(44,466,290)
Total comprehensive income/(loss) for the year	**44,003,865**	(63,939,803)
Attributable to:		
Equity holders of the Company	**44,003,865**	(63,939,803)

The notes on pages 37 to 85 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

As at 31 December 2009

	Note	2009 US$	2008 US$
Non-current assets			
Investments in associates	16	**54,379,517**	49,264,048
Available-for-sale financial assets	17	**85,601,256**	38,144,369
Loan receivables	18	**6,471,930**	6,294,095
		146,452,703	93,702,512
Current assets			
Loan receivables	18	**2,964,933**	1,508,062
Other receivables, prepayments and deposits	19	**751,486**	192,873
Financial assets at fair value through profit or loss	20	**7,093,943**	4,931,642
Cash and cash equivalents	21	**31,078,367**	41,726,193
		41,888,729	48,358,770
Total assets		**188,341,432**	142,061,282
Equity attributable to equity holders of the Company			
Share capital	22	**7,655,816**	7,655,816
Reserves	23	**175,822,890**	131,819,025
Total equity		**183,478,706**	139,474,841
Current liabilities			
Accounts payable		**141,646**	181,905
Accrued expenses		**141,755**	156,159
Amounts due to related companies	27(e)	**309,598**	310,260
Current income tax liabilities		**756,344**	731,919
		1,349,343	1,380,243
Non-current liabilities			
Deferred income tax liabilities	24	**3,513,383**	1,206,198
Total liabilities		**4,862,726**	2,586,441
Total liabilities and equity		**188,341,432**	142,061,282
Net current assets		**40,539,386**	46,978,527
Total assets less current liabilities		**186,992,089**	140,681,039

Lao Yuan Yi
Director

Xu Xiao Feng
Director

The notes on pages 37 to 85 are an integral part of these consolidated financial statements.

Balance Sheet

As at 31 December 2009

	Notes	2009 US$	2008 US$
Non-current assets			
Investments in subsidiaries	15	**27,136,548**	25,485,366
Investments in associates	16	**13,770,330**	13,770,330
Available-for-sale financial assets	17	**77,372,425**	33,019,804
		118,279,303	72,275,500
Current assets			
Loan receivables	18	**2,963,089**	1,500,000
Other receivables, prepayments and deposits	19	**172,500**	10,426
Financial assets at fair value through profit or loss	20	**3,931,780**	3,483,008
Cash and cash equivalents	21	**17,227,525**	27,627,575
		24,294,894	32,621,009
Total assets		**142,574,197**	104,896,509
Equity attributable to equity holders of the Company			
Share capital	22	**7,655,816**	7,655,816
Reserves	23	**131,137,373**	95,400,921
Total equity		**138,793,189**	103,056,737
Current liabilities			
Accounts payable		**138,716**	181,905
Accrued expenses		**141,410**	141,409
Amounts due to related companies	27(e)	**309,598**	310,260
		589,724	633,574
Non-current liabilities			
Deferred tax liabilities	24	**3,191,284**	1,206,198
Total liabilities		**3,781,008**	1,939,772
Total liabilities and equity		**142,574,197**	104,896,509
Net current assets		**23,705,170**	31,987,435
Total assets less current liabilities		**141,984,473**	104,262,935

Lao Yuan Yi
Director

Xu Xiao Feng
Director

The notes on pages 37 to 85 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes In Equity

For the year ended 31 December 2009

	Notes	2009 US$	2008 US$
Total equity as at 1 January		**139,474,841**	203,414,644
Fair value gains/(losses) of available-for-sale financial assets, net of deferred income tax		**35,058,033**	(39,626,533)
Release of investment revaluation reserve upon disposal of available-for-sale financial assets		**(7,465)**	—
Share of post-acquisition reserves of associates	16	**1,386,447**	(5,517,462)
Release of capital reserve upon deemed disposal of partial interest of an associate	16	**(26,135)**	(31,398)
Exchange differences arising on translation of financial statements of associates	16	**(31,648)**	382,410
Exchange difference arising on translation of financial statements of a subsidiary		**(4,251)**	326,693
Net income recognised directly in equity for the year		**175,849,822**	158,948,354
Profit/(loss) attributable to equity holders		**7,628,884**	(19,473,513)
Total equity as at 31 December		**183,478,706**	139,474,841

The notes on pages 37 to 85 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2009

