CHINA ASSETS (HOLDINGS) LIMITED

(Stock Code: 170)

ANNUAL REPORT

2010

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Corporate Information

Board of Directors

Executive Directors
Mr. Lo Yuen Yat *(Chairman)*
Mr. Chan Suit Khown
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

Mr. Cheng Sai Wai

Audit Committee

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

Remuneration Committee

Mr. Lo Yuen Yat
Mr. Fan Jia Yan
Mr. Wu Ming Yu

Solicitor

Victor Chu & Co.

Auditor

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

Bankers

Bank of China (Hong Kong) Limited
CITIC Bank International Limited
The Hongkong and Shanghai Banking Corporation Limited
Standard Chartered Bank

Custodian

Citibank, N.A., Hong Kong Branch

Registrar

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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 2010. The Group's consolidated net profit for the year ended 31 December 2010 was US$4.10 million and consolidated net asset value as at 31 December 2010 was US$197.44 million, representing US$2.58 per share.

Business Review

The global economy marked a second year of recovery from the financial crisis and major financial markets drove higher in 2010. This was the result of the continued stimulative strategies by governments and central banks around the globe to keep their economies afloat. The global stock market got a boost in the latter part of the year when the Federal Reserve implemented its second round of quantitative easing and the intensity of the European debt crisis eased, thus helping the Dow Jones Industrial Average to gain 11% to 11,577 for the bumpy year.

The Chinese economy, buoyed by ample lending and significant state investment projects, powered ahead last year and grew at 10.3% in the full year, overtaking Japan to become the world's second-largest after the United States. China inflation accelerated and was 5.1% in November last year. The Central Bank of China took a series of incremental steps to tighten growth of excessive credit expansion and curb inflation by hikes in interest rates and the reserve requirement ratio for state-controlled banks. The tightening measures depressed the stock markets in China and Hong Kong where the Shanghai Composite Index fell by 14% while Hong Kong Heng Seng index gained an unimpressive 4.5% compared with the rest of the globe.

As a direct result of ample liquidity and ultra-low interest rates, prices of economically sensitive commodities climbed when crude oil prices gained 15% and gold rose by nearly 30% in the year. The demand on commodities would be unabated as long as China and other emerging countries continued their rapid growth.

Under the above macro-environment, the Group recorded a profit of US$4.10 million for 2010. The consolidated net asset value increased by US$13.97 million to US$197.44 million as at 31 December 2010. The operational result and the change of net asset value were mainly attributed to profit on disposal of portion of the holdings in Shandong Lukang Pharmaceutical Co. Ltd. ("Lukang") and its related unrealised gain at year end. It was however negatively impacted by a major impairment loss on a loan receivable from UniMedia Ltd. ("UniMedia").

Despite the fall of the stock market in China, the Group's major investment in Lukang, through improved product mix and effective cost control, reported an exciting 2010 annual result of net profit of RMB133.83 million (approximately US$20.36 million), driving its share price from RMB6.82 per share as at 31 December 2009 to RMB8.51 per share as at 31 December 2010. It thereby credited an unrealised fair value gain of approximately US$18.68 million to the investment revaluation reserve. During the year, the Company sold 5.6 million shares of Lukang at an average price of RMB9.51 per share contributing a realised disposal profit of US$7.14 million.

During the year, the Group made full provision of US$6.91 million on loan and interest receivable from UniMedia which was engaged in provision of outdoor media services by installing advertising poster frames at each floor of selected commercial buildings across China. UniMedia was unable to meet its budget and continued to record operating losses due to the lack of appeal of this business model to advertisers. Although UniMedia actively looked for new investors, it encountered serious difficulties due to its own worsening financial situation and the negative outlook on the outdoor media industry in China. UniMedia ceased operation in October last year.

The company's major associate, First Shanghai Investments Limited, reported net profit attributable to shareholders of HK$114.37 million (approximately US$14.69 million) for the year, representing a decrease of 39.13% from previous year due to the decrease in income from its securities trading.

The investment manager has been actively seeking new investment opportunities and in the year committed two investments which are (i) RMB30 million, representing 6% indirect interest, in Ganzhou Red Stone Mineral Investment Fund, Limited Partnership which mainly invests in mineral, energy or related industries in the PRC and which would benefit from the strong demand generated by growing emerging economies and (ii) RMB50 million, representing 20% indirect equity interest, in Shanghai International Medical Centre Investment Management Co. Ltd ("SIMC") which is to develop a Shanghai International Medical Centre, a high-end hospital to be located in Pudong, Shanghai, to provide comprehensive high-end health care services.

Economic Outlook

In the United States, it is anticipated the economy will grow stronger this year, though high unemployment, a depressed housing industry and other problems could dampen growth. Most economists however agree that the threat of a double dip has passed.

Meanwhile, China's economy in 2011 could be complicated and the major concern is inflation which has accelerated as a result of massive monetary expansion in 2008. It has been further pushed up by intense wage increase and price competition among goods manufacturers, and intensified by the agricultural sector which was aggravated by adverse weather. To combat inflation, the Chinese Government is expected to continue the existing measures of periodic increments on bank reserve ratio and interest rates. With rising political pressure on its currency due to its trade surplus, China could allow the Renminbi to strengthen gradually to lessen the friction with its trading partners. To avoid the emerging bubble in its housing market, China could maintain or even initiate a further round of restrictive measures on housing and put price controls on selective basic commodities to alleviate a surge in the CPI. These macroeconomic regulations and controls would inevitably slow down the growth of the economy but given that job creation has been stagnant in the United States and growth flatten in the Eurozone, the measures would not be too aggressive for fear of cooling the economy too rapidly. As was the case last year, China would steer its economic growth more internally by expansion of domestic consumption and investment, avoiding too much reliance on its exports as a growth engine.

Chairman's Statement

Japan's recent 9.0 magnitude devastating earthquake, tsunami and the consequent nuclear crisis have added a new set of uncertainties to the global economy, at least in the short run, and its aftermath effects will ripple across Asia in the coming months. It is expected the growth in Asia will be revised downward. In China, government officials and analysts believe its economy would be only marginally affected. If events point to any major slowdown of the economy, it is anticipated China may re-tune its monetary tightening actions so as to keep the momentum of its economy going forward without major disruption.

2011 will be more challenging than had been expected, especially due to the uncertainties arising from the Japan earthquake. Nonetheless, despite these various intriguing factors, it is likely that China will still be able to grow at 8%-9% this year, the consensus estimate of most economists, and its economy will support a better financial market performance against 2010 even though high volatility is inevitable.

Liquidity and Financial Resources

The financial position of the Group was healthy throughout the year. As at 31 December 2010, the Group had cash and cash equivalents of US$30.25 million (2009: US$31.08 million), of which US$22.90 million (2009: US$13.66 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 the US dollar remained stable during the year.

Employees

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

Prospects

In the past few years, the Group devoted most of its available resources to start-ups which were mostly related to internet or media industries favoured by the market. The emphasis inevitably increased the risk profile of the investment portfolio as evidenced by the fluctuating operational performance in previous years. To alleviate the risk profile, the Group has gradually started to re-balance the portfolio by less reliance on start-up opportunities and shifted resources to investment opportunities which would be either in the revenue stage or had a proven business model.