	Note	**2009** **US$**	2008 US$
Cash flows from operating activities			
Cash used in operations	25	**(2,119,505)**	(8,804,251)
Hong Kong profits tax paid		**—**	(316,989)
Overseas profit tax paid		**(83,453)**	(50,172)
Net cash used in operating activities		**(2,202,958)**	(9,171,412)
Cash flows from investing activities			
Interest received		**958,736**	1,324,289
Dividends received from associates		**108,946**	317,442
Dividends received from investments		**208,870**	3,679,869
Purchase of investments in associates		**—**	(1,849,300)
Purchase of available-for-sale financial assets		**(10,094,179)**	(2,986,193)
Movements in amounts with associates		**—**	(99,217)
Net proceeds from disposal of an associate	25	**376,455**	—
Net proceeds from disposal of an available-for-sale financial asset		**6,757**	—
Net cash (used in)/generated from investing activities		**(8,434,415)**	386,890
Decrease in cash and cash equivalents		**(10,637,373)**	(8,784,522)
Cash and cash equivalents at 1 January		**41,726,193**	50,937,382
Effect of foreign exchange rate changes		**(10,453)**	(426,667)
Cash and cash equivalents at 31 December	21	**31,078,367**	41,726,193
Analysis of the balances of cash and cash equivalents:			
Bank balances and cash		**31,078,367**	41,726,193

The notes on pages 37 to 85 are an integral part of these consolidated financial statements.

1. General Information

China Assets (Holdings) Limited (the "Company") and its subsidiaries (together, 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 financial statements are presented in United States dollars ("US$"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 9 April 2010.

2. Summary of Significant Accounting Policies

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

(a) Basis of preparation

These consolidated financial statements 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 financial statements 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.

(a) New and amended standards adopted by the Group

The Group has adopted the following new and amended HKFRS as of 1 January 2009:

- HKAS 1 (Revised), "Presentation of financial statements" (effective from 1 January 2009). The revised standard prohibits 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 in a statement of comprehensive income. As a result, the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

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

(a) Basis of preparation *(Continued)*

(a) New and amended standards adopted by the Group (Continued)

- HKFRS 2 (Amendment), "Share-based payment" 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. These features would need to be included in the grant date fair value for transactions with employees and others providing similar services; they would not impact the number of awards expected to vest or subsequent valuation. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group and Company has adopted HKFRS 2 (Amendment) from 1 January 2009. The amendment does not have a material impact on the Group's or Company's financial statements.

- HKFRS 7, "Financial instruments — Disclosures" (Amendment) (effective from 1 January 2009). The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. As the change in accounting policy only results in additional disclosures, there is no impact on earnings per share.

- 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. Since the Group has reported the segment information in a manner that is consistent with the internal reporting provided to the chief operating decision-maker previously, the HKFRS 8 does not have any impact on the Group's financial statements.

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

(a) Basis of preparation *(Continued)*

(b) Amendments and interpretations to existing standards becoming effective in 2009 but not relevant to the Group:

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;
HK(IFRIC) — Int 16	Hedges of a Net Investment in a Foreign Operation; and
HK(IFRIC) — Int 18	Transfers of Assets from Customers.

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

(a) Basis of preparation *(Continued)*

(c) Standard, amendments/revisions and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standard, amendments/revisions and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2010 or later periods, but the Group has not early adopted them:

		Effective for accounting periods beginning on or after
HKAS 24 (Revised)	Related Party Transactions	1 January 2011
HKAS 27 (Amendment)	Consolidated and Separate Financial Statements	1 July 2009
HKAS 32 (Amendment)	Classification of Rights Issues	1 February 2010
HKAS 38 (Amendment)	Intangible Assets	1 July 2009
HKAS 39 (Amendment)	Eligible Hedged Items	1 July 2009
HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards	1 July 2009
HKFRS 1 (Amendment)	First-time Adoption of Hong Kong Financial Reporting Standards — Additional Exemptions for First-time Adopters	1 January 2010
HKFRS 5 (Amendment)	Measurement of Non-current Assets (or Disposal Group) Classified as Held for Sale	1 January 2010
HKFRS 9	Financial Instruments	1 January 2013
HK(IFRIC)-Int 17	Distribution of Non-cash Assets to Owners	1 July 2009
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments	1 July 2010

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

(a) Basis of preparation *(Continued)*

(c) Standard, amendments/revisions and interpretations to existing standards that are not yet effective and have not been early adopted by the Group *(Continued)*

The Group has already commenced an assessment of the related impact of adopting the above new standard, amendments/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 for the existing standards under its annual improvement projects issued in October 2008 and May 2009, certain of which has not yet become effective in 2009. These amendments have not been early adopted by the Group and are not expected to have a significant financial impact on the results and financial position of the Group.

(b) Consolidation

The consolidated financial statements include the financial statements 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 income statement.

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

(b) Consolidation *(Continued)*

(i) Subsidiaries (Continued)

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 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 15). The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

(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 (Note 16).

The Group's share of its associates' post-acquisition profits or losses is recognised in the consolidated income statement, 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 income statement.

In the Company's balance sheet the investments in associates are stated at cost less provision for impairment losses (Note 16). 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

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the board of directors that makes strategic decisions.

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements 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 financial statements 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 income statement.

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 change in amortised cost are recognised in income statement, and other changes in 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 income statement 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 income statement 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, associates and non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually 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.

Impairment testing of the investments in subsidiaries or associates is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary or associate in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

(f) Financial assets

Classification

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

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

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are 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. Loans and receivables are classified as "loan receivables" and "other receivables and prepayments and deposits" in the balance sheet (Note 18 and 19).

(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 Measurement

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 income statement. 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 income statement within "other gains/(losses) net" in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the consolidated income statement 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 Measurement *(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 income statement as "other gains/(losses) — net".

Interest on available-for-sale securities calculated using the effective interest method is recognised in the consolidated income statement as part of "income". Dividends on available-for-sale equity instruments are recognised in the consolidated income statement 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 income statement. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement. Impairment testing of loan receivables and other receivables and prepayments is described in Note 18 and 19.

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

(g) Loan receivables and other receivables

Loan receivables and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of loan receivables and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. 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 amount of the provision is recognised in the consolidated income statement. Subsequent recoveries of amounts previously written off are credited in the consolidated income statement.

(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 substantially enacted at the balance sheet date in the countries where the Company and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. 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 financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, 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.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

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

(l) Provisions

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

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

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax 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 participates in a number of defined contribution plans, the assets of which are generally held in separate trustee-administered funds. The pension plans are generally funded by payments from employees and by the relevant group companies. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

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

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

(m) Employee benefits *(Continued)*

(ii) Share-based compensation

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

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.

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

(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) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements 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.

(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.

3. Financial Risk Management *(Continued)*

(a) Financial risk factors *(Continued)*

(i) Market risk (Continued)

(1) Foreign exchange risk (Continued)

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.

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 2009 (2008: 15%), the Group's investment revaluation reserve would increase or decrease by approximately US$12,840,000 (2008: US$5,722,000) and the gain/loss for the year ended 31 December 2009 would increase or decrease US$1,064,000 (2008: US$740,000) respectively.

3. Financial Risk Management *(Continued)*

(a) Financial risk factors *(Continued)*

(i) Market risk (Continued)

(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 2009 was the amount for the whole year, if the interest rate was 20 (2008: 20) basis points higher or lower and all other variables were held constant, the Group's profit for the year ended 31 December 2009 would increase or decrease by US$49,000 (2008: the loss would decrease and increase by US$69,000).

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

As at 31 December 2008 and 2009, all the bank deposits are deposited with major banks in Hong Kong and Mainland China. The credit quality of cash and cash equivalents has been assessed by reference to external credit ratings or historical information about the counterparty default rates. The existing counterparties do not have defaults in the past.

In respect of loan 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 loan and other receivables.

3. Financial Risk Management *(Continued)*

(a) Financial risk factors *(Continued)*

(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

Effective 1 January 2009, the Group adopted the amendment to HKFRS 7 for financial instruments that are measured in the consolidated balance sheet at fair value, this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

— Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);

— Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and

— Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

3. Financial Risk Management *(Continued)*

(b) Fair value estimation *(Continued)*

The following table presents the Group's assets that are measured at fair value at 31 December 2009.

	Level 1	Level 2	Level 3	Total
	US$	*US$*	*US$*	*US$*
Financial assets at fair value through profit or loss				
— listed securities	4,754,315	—	—	4,754,315
— convertible bond	—	—	2,339,628	2,339,628
Available-for-sale financial assets				
— listed securities	74,652,518	—	—	74,652,518
— unlisted, quoted securities	—	10,948,738	—	10,948,738
	79,406,833	10,948,738	2,339,628	92,695,199

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1. Instruments included in level 1 primarily comprise securities listed in the Stock Exchange of Hong Kong Limited.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

3. Financial Risk Management *(Continued)*

(b) Fair value estimation *(Continued)*

Specific valuation techniques used to value financial instruments include:

— Quoted market prices or dealer quotes for similar instruments; and

— Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

The following table presents the changes in level 3 instruments for the year ended 31 December 2009.

	Convertible bond
	US$
Opening balance	—
Addition	2,200,000
Gain recognised in income statement	139,628
Closing balance	2,339,628

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.

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

(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, no impairment loss on available-for sale financial assets 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 income statement and carrying value of investment revaluation reserve in the period in which such determination is made.

(b) Estimated impairment of loan receivables

Provision for impairment of loan receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. In determining whether any of the loan receivables is impaired, significant judgement is required. In making this judgement, the Group evaluates, among other factors, the duration and extent by all means to which the amount will be recovered. Based on the Group's estimation, no impairment provision has been made on loan receivables. Where the final outcome of these matters is different from the management's estimates and judgements, such differences will impact the income statement and carrying value of loan receivables in the period in which such determination is made.