Even though the Group has not restricted its area of investments, it believes that, in view of the growing affluence of the middle class in China, a strategy to focus on the various service industries satisfying the higher demands of this demographic should be emphasized. One area the Group is pursuing is medical-related industries on which the Central Government has recently relaxed foreign capital investment restrictions. In addition to the investment in SIMC reported above, the Group is actively searching and currently in discussion with several potential projects related to the medical industry.

Chairman's Statement

Following our new emphasis on revenue stage investment opportunity, the Group invested US$7.3 million in February 2011 for 6.6% of common equity in a China mobile handset design and development company which has had remarkable operational results with solid growth in the past few years.

It is well known that the private equity industry in China is now flush with cash. The competition between various private equity funds has occasionally resulted in valuations not supported by fundamentals. Nonetheless, the investment manager, having demonstrated its professionalism and strong experience, is expanding its local network to source targets appropriate to the investment criterion of the Group. I believe that with the relatively even distribution of the risk profile of various stages of our investment portfolio, the Group's investment cycle will move forward smoothly, backing the healthy and stable growth of the operation.

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
Lo Yuen Yat
Chairman
Hong Kong, 24 March 2011

Investments

Major Long-term Investments as at 31 December 2010

Name	Nature of business	% of total issued capital %	Invested amount *US$*	Impairment loss *US$*	Carrying value *US$*	% of total asset value %	Dividend received *US$*
Investment in associates							
First Shanghai Investments Limited	Investment holding	17.71	13,770,330	0	56,427,526	27.32	381,757
Shanghai International Medical Centre Investment Management Co., Ltd.	Provision of medical services	**20.00	1,520,959	0	1,520,959	0.74	0
Smartbuy Group Holdings Limited	Provision of sale of product and service through internet and terminals	30.00	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	9.98	8,750,181	0	75,136,028#	36.38	0
China Pacific Insurance (Group) Co., Ltd.	Provision of insurance service and management of insurance funds	0.03	10,094,180	0	11,486,123#	5.56	109,514
Red Stone Fund	Investment holding	**6.00	2,205,299	0	2,281,439#	1.10	0
PingAn Defeng Collective Fund Trust Plan	Investment fund	N/A	6,940,436	0	8,137,890#	3.94	0
China Alpha Fund	Investment fund	N/A	1,280,443	0	3,031,097#	1.47	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			63,285,626	18,723,798	158,021,062	76.51	491,271

* 13% are non-voting shares
** indirect interest
# also represent their fair values

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$*	% of total asset value %	Dividend received *US$*
Investment in associates							
First Shanghai Investments Limited	Investment holding	17.71	13,770,330	0	54,379,517	28.87	0
Smartbuy Group Holdings Limited	Provision of sale of product and service through internet and terminals	30.00	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#	33.77	0
China Pacific Insurance (Group) Co., Ltd.	Provision of insurance service and management of insurance funds	0.03	10,094,180	0	11,028,371#	5.86	0
PingAn Defeng Collective Fund Trust Plan	Investment fund	N/A	6,940,436	0	8,228,831#	4.37	0
China Alpha Fund	Investment fund	N/A	1,280,443	0	2,719,907#	1.44	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	139,950,748	74.31	0

* 13% are non-voting shares
** indirect interest
# also represent their fair values

Investments

Other Major Investments as at 31 December 2010

Name	Nature of business	Number of shares held	% of total issued capital %	Cost US$	Market value US$	% of total 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	3,751,527	1.82	0
Industrial and Commercial Bank of China Ltd.	Provision of personal and corporate commercial banking services in China	1,849,650	0.00	784,824	1,375,955	0.67	39,734
HSBC Holdings PLC	Provision of international banking and financial services	114,833	0.00	1,188,553	1,175,875	0.57	25,812
Total				4,173,377	6,303,357	3.06	65,546

Other Major Investments as at 31 December 2009

Name	Nature of business	Number of shares held	% of total issued capital %	Cost US$	Market value US$	% of total 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	1.24	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	0.78	38,482
KongZhong Corporation	Provision of wireless value-added services	66,387 ADS	0.19	22,761	822,535	0.44	0
China Telecom Corporation Ltd.	Provision of basic telecommunications services	1,800,000	0.01	1,285,826	752,031	0.40	17,745
HSBC Holdings PLC	Provision of international banking and financial services	45,200	0.00	658,482	738,175	0.39	21,952
Total				4,916,178	6,122,234	3.25	78,179

Investments

Major Long-Term Investments

Investments in associates

First Shanghai Investments Limited ("FSIL")

FSIL reported a net profit of HK$114.37 million (approximately US$14.69 million) for 2010, compared to the net profit of HK$187.89 million (approximately US$24.23 million) for 2009. The result was mainly contributed by the revaluation gain from its investment properties offset by a drop in the gain from its security trading in the year under review.

Shanghai International Medical Center Investment Management Company Limited ("SIMC")

SIMC was founded by Shanghai International Medical Zone Group Company Limited, a company wholly owned by local government, to establish a 500-bed class-A hospital in Pudong, Shanghai in Shanghai International Medical Zone, a zone specifically reserved for development of all medical related services in the area of Nanhui, to provide high-end medical services to foreign expatriates stationed in Shanghai and adjacent regions and local high income residents. With full supports from Shanghai municipal government and Ministry Of Health, SIMC has locked up various resources including land, medical resource of famous doctors, physicians and experts from Shanghai Jiao Tong University Medical School and has entered into a management contract with the Parkway (Shanghai) Hospital Management Ltd, a subsidiary of Parkway Group Healthcare Pte. Ltd in Singapore, which is the largest and most experienced hospital management company in Asia, to bring in international medical standard and expertise on the management of modern hospital.

The Group has acquired 20% indirect equity of SIMC for a consideration of US$7.60 million (RMB50 million) of which US$1.52 million (RMB10 million) has been paid.

The hospital of SIMC is planned to be completed in 2013. Currently, the hospital is undergoing various governmental approval procedures and design work is in progress concurrently. It is expected construction work will commence before the end of 2011.

Available-for-sale financial assets

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

During the year, Lukang continued the optimization of its products mix and the expansion of its product lines for higher margin products which strategy had been proven fruitful which saw the growth on the sale of pharmaceuticals for veterinary very impressive. It also continued its effort on the improvement of the efficiency of production lines achieving significant progress on the reduction of energy usage. Lukang achieved a very outstanding performance for 2010 and its net profit jumped to RMB133.83 million, an 229% increase from RMB40.68 million in 2009.

Investments

In June 2010, Lukang entered into strategic cooperation framework agreement with the government of Zoucheng City, Shandong to set up a bio-pharmaceutical industrial park. The project will be implemented in different phases and expected total investment is up to RMB3.5 billion. The government of Zhoucheng City will provide various favorable terms to facilitate Lukang to develop its bio-pharmaceutical business in the new park.

The Group sold 5.6 million shares of Lukang at an average price of RMB9.51 per share during the year, realizing a profit of US$7.14 million. As at 31 December 2010, the Group held 58.05 million shares in Lukang of which 5,501,322 were restricted shares which could be released for trading upon the application by the Group.

Share price of Lukang closed at RMB8.51 at the end of 2010 and the highest and lowest closing price in 2010 were RMB11.6 and RMB5.9 respectively. As at 31 December 2010, the fair value of Lukang was stated as US$75.14 million and the unrealised fair value gain (net) of US$18.68 million was transferred to the investment revaluation reserve.