(c) Estimated impairment of investment 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. The recoverable amount of cash-generating unit has been determined based on value-in-use calculations. These calculations require use of estimates (Note 2).

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 2008 and 2009, the Group has 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)) is entitled to receive from the Company a management fee calculated at the following rates:

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

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

6. Investment Management Fee *(Continued)*

Management fee paid to CAIML for the year ended 31 December 2009 amounted to US$1,553,337 (2008: US$1,886,064).

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 2009 (2008: 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:

	2009	2008
	US$	*US$*
Income		
Bank interest income	**234,318**	832,940
Loan interest income	**724,418**	491,349
Dividend income from unlisted investments	**—**	3,659,358
Dividend income from listed investments	**208,870**	20,511
	1,167,606	5,004,158

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 income 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.

7. Income and Segment Information *(Continued)*

An analysis of the Group's income by geographic location is as follows:

	2009	2008
	US$	US$
Income		
Hong Kong	**448,739**	775,272
Mainland China	**718,867**	4,228,886
	1,167,606	5,004,158

An analysis of the Group's non-current assets, other than available-for-sale financial assets by geographic location is as follows:

	2009	2008
	US$	US$
Non-current assets, other than available-for-sale financial assets		
Hong Kong	**54,379,517**	49,086,203
Mainland China	**6,471,930**	6,471,940
	60,851,447	55,558,143

8. Other Gains/(Losses) — Net

	2009	2008
	US$	US$
Gain on disposals of associates	**359,646**	—
Loss on deemed disposal of partial interest of an associate	**(61,027)**	(68,750)
Net realised gain on disposal of available-for-sale financial asset	**5,431**	—
Net realised gains/(losses) on disposal of financial assets at fair value through profit or loss	**2,803,263**	(11,598)
Net unrealised fair value gains/(losses) on financial assets at fair value through profit or loss	**1,639,511**	(1,865,323)
Net exchange gains	**9,074**	1,610,614
	4,755,898	(335,057)

9. Other Expenses

	2009	2008
	US$	*US$*
Impairment loss on available-for-sale financial assets	—	7,974,704
(Reverse of provision)/provision for doubtful debt	**(117,199)**	556,222
Provision for amount due from an associate	**146,499**	—
	29,300	8,530,926

10. Administrative Expenses

Expenses included in administrative expenses are analysed as follows:

	2009	2008
	US$	*US$*
Investment management fee *(Note 6)*	**1,553,337**	1,886,064
Employee benefit expenses (including directors' remuneration) *(Note 11)*	**154,613**	148,146
Auditor's remuneration	**149,146**	191,105
Other expenses	**274,012**	242,076
	2,131,108	2,467,391

11. Employee Benefit Expenses (Including Directors' Remuneration)

	2009	2008
	US$	*US$*
Wages and salaries	**153,341**	146,879
Pension costs — defined contribution plan	**1,272**	1,267
	154,613	148,146

11. Employee Benefit Expenses (including Directors' Remuneration) *(Continued)*

(a) Directors' and senior management's emoluments

The remuneration of each Director for the year ended 31 December 2009 and 2008 is set out below:

	2009 **Directors' fee** ***HK$***	2008 Directors' fee *HK$*
Executive directors		
Mr. Lao Yuan Yi	**80,000**	80,000
Mr. Xu Xiao Feng	**80,000**	80,000
Mr. Lao Yuan Yuan	**80,000**	80,000
Non-executive directors		
Mr. Jiang Wei	**80,000**	80,000
Mr. Yeung Wai Kin	**132,000**	132,000
Mr. Zhao Yu Qiao	**80,000**	80,000
Independent non-executive directors		
Mr. Fan Jia Yan	**185,000**	185,000
Mr. Wu Ming Yu	**152,000**	152,000
Dr. David William Maguire	**100,000**	50,000
	969,000	919,000
Equivalent to United States dollars	**124,952**	118,581

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 (2008: four) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (2008: one) individual during the year are as follows:

	2009	2008
	US$	*US$*
Basic salaries, housing allowances, other allowances and benefits in kind	**28,389**	28,298
Pension costs — defined contribution plan	**1,272**	1,267
	29,661	29,565

The emoluments payable to the remaining employee in 2009 and 2008 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% (2008: 16.5%) 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 income statement represents:

	2009	2008
	US$	*US$*
Current income tax:		
— Overseas income tax	**107,799**	755,124
Prior year under provision		
— Hong Kong profits tax	**—**	14,092
Income tax expenses	**107,799**	769,216

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

	2009	2008
	US$	*US$*
Profit/(loss) before income tax	**7,736,683**	(18,704,297)
Less: share of (profits)/losses of associates	**(3,973,587)**	2,583,098
	3,763,096	(16,121,199)
Calculated at income tax rate of 16.5% (2008: 16.5%)	**620,911**	(2,659,998)
Effect of different income tax rates in other countries	**1,083**	54,209
Income not subject to income tax	**(1,283,283)**	(396,643)
Expenses not deductible	**877,388**	3,563,999
Tax loss not recognised	**—**	193,557
Utilisation of previously the unrecognised tax loss	**(108,300)**	—
Under-provision in prior year	**—**	14,092
Income tax expenses	**107,799**	769,216

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

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of US$3,461,771 (2008: loss of US$19,549,943).

14. Earnings/(Losses) per Share

The calculation of basic earnings per share is based on the Group's earning attributable to equity holders of US$7,628,884 (2008: loss of US$19,473,513) and the weighted average number of 76,558,160 (2008: 76,558,160) ordinary shares in issue during the year.

The Company has share options outstanding during the year which are dilutive potential ordinary shares. Calculation is made to determine the number of shares that could have been acquired at fair value (determined as the average daily market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of 587,096 dilutive potential ordinary shares.

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

15. Investments in Subsidiaries

Company

	2009	2008
	US$	*US$*
Unlisted shares, at cost *(Note b)*	**140,151**	140,151
Amounts due from subsidiaries *(Note a)*	**39,755,666**	39,104,484
Less: provision for doubtful debts	**(12,759,269)**	(12,759,269)
	26,996,397	25,345,215
	27,136,548	25,485,366

(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 2009:

Name	Place of incorporation	Principal activities	Particulars of issued share capital	Interest held 2009	Interest held 2008
Ablewell Investments Limited	British Virgin Islands	Dormant	10shares 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	Dormant	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 2009 *(Continued)*

Name	Place of incorporation	Principal activities	Particulars of issued share capital	Interest held 2009	Interest held 2008
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	Investment holding	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	
	2009	2008
	US$	*US$*
Share of net assets as at 1 January	**49,521,113**	57,111,325
Increase in investment in associates	**—**	545,528
Share of associates' profits/(losses)	**3,973,587**	(2,583,098)
Share of associates' reserves	**1,386,447**	(5,517,462)
Release of capital reserve upon deemed disposal of partial interest of an associate	**(26,135)**	(31,398)
Dividend received	**(108,946)**	(317,442)
Disposal of an associate	**118,191**	—
Loss on deemed disposal of partial interest of an associate	**(61,027)**	(68,750)
Exchange differences	**(31,648)**	382,410
Share of net assets as at 31 December	**54,771,582**	49,521,113
Goodwill on acquisition	**7,651,488**	7,786,488
Provision for impairment loss	**(8,043,553)**	(8,043,553)
	54,379,517	49,264,048
Amount due from an associate *(note)*	**1,894,929**	1,748,430
Provision for impairment loss	**(1,894,929)**	(1,748,430)
	54,379,517	49,264,048
Market value of listed shares in Hong Kong	**39,602,370**	23,329,340

	Company	
	2009	2008
	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	**39,602,370**	23,329,340

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 was past due and was fully impaired in 2009 and 2008.

16. Investments in Associates *(Continued)*

(a) The following is a list of associates held directly/indirectly by the Company at 31 December 2009:

Name	Particulars of issued shares held	Place of incorporation	Principal activities	Interest held 2009	Interest held 2008
First Shanghai Investments Limited ("FSIL") *(see note i below)*	Ordinary shares of 247,674,500 of HK$0.2 each	Hong Kong	Investment holding	**17.705%**	17.74%
CITIC Capital China Partners Ltd. ("CITIC Partner") *(see note ii below)*	Ordinary shares of 250 of US$1 each	Cayman Islands	Provision for management services	**25%***	25%*
iMedia Holdings Limited ("iMedia") *(see note iii below)*	Series A Preferred shares of 3,259,215 of US$0.001 each	Cayman Islands	Provision for multi-media content and digital magazines	**40%***	40%*
Smartbuy Group Holdings Limited ("Smartbuy") *(see note 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%***	17.65%*
Holygene Corporation ("Holygene") *(see note v below)*	Ordinary shares of 900,000 of US$1 each	British Virgin Islands	Research and development of drugs	**0%***	30%*
Dezhou Zhenhua Glass Co., Ltd. ("DZGC") *(see note vi below)*	US$3,202,000	People's Republic of China	Production and sale of glass products	**0%***	30%*
Hong Kong Strong Profit Limited *(See note vii below)*	Ordinary shares of 4,900 of HK$1 each	Hong Kong	Dormant	**49%**	49%

*: Held indirectly by the Company

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$279,782,601 (2008: HK$279,276,602). 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 losses 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 losses 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. The Company disposed of entire interests in Holygene in 2009.