Red Stone Fund ("RS Fund")

RS Fund was set up in Ganzhou, Jiangxi Province as a limited partnership in January 2010 in accordance with the PRC Limited Partnership Law. The aim of RS Fund is to invest in mineral, energy or related industries in the PRC and its size is RMB500 million.

During the year, the Group committed to invest indirectly a total of RMB30 million in RS Fund and the first subscription of RMB15 million (approximately US$2.21 million) was paid by the Group in February 2010.

In 2010, RS Fund invested 14.4% equity in Ganxian Shirui New Material Company Limited for RMB100 million and 12.5% equity in Ganzhou Chenguang Rare Earths New Material Company Limited for RMB73.5 million. Both investments had reported satisfactory operational results in the year.

In accordance with the independent valuation, the fair value of the RS Fund was RMB15 million as at 31 December 2010.

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. Affected by the poor performance and also the diversity of individual sectors of the stock market in China, the market prices of PingAn Trust and China Alpha performed differently when PingAn Trust recorded a slight drop of 1% whilst China Alpha instead grew by 11% in their net asset values respectively. As a result, unrealized fair value loss of US$0.09 million and gain of US$0.31 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 2009, the Group acquired convertible note of US$2.20 million issued by Holygene in order to finance its EPO certification.

During the year, Holygene continued its application process for EPO certification. Positive results were received from comparable studies but the whole application schedule was expected to be prolonged for 6 months as a result of production delay from its contractor.

In accordance with the independent valuation, the Group recorded a fair value gain of US$1.41 million on the convertible note, which was included in the consolidated income statement for the year.

Investment For Which Full Provisions Had Been Made

Other investment

Loans receivable

UniMedia Ltd. ("UniMedia")

UniMedia was engaged in outdoor media business with a business model to place advertising poster frames at commercial buildings in major cities across China. After set-up in 2007, UniMedia expanded rapidly and installed nearly 70,000 frames in over 10 major cities in China. The revenue had been very unsatisfactory and it encountered liquidity problem at the end of 2009 and the Group's investment of US$6.47 million was converted to loan after the Group decided not to provide additional funding to UniMedia. During the year, UniMedia incurred additional losses and cashflow dried up rapidly due to the too aggressive expansion in the early stage. The Group had provided input on the adjustment to the business model and tried to help bring in new investors for funding but without success caused by the then overall negative outlook on outdoor media industry in China. In view of its worsening financial position and continuing losses, the Group made the full provision for the loan and interest receivable and incurred impairment losses of US$6.91 million in total. Due to the lack of funding, UniMedia ceased its operation in October 2010.

Investments

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 in the last quarter of 2009 and ceased operation in 2010. The Group initiated legal proceedings against Smartbuy to recover any remaining assets available but the progress had been slowed and it was anticipated the amount, if recovered, would not be significant. A full provision of US$6.3 million and US$0.15 million were made against the investment and loan receivable respectively in previous years.

Available-for-sale financial assets

Canton Property Investment Ltd. ("Canton Property")

The Group continued to follow up with the provisional liquidators of Canton Property about its latest status. 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 was provided against the investment in 2008.

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

Operation of Beijing PanAm was suspended totally and a full provision of US$1.7 million was made by the Group in 2007. It was revealed that the entire operation was ceased in 2009.

Biographical Details of Directors

Mr. LO Yuen Yat, aged 65, 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. Lo 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. Lo graduated from Fudan University in Shanghai and obtained his master's degree from Harvard University.

Mr. CHAN Suit Khown, aged 56, has been a director since January 2011. Mr. Chan is an executive director of the Company. He is also the chief investment officer of CAIML since June 2009. Mr. Chan has a broad base experience covering venture capital, investment banking as well as start-up and operation management. Mr. Chan was with Advent International ("Advent"), a global venture capital firm based in Boston for eleven years. At Advent, he specialized in cross border investments as well as financial and investment advisory services. Mr. Chan graduated from the University of Malaya with a Bachelor's degree in Mechanical Engineering and the Harvard Business School with an MBA.

Mr. XU Xiao Feng, aged 44, has been as a director since 2006. He is also the director and shareholder of CAIML. Prior to joining the Company, he was 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 32, 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. Lo Yuen Yat.

Mr. JIANG Wei, aged 48, has been a director since 1996. He is currently the director, vice president of China Resources (Holdings) Company Limited and China Resources National Corporation. Mr. Jiang is an executive director of Cosmos Machinery Enterprises Limited and an independent non-executive director of Greentown China Holdings Limited. He 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 49, 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 66, 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 64, has been a director since 1999. Mr. Fan is an independent non-executive director of the Company. He is a special adviser of CITIC Bank International 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 79, 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, Zhongqing University and the Beijing Institute of Technology. He had published numerous research papers and was instrumental in formulating China's policy on science and technology.

Dr. David William Maguire, aged 58, has been a director since 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 2010 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 2010, 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 2010.

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 2010, 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 2010 and up to the date of this report are set out as follows:

Executive Directors:

Mr. Lo Yuen Yat, *Chairman*
Mr Chan Suit Khown (appointed on 1 January 2011)
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. Lo Yuen Yat, there is no relationship among the directors of the Company.

Board of Directors *(Continued)*

Composition *(Continued)*

The Chairman of the Board is Mr. Lo Yuen Yat 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 held four board meetings during the year ended 31 December 2010. 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 2010 is set out as follows:

Name of Director	Attendance
Mr. Lo Yuen Yat	4/4
Mr. Xu Xiao Feng	4/4
Ms. Lao Yuan Yuan	4/4
Mr. Jiang Wei	1/4
Mr. Yeung Wai Kin	4/4
Mr. Zhao Yu Qiao	1/4
Mr. Fan Jia Yan	4/4
Mr. Wu Ming Yu	3/4
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 2010, the Remuneration Committee was composed of three members of whom one Executive Director, Mr. Lo Yuen Yat and two Independent Non-executive Directors, Mr. Fan Jia Yan and Mr. Wu Ming Yu. The Remuneration Committee was chaired by Mr. Lo Yuen Yat.

The Remuneration Committee held one meeting to discuss the remuneration related matters during the year ended 31 December 2010. The individual attendance of each member at the committee meeting for the year ended 31 December 2010 is set out as follows:

Name of Director	**Attendance**
Mr. Lo Yuen Yat	1/1
Mr. Fan Jia Yan	1/1
Mr. Wu Ming Yu	1/1

Audit Committee

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

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

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 held three meetings during the year ended 31 December 2010. The individual attendance of each member at the committee meetings for the year ended 31 December 2010 is set out as follows:

Name of Director	**Attendance**
Mr. Fan Jia Yan	3/3
Mr. Wu Ming Yu	2/3
Mr. Yeung Wai Kin	3/3

Auditor's Remuneration

The following is a schedule setting out the remuneration in respect of the audit and non-audit services provided by the external auditors, PricewaterhouseCoopers to the Company and the Group during the year ended 31 December 2010:

	US$
Annual audit fee	158,170
Non-audit fee	1,927
	160,097

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 Consolidated Financial Statements

The directors acknowledge their responsibilities for preparing the Consolidated 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 Investment Manager.

The Investment Committee currently consists of five members and all are also the directors of the Company.

Report of the Directors

The directors submit their report together with the audited consolidated financial statements for the year ended 31 December 2010.

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 2010.

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

Details of 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 2010 amount to US$4,807,066 (2009: US$6,947,504).

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 90.

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. Lo Yuen Yat
Mr. Chan Suit Khown (appointed on 1 January 2011)
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*

Mr. Chan Suit Khown was newly appointed as an Executive Director of the Company on 1 January 2011. In accordance with article 90 of the Articles of Association of the Company, Mr. Chan will hold office until the forthcoming Annual General Meeting and shall be eligible for re-election.

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

Directors' Service Contracts

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

Biographical Details of Directors

Brief biographical details of directors are set out on pages 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 2010, the Amended Management Agreement was renewed for another term of 2 years to 31 December 2012. 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 2010. On the other hand, the Company is a substantial shareholder of FSIL holding approximately 17.71% equity interests in FSIL as at 31 December 2010.

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. Lo Yuen Yat 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 2010 are as follows:

	Options held at 1 January 2010	Options held at 31 December 2010	Exercise price *HK$*	Closing price before the date of grant *HK$*	Date of grant	Exercise period
Directors:						
Lo Yuen Yat	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 Executive's Interest and Short Positions in the Shares, Underlying Shares and Debentures of the Company and its Associated Corporations

As at 31 December 2010, the interests and short positions of the Directors and the chief executive 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**
Lo Yuen Yat	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 2010, 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 2010, 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 2010.

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.

Event After the Balance Sheet Date

Details of event after the balance sheet date are set out in Note 28 to the consolidated financial statements.

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

Lo Yuen Yat
Chairman

Hong Kong, 24 March 2011

Independent Auditor's Report

羅兵咸永道會計師事務所

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TO THE SHAREHOLDERS OF CHINA ASSETS (HOLDINGS) LIMITED

(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of China Assets (Holdings) Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 31 to 89, which comprise the consolidated and company balance sheets as at 31 December 2010, 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 information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 about whether the consolidated 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 consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 consolidated 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 2010, 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, 24 March 2011

Consolidated Income Statement

For the year ended 31 December 2010

	Notes	2010 US$	2009 US$
Income	7	**1,512,088**	1,167,606
Other gains — net	8	**8,872,110**	4,755,898
Other expenses — net	9	**(6,126,611)**	(29,300)
Administrative expenses	10	**(2,289,247)**	(2,131,108)
Operating profit		**1,968,340**	3,763,096
Share of profit of associates		**2,920,312**	3,973,587
Profit before income tax		**4,888,652**	7,736,683
Income tax expense	12	**(790,208)**	(107,799)
Profit attributable to equity holders of the Company	13	**4,098,444**	7,628,884
Earnings per share for profit attributable to the equity holders of the Company	14		
— Basic		**0.054**	0.100
— Diluted		**0.053**	0.099
Dividend		**—**	—

The notes on pages 37 to 89 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

	2010	2009
	US$	*US$*
Profit for the year	**4,098,444**	7,628,884
Other comprehensive income:		
Share of post-acquisition reserves of associates	**(278,904)**	1,386,447
Exchange differences arising on translation of associates and subsidiaries	**458,830**	(35,899)
Release of capital reserve upon deemed disposal of partial interest in an associate	**—**	(26,135)
Release of investment revaluation reserve upon disposal of available-for-sale financial assets	**(5,695,386)**	(7,465)
Fair value gains of available-for-sale financial assets, net of deferred income tax	**15,382,834**	35,058,033
Other comprehensive income for the year	**9,867,374**	36,374,981
Total comprehensive income for the year	**13,965,818**	44,003,865
Attributable to:		
Equity holders of the Company	**13,965,818**	44,003,865

The notes on pages 37 to 89 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

As at 31 December 2010

	Notes	2010 US$	2009 US$
ASSETS			
Non-current assets			
Investments in associates	16	**57,948,485**	54,379,517
Available-for-sale financial assets	17	**100,112,754**	85,601,256
Loans receivable	18	**—**	6,471,930
		158,061,239	146,452,703
Current assets			
Loans receivable	18	**7,965,991**	2,964,933
Other receivables, prepayments and deposits	19	**1,560,035**	751,486
Financial assets at fair value through profit or loss	20	**8,674,035**	7,093,943
Cash and cash equivalents	21	**30,247,889**	31,078,367
		48,447,950	41,888,729
Total assets		**206,509,189**	188,341,432
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	22	**7,655,816**	7,655,816
Reserves	23	**189,788,708**	175,822,890
Total equity		**197,444,524**	183,478,706
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	24	**6,937,960**	3,513,383
Current liabilities			
Accounts payable		**149,715**	141,646
Accrued expenses		**148,838**	141,755
Amounts due to related companies	27	**308,045**	309,598
Current income tax liabilities		**1,520,107**	756,344
		2,126,705	1,349,343
Total liabilities		**9,064,665**	4,862,726
Total liabilities and equity		**206,509,189**	188,341,432
Net current assets		**46,321,245**	40,539,386
Total assets less current liabilities		**204,382,484**	186,992,089

Lo Yuen Yat
Director

Chan Suit Khown
Director

The notes on pages 37 to 89 are an integral part of these consolidated financial statements.

Balance Sheet

As at 31 December 2010

	Notes	2010 US$	2009 US$
ASSETS			
Non-current assets			
Investments in subsidiaries	15	**21,655,887**	27,136,548
Investments in associates	16	**13,770,330**	13,770,330
Available-for-sale financial assets	17	**91,974,864**	77,372,425
		127,401,081	118,279,303
Current assets			
Loans receivable	18	**7,540,123**	2,963,089
Other receivables, prepayments and deposits	19	**1,214,038**	172,500
Financial assets at fair value through profit or loss	20	**4,451,824**	3,931,780
Cash and cash equivalents	21	**15,162,620**	17,227,525
		28,368,605	24,294,894
Total assets		**155,769,686**	142,574,197
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	22	**7,655,816**	7,655,816
Reserves	23	**139,655,958**	131,137,373
Total equity		**147,311,774**	138,793,189
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities	24	**6,638,596**	3,191,284
Current liabilities			
Accounts payable		**149,672**	138,716
Accrued expenses		**148,481**	141,410
Amounts due to subsidiaries and related companies	27	**807,335**	309,598
Current income tax liabilities		**713,828**	—
		1,819,316	589,724
Total liabilities		**8,457,912**	3,781,008
Total liabilities and equity		**155,769,686**	142,574,197
Net current assets		**26,549,289**	23,705,170
Total assets less current liabilities		**153,950,370**	141,984,473

Lo Yuen Yat
Director

Chan Suit Khown
Director

The notes on pages 37 to 89 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the Year Ended 31 December 2010

	Share capital *US$*	Share premium *US$*	Capital reserve *US$*	Exchange translation reserve *US$*	Share-based compensation reserve *US$*	Investment revaluation reserve *US$*	Retained earnings *US$*	Total *US$*
As at 1 January 2010	**7,655,816**	**69,059,844**	**8,304,329**	**698,575**	**1,927,373**	**43,380,226**	**52,452,543**	**183,478,706**
Profit attributable to equity holders of the Company	**—**	**—**	**—**	**—**	**—**	**—**	**4,098,444**	**4,098,444**
Share of post-acquisition reserves of associates	**—**	**—**	**(278,904)**	**—**	**—**	**—**	**—**	**(278,904)**
Exchange difference arising on translation of associates and subsidiaries	**—**	**—**	**—**	**458,830**	**—**	**—**	**—**	**458,830**
Fair value gains of available-for-sale financial assets	**—**	**—**	**—**	**—**	**—**	**19,450,350**	**—**	**19,450,350**
Deferred income tax on fair value gains of available-for-sale financial assets	**—**	**—**	**—**	**—**	**—**	**(4,067,516)**	**—**	**(4,067,516)**
Release of investment revaluation reserve upon disposal of available-for-sale financial assets	**—**	**—**	**—**	**—**	**—**	**(5,695,386)**	**—**	**(5,695,386)**
As at 31 December 2010	**7,655,816**	**69,059,844**	**8,025,425**	**1,157,405**	**1,927,373**	**53,067,674**	**56,550,987**	**197,444,524**