(vi) DZGC is a joint venture with registered capital of US$10,673,000. The Company contributed US$3,202,000 for its 30% share. Full provision for impairment loss was made against this investment in 1998. The Company completed the disposal of its entire interests in DZGC in 2009.

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

All the above investments are regarded by the directors as associates as the 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 2009				
FSIL	**422,780**	**66,194**	**83,388**	**27,220**
Year 2008				
FSIL	343,295	34,426	25,639	(14,373)

17. Available-for-sale Financial Assets

	Group		Company	
	2009	2008	**2009**	2008
	US$	*US$*	***US$***	*US$*
As at 1 January	**38,144,369**	86,256,244	**33,019,804**	74,613,491
Additions	**10,094,179**	2,986,193	**10,094,179**	2,986,193
Disposals	**(8,792)**	—	**(8,792)**	—
Fair value gains/(losses) transfer to investment revaluation reserve	**37,367,145**	(43,880,711)	**34,267,234**	(36,605,176)
Impairment loss	**—**	(7,974,704)	**—**	(7,974,704)
Exchange difference	**4,355**	757,347	**—**	—
As at 31 December	**85,601,256**	38,144,369	**77,372,425**	33,019,804

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

Available-for-sale financial assets include the following:

	Group		Company	
	2009	2008	**2009**	2008
	US$	*US$*	***US$***	*US$*
Listed equity securities				
— Canada	**30,023**	12,364	**30,023**	12,364
— Mainland China	**74,622,494**	31,681,278	**74,622,494**	31,681,278
Unlisted equity securities	**10,948,739**	6,450,727	**2,719,908**	1,326,162
	85,601,256	38,144,369	**77,372,425**	33,019,804
Market value of listed securities	**74,652,517**	31,693,642	**74,652,517**	31,693,642

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	
	2009	2008	**2009**	2008
	US$	*US$*	***US$***	*US$*
Canadian dollars	**30,023**	12,364	**30,023**	12,363
Hong Kong dollars	**13,748,280**	1,326,162	**13,748,280**	1,326,162
Renminbi	**71,822,953**	36,805,843	**63,594,122**	31,681,279
	85,601,256	38,144,369	**77,372,425**	33,019,804

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

At 31 December 2009, 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 2009	Interest held 2008
Shandong Lukang Pharmaceutical Co., Ltd. ("Lukang")	People's Republic of China	Manufacture and sale of pharmaceutical products	63,658,800 foreign legal person shares #	**10.95%**	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. On 21 July 2009, the Company returned 26,252,698 shares to Lukang. On 30 September 2009, Shanghai Stock Exchange approved the floating application and allowed the Company to convert 58,157,548 non-floating foreign legal person shares to floating shares.

18. Loan Receivables

Loan receivables are denominated in the following currencies:

	Group		Company	
	2009	2008	**2009**	2008
	US$	*US$*	***US$***	*US$*
Renminbi	**8,375,886**	6,858,379	**1,463,089**	—
US dollars	**1,500,000**	1,500,000	**1,500,000**	1,500,000
	9,875,886	8,358,379	**2,963,089**	1,500,000
Provision for doubtful debt	**(439,023)**	(556,222)	**—**	—
Loans receivable — net	**9,436,863**	7,802,157	**2,963,089**	1,500,000
Less: non-current portion	**(6,471,930)**	(6,294,095)	**—**	—
Current portion	**2,964,933**	1,508,062	**2,963,089**	1,500,000

18. Loan Receivables *(Continued)*

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

	Group				Company	
	2009		2008		**2009**	2008
	RMB	***US$***	*RMB*	*US$*	***US$***	*US$*
Loan receivables	**8.08%**	**8.64%**	5.00%	9.75%	**8.64%**	9.75%

The carrying values of loan receivables approximate its fair value as at 31 December 2009. The maximum exposure to credit risk at the reporting date is the fair values (i.e. their carrying values) of the loans receivables. The loan receivables are secured by certain assets of the borrowers as stipulated in the respective loan agreement.

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

	Group	
	2009	2008
	US$	*US$*
At 1 January	**556,222**	—
Provision for doubtful debt	**—**	556,222
Reverse of impairment provision	**(117,199)**	—
At 31 December	**439,023**	556,222

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

19. Other Receivables, Prepayments and Deposits

	Group		Company	
	2009	2008	**2009**	2008
	US$	*US$*	***US$***	*US$*
Other receivables	**3,229,115**	2,688,603	**148,538**	4,565
Prepayments	**23,907**	5,806	**23,907**	5,806
Deposits	**55**	55	**55**	55
	3,253,077	2,694,464	**172,500**	10,426
Provision of doubtful debt	**(2,501,591)**	(2,501,591)	**—**	—
	751,486	192,873	**172,500**	10,426

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.