	Share capital *US$*	Share premium *US$*	Capital reserve *US$*	Exchange translation reserve *US$*	Share-based compensation reserve *US$*	Investment revaluation reserve *US$*	Retained earnings *US$*	Total *US$*
As at 1 January 2009	7,655,816	69,059,844	6,944,017	734,474	1,927,373	8,329,658	44,823,659	139,474,841
Profit attributable to equity holders of the Company	—	—	—	—	—	—	7,628,884	7,628,884
Share of post-acquisition reserves of associates	—	—	1,386,447	—	—	—	—	1,386,447
Exchange difference arising on translation of associates and subsidiaries	—	—	—	(35,899)	—	—	—	(35,899)
Release of capital reserve upon deemed disposal of partial interest in an associate	—	—	(26,135)	—	—	—	—	(26,135)
Release of investment revaluation reserve upon disposal of available-for-sale financial assets	—	—	—	—	—	(7,465)	—	(7,465)
Fair value gains of available-for-sale financial assets	—	—	—	—	—	37,371,500	—	37,371,500
Deferred income tax on fair value gains of available-for-sale financial assets	—	—	—	—	—	(2,313,467)	—	(2,313,467)
As at 31 December 2009	7,655,816	69,059,844	8,304,329	698,575	1,927,373	43,380,226	52,452,543	183,478,706

The notes on pages 37 to 89 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the Year Ended 31 December 2010

	Notes	2010 US$	2009 US$
Cash flows from operating activities			
Cash used in operations	25	**(7,586,195)**	(2,119,505)
Hong Kong profits tax paid		**(283)**	—
Overseas profit tax paid		**(56,378)**	(83,453)
Net cash used in operating activities		**(7,642,856)**	(2,202,958)
Cash flows from investing activities			
Interest received		**1,304,767**	958,736
Dividends received from associates		**381,757**	108,946
Dividends received from listed investments		**207,321**	208,870
Investment in an associate		**(1,520,959)**	—
Purchase of available-for-sale financial assets		**(2,205,299)**	(10,094,179)
Net proceed from disposals of associates		**—**	376,455
Net proceed from disposal of available-for-sale financial assets		**7,982,299**	6,757
Net cash generated from/(used in) investing activities		**6,149,886**	(8,434,415)
Net decrease in cash and cash equivalents		**(1,492,970)**	(10,637,373)
Cash and cash equivalents at beginning of year		**31,078,367**	41,726,193
Currency translation differences		**662,492**	(10,453)
Cash and cash equivalents at end of year	21	**30,247,889**	31,078,367

The notes on pages 37 to 89 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 is listed 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 24 March 2011.

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

The consolidated financial statements of China Assets (Holdings) Limited have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by available-for-sale financial assets and financial assets at fair value through profit or loss.

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

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

(a) Basis of preparation *(Continued)*

(i) The following new and amended standards, and interpretations are mandatory for the first time for the financial year beginning 1 January 2010 but not currently relevant to the Group (although they may affect the accounting for future transactions and events).

- HKFRS 3 (revised), "Business combinations", and consequential amendments to HKAS 27, "Consolidated and separate financial statements", HKAS 28, "Investments in associates", and HKAS 31, "Interests in joint ventures", are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with HKFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the statement of comprehensive income. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are expensed.

- HK(IFRIC) 17, "Distribution of non-cash assets to owners", effective on or after 1 July 2009. The interpretation was published in November 2008. This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. HKFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable.

- HK(IFRIC) 18, "Transfers of assets from customers", effective for transfer of assets received on or after 1 July 2009. This interpretation clarifies the requirements of HKFRS for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water). In some cases, the entity receives cash from a customer that must be used only to acquire or construct the item of property, plant, and equipment in order to connect the customer to a network or provide the customer with ongoing access to a supply of goods or services (or to do both).

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

(a) Basis of preparation *(Continued)*

(i) The following new and amended standards, and interpretations are mandatory for the first time for the financial year beginning 1 January 2010 but not currently relevant to the Group (although they may affect the accounting for future transactions and events). *(Continued)*

- HK(IFRIC) 9, "Reassessment of embedded derivatives and HKAS 39, Financial instruments: Recognition and measurement", effective 1 July 2009. This amendment to HK(IFRIC) 9 requires an entity to assess whether an embedded derivative should be separated from a host contract when the entity reclassifies a hybrid financial asset out of the "fair value through profit or loss" category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. If the entity is unable to make this assessment, the hybrid instrument must remains classified as at fair value through profit or loss in its entirety.

- HK(IFRIC) 16, "Hedges of a net investment in a foreign operation", effective 1 July 2009. This amendment states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the Group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of HKAS 39 that relate to a net investment hedge are satisfied. In particular, the Group should clearly document its hedging strategy because of the possibility of different designations at different levels of the Group.

- HKAS 38 (amendment), "Intangible assets", effective 1 January 2010. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives.

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

(a) Basis of preparation *(Continued)*

(i) The following new and amended standards, and interpretations are mandatory for the first time for the financial year beginning 1 January 2010 but not currently relevant to the Group (although they may affect the accounting for future transactions and events). *(Continued)*

- HKAS 1 (amendment), "Presentation of financial statements". The amendment clarifies that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time.

- HKAS 17 (amendment), "Leases", deletes specific guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification. As a result, leases of land should be classified as either finance or operating lease using the general principles of HKAS 17, i.e. whether the lease transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee.

- HKAS 36 (amendment), "Impairment of assets", effective 1 January 2010. The amendment clarifies that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment, as defined by paragraph 5 of HKFRS 8, "Operating segments" (that is, before the aggregation of segments with similar economic characteristics).

- HKFRS 2 (amendment), "Group cash-settled share-based payment transactions", effective 1 January 2010. In addition to incorporating HK(IFRIC) 8, "Scope of HKFRS 2", and HK(IFRIC) 11, "HKFRS 2 — Group and treasury share transactions", the amendments expand on the guidance in HK(IFRIC) 11 to address the classification of group arrangements that were not covered by that interpretation.

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

(a) Basis of preparation *(Continued)*

(i) The following new and amended standards, and interpretations are mandatory for the first time for the financial year beginning 1 January 2010 but not currently relevant to the Group (although they may affect the accounting for future transactions and events). *(Continued)*

- HKFRS 5 (amendment), "Non-current assets held for sale and discontinued operations". The amendment clarifies that HKFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirement of HKAS 1 still apply, in particular paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of HKAS 1.

(ii) New standards, amendments and interpretations have been issued but are not effective for the financial year beginning 1 January 2010 and have not been early adopted.

The Group's assessment of the impact of these new standards and interpretations is set out below.

- HKFRS 9, "Financial instruments", issued in November 2009. This standard is the first step in the process to replace HKAS 39, "Financial instruments: recognition and measurement". HKFRS 9 introduces new requirements for classifying and measuring financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. It is not expected to have a material impact on the Group's or Company's financial statements.

- Revised HKAS 24 (revised), "Related party disclosures", issued in November 2009. It supersedes HKAS 24, "Related party disclosures", issued in 2003. HKAS 24 (revised) is mandatory for periods beginning on or after 1 January 2011. Earlier application, in whole or in part, is permitted.

  The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The Group will apply the revised standard from 1 January 2011. It is not expected to have a material impact on the Group's or Company's financial statements.

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

(a) Basis of preparation *(Continued)*

(ii) New standards, amendments and interpretations have been issued but are not effective for the financial year beginning 1 January 2010 and have not been early adopted. *(Continued)*

The Group's assessment of the impact of these new standards and interpretations is set out below. *(Continued)*

- "Classification of rights issues" (amendment to HKAS 32), issued in October 2009. The amendment applies to annual periods beginning on or after 1 February 2010. Earlier application is permitted. The amendment addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. The Group will apply the amended standard from 1 January 2011. It is not expected to have a material impact on the Group's or Company's financial statements.

- HK (IFRIC) — Int 19, "Extinguishing financial liabilities with equity instruments", effective 1 July 2010. The interpretation clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swap). It requires a gain or loss to be recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished. The Group will apply the interpretation from 1 January 2011. It is not expected to have a material impact on the Group's or Company's financial statements.

- "Prepayments of a minimum funding requirement" (amendments to HK (IFRIC) — Int 14). The amendments correct an unintended consequence of HK (IFRIC) — Int 14, "HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction". Without the amendments, entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions. This was not intended when HK (IFRIC) — Int 14 was issued, and the amendments correct this. The amendments are effective for annual periods beginning 1 January 2011. Earlier application is permitted. The amendments should be applied retrospectively to the earliest comparative period presented. The Group will apply these amendments for the financial reporting period commencing on 1 January 2011. It is not expected to have a material impact on the Group's or Company's financial statements.

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

(b) Consolidation

(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 Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the company on the basis of dividend and receivable.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of comprehensive income.

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.

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

(b) Consolidation *(Continued)*

(ii) Associates

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

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 other comprehensive income is recognised in other comprehensive income. 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.

(iii) Impairment of the investments in subsidiaries or associates

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.

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 re-measured. 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.

All foreign exchange gains and losses are presented in the consolidated income statement within "other gains – net".

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

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

(d) Foreign currency translation *(Continued)*

(ii) Transactions and balances *(Continued)*

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 differences on non-monetary financial assets, such as equities classified as available-for-sale are included in other comprehensive income.

(iii) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyper-inflationary 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 in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to other comprehensive income. 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 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.

(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 if expected to be settled within 12 months; otherwise, they are classified as non-current.

(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 end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'loans receivable', 'other receivables' and 'cash and cash equivalents' in the balance sheet (Notes 18, 19 and 21).

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

(f) Financial assets *(Continued)*

Classification *(Continued)*

(iii) Available-for-sale financial assets

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

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 subsequently 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 — 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.

Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in other comprehensive income.

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 consolidated income statement as "other gains — net".

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

(f) Financial assets *(Continued)*

Recognition and measurement *(Continued)*

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.

(g) Impairment of financial assets

(i) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or

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

(g) Impairment of financial assets *(Continued)*

(i) Assets carried at amortised cost (Continued)

- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

  (i) adverse changes in the payment status of borrowers in the portfolio;

  (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Group first assesses whether objective evidence of impairment exists.

For loans and other receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

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

(g) Impairment of financial assets *(Continued)*

(ii) Assets classified as available-for-sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Group uses the criteria refer to (i) above. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets 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 separate consolidated income statement. Impairment losses recognised in the separate consolidated income statement on equity instruments are not reversed through the separate consolidated income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the separate consolidated income statement.

Impairment testing of loans receivable and other receivables is described in Note 2(h).

(h) Loans receivable and other receivables

If collection of loans receivable and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Loans receivable and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

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

(i) Cash and cash equivalents

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

(j) Share capital

Ordinary shares are classified as equity.

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

(k) Accounts payable

Accounts payable are obligations to pay for services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

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

(l) 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 in other comprehensive income or directly in equity respectively.

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.

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

(l) Current and deferred income tax *(Continued)*

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 only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for deferred income tax liability 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.

(m) 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.

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

(m) Provisions *(Continued)*

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.

(n) 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.

(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.

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

(n) Employee benefits *(Continued)*

(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 a termination when the entity has a detailed formal plan to terminate the employment of current employees without possibility of withdrawal. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

(o) Income recognition

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

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

(p) 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 foreign exchange 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.

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

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

(2) Price risk

The Group is exposed to equity securities price risk because investments held by the Group are classified on the consolidated balance sheet either as available-for-sale financial assets or as financial assets at fair value through profit or loss. The Group is not exposed to commodity price risk. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio.

3. Financial Risk Management *(Continued)*

(a) Financial risk factors *(Continued)*

(i) Market risk (Continued)

(2) Price risk (Continued)

If the securities price of the respective investments held by the Group as available-for-sale financial assets and financial assets at fair value through profit or loss were higher or lower by 15% as at 31 December 2010 (2009: 15%), the Group's investment revaluation reserve would increase or decrease by approximately US$15,017,000 (2009: US$12,840,000) and the gain/loss for the year ended 31 December 2010 would increase or decrease by US$1,301,000 (2009: US$1,064,000) respectively.

(3) Cash flow and fair value interest rate risk

The Group's significant interest-bearing assets are loans receivable. Loans receivable issued at fixed rates expose the Group to fair value interest risk. Group policy is to maintain all of its loans receivable in fixed rate instruments.

The Group's interest rate risk arises from cash deposits which carry floating interest rate. Assuming the balance as 31 December 2010 was the amount for the whole year, if the interest rate was 20 (2009: 20) basis points higher or lower and all other variables were held constant, the Group's profit for the year ended 31 December 2010 would increase or decrease by approximately US$37,000 (2009: US$49,000).

(ii) Credit risk

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

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

3. Financial Risk Management *(Continued)*

(a) Financial risk factors *(Continued)*

(ii) Credit risk *(Continued)*

As at 31 December 2009 and 2010, 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 loans and other receivables, the Group considers that adequate provision for unrecoverable loans and other receivables has been made in the relevant accounting period after considering the Group's experience in collection of loans and other receivables.

(iii) Liquidity risk

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

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

(b) Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

— 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 2010.

	Level 1	Level 3	Total
	US$	*US$*	*US$*
Financial assets at fair value through profit or loss			
— listed securities	4,922,508	—	4,922,508
— convertible bond	—	3,751,527	3,751,527
Available-for-sale financial assets			
— listed securities	86,662,327	—	86,662,327
— unlisted, quoted securities	11,168,988	—	11,168,988
— private investment fund	—	2,281,439	2,281,439
	102,753,823	6,032,966	108,786,789

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

	Level 1	Level 3	Total
	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
	90,355,571	2,339,628	92,695,199

3. Financial Risk Management *(Continued)*

(b) Fair value estimation *(Continued)*

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 comprise primarily securities listed in the Stock Exchange of Hong Kong Limited.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) 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.

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.

3. Financial Risk Management *(Continued)*

(b) Fair value estimation *(Continued)*

The following table presents the changes in level 3 instruments for the year ended 31 December 2010.