There was no movements on the Group's provision for doubtful debt for the year ended 31 December 2009 (2008: Nil).

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

20. Financial Assets at Fair Value Through Profit or Loss

	Group		Company	
	2009	2008	**2009**	2008
	US$	*US$*	***US$***	*US$*
Listed equity securities held for trading:				
— Hong Kong	**3,931,780**	2,764,553	**3,931,780**	2,764,553
— United States	**822,535**	2,167,089	**—**	718,455
Convertible note	**2,339,628**	—	**—**	—
	7,093,943	4,931,642	**3,931,780**	3,483,008
Market value of listed securities	**4,754,315**	4,931,642	**3,931,780**	3,483,008

Changes in fair values of these financial assets are recorded in "Other gains/(losses) — net" in the consolidated income statement (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 statement of cash flows (Note 25).

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

21. Cash and Cash Equivalents

	Group		Company	
	2009	2008	**2009**	2008
	US$	*US$*	***US$***	*US$*
Cash at bank and on hand	**6,616,419**	7,100,482	**6,005,812**	211,410
Short-term bank deposits	**24,461,948**	34,625,711	**11,221,713**	27,416,165
	31,078,367	41,726,193	**17,227,525**	27,627,575
Maximum exposure to credit risk	**31,077,092**	41,725,495	**17,227,525**	27,627,575

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	
	2009	2008	**2009**	2008
Short-term bank deposits	**0.03-1.71%**	0.05%-4.75%	**0.03%-0.39%**	0.05%-4.75%

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

	Group		Company	
	2009	2008	**2009**	2008
	US$	*US$*	***US$***	*US$*
United States dollars	**11,591,928**	10,428,065	**11,402,324**	10,230,080
Hong Kong dollars	**5,823,736**	17,397,495	**5,823,736**	17,397,495
Renminbi	**13,662,703**	13,900,633	**1,465**	—
	31,078,367	41,726,193	**17,227,525**	27,627,575

Renminbi is not a freely convertible currency.

22. Share Capital and Share Premium

	Group and Company	
	2009	2008
	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$0.10 each	Ordinary Shares	Share premium	Total
		US$	*US$*	*US$*
			(Note 23)	
Issued and fully paid:				
As at 31 December 2008 and 31 December 2009	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:

	2009		2008	
	Average exercise price in HK$ per Share	**Options (thousands)**	Average exercise price in HK$ per share	Options (thousands)
As at 1 January	**5.01**	**7,475**	5.02	7,550
Lapsed	**—**	**—**	5.74	(75)
As at 31 December	**5.01**	**7,475**	5.01	7,475

During the year, no share options were granted and exercised. The related weighted average share price at the time of exercise in 2009 was HK$5.01 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 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 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 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	8,329,658	44,823,659	131,819,025

23. Reserves *(Continued)*

Group *(Continued)*

	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 2009	69,059,844	7,678,491	1,927,373	8,329,658	44,823,659	131,819,025
Fair value gains of available-for-sale financial assets, net of deferred income tax	—	—	—	35,058,033	—	35,058,033
Share of post-acquisition reserves of associates	—	1,386,447	—	—	—	1,386,447
Release of capital reserve upon deemed disposal of partial interest of an associate	—	(26,135)	—	—	—	(26,135)
Exchange difference arising on translation of associates	—	(31,648)	—	—	—	(31,648)
Exchange difference arising on translation of a subsidiary	—	(4,251)	—	—	—	(4,251)
Profit attributable to shareholders	—	—	—	—	7,628,884	7,628,884
Release of investment revaluation reserve upon disposal of available for sale financial assets	—	—	—	(7,465)	—	(7,465)
As at 31 December 2009	69,059,844	9,002,904	1,927,373	43,380,226	52,452,543	175,822,890
Company and subsidiaries	69,059,844	(306,302)	1,927,373	43,380,226	8,516,950	122,578,091
Associates	—	9,309,206	—	—	43,935,593	53,244,799
	69,059,844	9,002,904	1,927,373	43,308,226	52,452,543	175,822,890

Note: Capital reserve includes exchange differences on translation of the financial statements of associates 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 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 gains 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
As at 1 January 2009	**69,059,844**	**1,927,373**	**20,927,971**	**3,485,733**	**95,400,921**
Realisation upon disposal of available-for-sale financial assets	**—**	**—**	**(7,037)**	**—**	**(7,037)**
Profit for the year	**—**	**—**	**—**	**3,461,771**	**3,461,771**
Fair value gains of available-for-sale financial assets, net of deferred income tax	**—**	**—**	**32,281,718**	**—**	**32,281,718**
As at 31 December 2009	**69,059,844**	**1,927,373**	**53,202,652**	**6,947,504**	**131,137,373**

24. Deferred Income Tax Liabilities

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

	Group		Company	
	2009	2008	**2009**	2008
	US$	*US$*	***US$***	*US$*
As at 1 January	**1,206,198**	5,460,376	**1,206,198**	4,284,797
Charged/(credited) to investment revaluation reserve	**2,307,185**	(4,254,178)	**1,985,086**	(3,078,599)
As at 31 December	**3,513,383**	1,206,198	**3,191,284**	1,206,198

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

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$85,257 (2008: US$193,557) in respect of losses amounting to US$516,707 (2008: 1,173,070) that can be carried forward against future taxable income. Such loss has no expiry date.

Deferred income tax liabilities of US$33,436 (2008: 144,303) 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 2009, total unremitted earnings amounted to US$668,716 (2008: 2,886,057).

25. Notes to Statement of Cash Flows

(a) Reconciliation of profit/(loss) before income tax to cash used in operations

	2009	2008
	US$	*US$*
Profit/(loss) before income tax	**7,736,683**	(18,704,297)
Share of (profits)/losses of associates	**(3,973,587)**	2,583,098
Impairment loss on investments in associates	**—**	9,791,983
Loss on deemed disposal of partial interest of an associate	**61,027**	68,750
Bank interest income	**(234,318)**	(832,940)
Loan interest income	**(724,418)**	(491,349)
Dividend income from investments	**(208,870)**	(3,679,869)
Gain on disposals of associates	**(359,646)**	—
Net realised gain on disposal of available-for-sale financial asset	**(5,431)**	—
Impairment loss on available-for-sale financial assets	**—**	7,974,704
Net realised (gains)/losses on disposal of financial assets at fair value through profit or loss	**(2,803,263)**	11,598
Net unrealised fair value (gains)/losses on financial assets at fair value through profit or loss	**(1,639,511)**	1,865,323
Provision for doubtful debt, net	**29,300**	556,222
Operating losses before working capital changes	**(2,122,034)**	(856,777)
Increase in loan receivables	**(1,664,006)**	(5,648,647)
(Increase)/decrease in other receivables, prepayments and deposits	**(558,613)**	353,189
Decrease/(increase) in financial assets at fair value through profit or loss	**2,280,473**	(2,696,575)
(Decrease)/increase in amounts due to related companies	**(662)**	86
Decrease in accounts payable	**(40,259)**	(16,450)
(Decrease)/increase in accrued expenses	**(14,404)**	60,923
Cash used in operations	**(2,119,505)**	(8,804,251)

25. Notes to Statement of Cash Flows *(Continued)*

(b) Disposal of associates

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

	As at date of disposal 2009
	US$
Cash consideration	**376,455**

26. Capital Commitments

There was no capital commitment of the Group that was contracted but not provided for as at 31 December 2009 (2008: Nil).

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

	2009	2008
	US$	*US$*
Contracted but not provided for	**4,742,452**	6,646,033
Authorised but not contracted	**25,340,996**	16,953,186

The Company did not have any other material commitments at 31 December 2009 (2008: Nil).

27. Related Party Transactions

(a) Transactions with related parties

	2009 US$	2008 US$
Management fee paid/payable to:		
CAIML	**1,553,337**	1,886,064

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

	2009 US$	2008 US$
Salaries and other short-term employee benefits	**153,341**	153,330
Pension costs — defined contribution plan	**1,272**	1,267
	154,613	154,597

(c) As at 31 December 2009, management fee payable to CAIML amounted to US$8,645 (2008: US$9,307). The balance was denominated in United States dollars, unsecured and interest-free.

(d) The Group disposed of 30% equity interests in Holygene Corporation to First Shanghai Investments Limited, an associate of the Group, at consideration of HK$10,000 which was mutually agreed by both parties.

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

Five Year Financial Summary

	2009	2008	2007	2006	2005
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Consolidated income statement					
Income	**1,168**	5,004	1,393	663	470
Profit/(loss) attributable to equity holders of the Company	**7,629**	(19,474)	9,422	3,586	13,873
Consolidated balance sheet					
Investments in associates	**54,380**	49,264	65,243	59,456	49,116
Available-for-sale financial assets	**85,601**	38,144	86,256	32,205	19,550
Other non-current assets	**6,471**	6,294	—	1,921	—
Current assets	**41,889**	48,359	58,305	46,444	54,079
	188,341	142,061	209,804	140,026	122,745
Current liabilities	**(1,349)**	(1,380)	(929)	(339)	(419)
Deferred income tax liabilities	**(3,513)**	(1,206)	(5,460)	—	—
	183,479	139,475	203,415	139,687	122,326
Financed by:					
Share capital	**7,656**	7,656	7,656	7,571	7,440
Reserves	**175,823**	131,819	195,759	132,116	114,886
	183,479	139,475	203,415	139,687	122,326