	Private investment fund	Convertible bond	Total
	US$	*US$*	*US$*
Opening balance	—	2,339,628	2,339,628
Addition	2,205,299	—	2,205,299
Gains recognised in income statement	—	1,411,899	1,411,899
Gains recognised in investment revaluation reserve	76,140	—	76,140
Closing balance	2,281,439	3,751,527	6,032,966

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
Gains 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.

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

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

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

The Group follows the guidance of HKAS 39 to determine when an available-for-sale financial asset is impaired. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and short-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 consolidated income statement and carrying value of investment revaluation reserve in the period in which such determination is made.

(b) Estimated impairment of loans receivable

Provision for impairment of loans receivable is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. In determining whether any of the loans receivable is impaired, significant judgement is required. In making this judgement, the Group evaluates, among other factors, the duration and extent by all means to which the amount will be recovered.

Based on the management's estimation, adequate impairment provision has been made on loans receivable. Where the final outcome of these matters is different from the management's estimates and judgements, such differences will impact the profit and loss account and carrying value of loans receivable in the period in which such determination is made.

(c) Estimated impairment of investments in associates

The Group tests whether the carrying amount of investment has suffered any impairment, in accordance with the accounting policy stated in Note 2. The recoverable amount of cash-generating unit has been determined based on value-in-use calculations. These calculations require use of estimates (Note 2).

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

(d) Fair value of financial instruments

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

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at each balance sheet date.

(e) Income taxes

The Group is subject to income taxes in various jurisdictions, mainly in Hong Kong and Chinese Mainland. Significant judgement is required in determining provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the year in which such determination is made.

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.

5. Capital Risk Management *(Continued)*

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

As at 31 December 2009 and 2010, the Group had no bank borrowings and, accordingly, the gearing ratio for both years is 0%.

6. Investment Management Fee

Pursuant to a management agreement ("Management Agreement") dated 28 March 1991 and subsequently amended on 8 April 1992, China Assets Investment Management Limited ("CAIML") (Note 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.

Management fee paid to CAIML for the year ended 31 December 2010 amounted to US$1,660,253 (2009: US$1,553,337).

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 2010 (2009: Nil).

7. Income and Segment Information

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

	2010	2009
	US$	*US$*
Income		
Bank interest income	**244,235**	234,318
Loan interest income	**1,060,532**	724,418
Dividend income from listed investments	**207,321**	208,870
	1,512,088	1,167,606

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

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

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

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

	2010	2009
	US$	*US$*
Income		
Hong Kong	**1,244,967**	448,739
Mainland China	**267,121**	718,867
	1,512,088	1,167,606

7. Income and Segment Information *(Continued)*

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

	2010	2009
	US$	*US$*
Non-current assets, other than available-for-sale financial assets		
Hong Kong	**56,427,526**	54,379,517
Mainland China	**1,520,959**	6,471,930
	57,948,485	60,851,447

8. Other Gains — Net

	2010	2009
	US$	*US$*
Gains on disposals of associates	—	359,646
Loss on deemed disposal of partial interest in an associate	—	(61,027)
Net realised gains on disposal of available-for-sale financial assets	**7,138,277**	5,431
Net realised gains on disposal of financial assets at fair value through profit or loss	**285,531**	2,803,263
Net unrealised fair value gains on financial assets at fair value through profit or loss	**1,082,344**	1,639,511
Net exchange gains	**365,958**	9,074
	8,872,110	4,755,898

9. Other Expenses — Net

	2010 US$	2009 US$
Impairment loss on loans and other receivables	**6,906,738**	—
Reverse of provision for impairment on loans and other receivables	**(780,127)**	(117,199)
Provision for amount due from an associate	**—**	146,499
	6,126,611	29,300

10. Administrative Expenses

Expenses included in administrative expenses are analysed as follows:

	2010 US$	2009 US$
Investment management fee *(Note 6)*	**1,660,253**	1,553,337
Employee benefit expenses (including directors' remuneration) *(Note 11)*	**161,764**	154,613
Auditor's remuneration	**158,170**	149,146
Other expenses	**309,060**	274,012
	2,289,247	2,131,108

11. Employee Benefit Expenses (Including Directors' Remuneration)

	2010 US$	2009 US$
Wages and salaries	**160,440**	153,341
Pension costs — defined contribution plan	**1,324**	1,272
	161,764	154,613

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

(a) Directors' and senior management's emoluments

The remuneration of every Director for the year ended 31 December 2010 and 2009 is set out below:

	2010 Directors' fee *HK$*	2009 Directors' fee *HK$*
Executive directors		
Mr. Lo Yuen Yat	**84,000**	80,000
Mr. Xu Xiao Feng	**84,000**	80,000
Mr. Lao Yuan Yuan	**84,000**	80,000
Non-executive directors		
Mr. Jiang Wei	**84,000**	80,000
Mr. Yeung Wai Kin	**138,600**	132,000
Mr. Zhao Yu Qiao	**84,000**	80,000
Independent non-executive directors		
Mr. Fan Jia Yan	**194,250**	185,000
Mr. Wu Ming Yu	**159,600**	152,000
Dr. David William Maguire	**105,000**	100,000
	1,017,450	969,000
Equivalent to United States dollars	**130,772**	124,952

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 (2009: four) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (2009: one) individual during the year are as follows:

	2010	2009
	US$	*US$*
Basic salaries, housing allowances, other allowances and benefits in kind	**29,718**	28,389
Pension costs — defined contribution plan	**1,324**	1,272
	31,042	29,661

The emoluments payable to the remaining employee in 2010 and 2009 fell within the band of HK$nil to HK$1,000,000.

12. Income Tax Expense

Hong Kong profits tax has been provided for at the rate of 16.5% (2009: 16.5%) on the estimated assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

The amount of income tax expense charged to the consolidated income statement represents:

	2010	2009
	US$	*US$*
Current income tax:		
— Current tax on profits for the year	**789,925**	107,799
— Under-provision in prior years	**283**	—
Income tax expense	**790,208**	107,799

12. Income Tax Expense *(Continued)*

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits/(losses) of the consolidated entities as follows:

	2010	2009
	US$	*US$*
Profit before tax	**4,888,652**	7,736,683
Less: share of profit of associates	**(2,920,312)**	(3,773,587)
	1,968,340	3,763,096
Calculated at income tax rate of 16.5% (2009: 16.5%)	**324,776**	620,911
Effect of different income tax rates in other countries	**19,026**	1,083
Income not subject to tax	**(2,061,182)**	(1,283,283)
Expenses not deductible for tax purposes	**1,836,898**	877,388
Utilisation of previously unrecognised tax loss	**(43,421)**	(108,300)
Under-provision in prior years	**283**	—
Corporate withholding income tax	**713,828**	—
Tax charge	**790,208**	107,799

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

The loss attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of US$2,140,438 (2009: profit of US$3,461,771).

14. Earnings per Share

The calculation of basic earnings per share is based on the Group's profit attributable to equity holders of US$4,098,444 (2009: US$7,628,884) and the weighted average number of 76,558,160 (2009: 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 765,602 (2009: 587,096) dilutive potential ordinary shares.

15. Investments in Subsidiaries

	2010	2009
	US$	*US$*
Unlisted shares, at cost *(Note b)*	**140,151**	140,151
Amounts due from subsidiaries *(Note a)*	**34,275,005**	39,755,666
Less: provision for doubtful debts	**(12,759,269)**	(12,759,269)
	21,515,736	26,996,397
	21,655,887	27,136,548

(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 2010:

Name	**Place of incorporation**	**Principal activities**	**Particulars of issued share capital**	**Interest held**	
				2010	2009
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%
Promise Keep Investments Limited	British Virgin Islands	Investment holding	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%
Shining Avenue Limited	British Virgin Islands	Investment holding	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%
Zhong Guan Business Consultancy (Shanghai) Co. Ltd.	People's Republic of China	Investment holding	Registered capital of US$140,000	**100%**	100%

The above table lists the principal subsidiaries of the Group which, in the opinion of the directors, principally affect the results and net assets of the Group. To give full details of subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

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	
	2010	2009
	US$	*US$*
Share of net assets as at 1 January	**54,771,582**	49,264,048
Increase in investment in an associate	**1,520,959**	—
Share of associates' profits	**2,920,312**	3,973,587
Share of associates' reserves	**(278,904)**	1,386,447
Disposal of an associate	**—**	118,191
Loss on deemed disposal of partial interest in an associate	**—**	(61,027)
Release of capital reserve upon deemed disposal of partial interest of an associate	**—**	(26,135)
Dividend received	**(381,757)**	(108,946)
Exchange differences	**(211,642)**	(31,648)
Share of net assets as at 31 December	**58,340,550**	54,771,582
Goodwill on acquisition	**7,651,488**	7,651,488
Provision for impairment loss	**(8,043,553)**	(8,043,553)
	57,948,485	54,379,517
Amount due from an associate *(note)*	**1,977,246**	1,894,929
Provision for impairment loss	**(1,977,246)**	(1,894,929)
	57,948,485	54,379,517

	Company	
	2010	2009
	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

Note: The 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 2010 and 2009.

16. Investments in Associates *(Continued)*

(a) The following is a list of associates held directly/indirectly by the Company at 31 December 2010:

Name	Particulars of issued shares held	Place of incorporation	Principal activities	Interest held 2010	Interest held 2009
First Shanghai Investments Limited ("FSIL") *(see note a(i) below)*	Ordinary shares of 247,674,500 of HK$0.2 each	Hong Kong	Investment holding	**17.705%**	17.705%
iMedia Holdings Limited ("iMedia") *(see note a(ii) 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 a(iii) 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	**30%***	30%*
Hong Kong Strong Profit Limited ("HKSP") *(See note a(iv) below)*	Ordinary shares of 4,900 of HK$1 each	Hong Kong	Dormant	49%	49%
Shanghai International Medical Center Investment Management Company Limited ("SIMC") *(See note a(v) below)*	RMB10,000,000	People's Republic of China	Provision of medical services	20%*	0%

* Held indirectly by the Company

16. Investments in Associates *(Continued)*

(a) The following is a list of associates held directly/indirectly by the Company at 31 December 2010: *(Continued)*

Note:

(i) FSIL is a company listed on The Stock Exchange of Hong Kong Limited with issued share capital of HK$279,782,601 (2009: HK$279,782,601). 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. The market value of the listed security as at 31 December 2010 was approximately US$36,913,000 (2009: US$39,602,000).

(ii) 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.

(iii) 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.

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

(v) SIMC is a company registered in the People's Republic of China with total authorised capital of RMB250,000,000.

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

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

	Assets	Liabilities	Revenue	Profit before income tax
	US$'000	*US$'000*	*US$'000*	*US$'000*
Year 2010				
FSIL	**608,107**	**238,118**	**37,504**	**21,250**
SIMC	**7,605**	**405**	**—**	**—**
Year 2009				
FSIL	603,600	248,397	75,757	27,303

17. Available-for-sale Financial Assets

	Group		Company	
	2010	2009	**2010**	2009
	US$	*US$*	***US$***	*US$*
As at 1 January	**85,601,256**	38,144,369	**77,372,425**	33,019,804
Additions	**2,205,299**	10,094,179	**2,205,299**	10,094,179
Disposals	**(7,144,151)**	(8,792)	**(7,144,151)**	(8,792)
Fair value gains transfer to investment revaluation reserve	**19,135,955**	37,367,145	**19,541,291**	34,267,234
Exchange differences	**314,395**	4,355	**—**	—
As at 31 December	**100,112,754**	85,601,256	**91,974,864**	77,372,425

Available-for-sale financial assets include the following:

	Group		Company	
	2010	2009	**2010**	2009
	US$	*US$*	***US$***	*US$*
Listed equity securities				
— Canada	**40,176**	30,023	**40,176**	30,023
— Mainland China	**86,622,151**	74,622,494	**86,622,151**	74,622,494
Unlisted equity securities	**11,168,988**	10,948,739	**3,031,098**	2,719,908
Private investment fund	**2,281,439**	—	**2,281,439**	—
	100,112,754	85,601,256	**91,974,864**	77,372,425
Market value of listed securities	**86,662,327**	74,652,517	**86,662,327**	74,652,517

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

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

	Group		Company	
	2010	2009	**2010**	2009
	US$	*US$*	***US$***	*US$*
Canadian dollars	**40,176**	30,023	**40,176**	30,023
Hong Kong dollars	**14,517,222**	13,748,280	**14,517,222**	13,748,280
Renminbi	**85,555,356**	71,822,953	**77,417,466**	63,594,122
	100,112,754	85,601,256	**91,974,864**	77,372,425

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

At 31 December 2010, the carrying amount of interest 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 2010	Interest held 2009
Shandong Lukang Pharmaceutical Co., Ltd. ("Lukang")	People's Republic of China	Manufacture and sale of pharmaceutical products	58,049,866 foreign legal person shares#	**9.98%**	10.95%

(i) 52,548,544 shares were floating shares and (ii) 5,501,322 shares were non-floating shares which disposal were restricted.

18. Loans Receivable

Loans receivable are denominated in the following currencies:

	Group		Company	
	2010	2009	**2010**	2009
	US$	*US$*	***US$***	*US$*
Renminbi	**13,685,167**	8,375,886	**6,540,123**	1,463,089
US dollars	**1,000,000**	1,500,000	**1,000,000**	1,500,000
	14,685,167	9,875,886	**7,540,123**	2,963,089
Provision for impairment on loans receivable	**(6,719,176)**	(439,023)	**—**	—
Loans receivable — net	**7,965,991**	9,436,863	**7,540,123**	2,963,089
Less: non-current portion	**—**	(6,471,930)	**—**	—
Current portion	**7,965,991**	2,964,933	**7,540,123**	2,963,089

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

	Group				Company	
	2010		2009		**2010**	2009
	RMB	***US$***	*RMB*	*US$*	***US$***	*US$*
Loans receivable	**8.58%**	**7.05%**	8.08%	8.64%	**7.05%**	8.64%

The carrying amounts of loans receivable approximate their fair values as at 31 December 2010. The maximum exposure to credit risk at the reporting date is the fair values (i.e. their carrying values) of the loans receivable. The loans receivable are secured by certain assets of the borrowers as stipulated in the respective loan agreements.

18. Loans Receivable *(Continued)*

Movements in the Group's provision for impairment on loans receivable are as follows:

	Group	
	2010	2009
	US$	*US$*
As at 1 January	**439,023**	556,222
Provision for impairment on loans receivable	**6,525,634**	—
Reverse of impairment provision	**(456,287)**	(117,199)
Exchange difference	**210,806**	—
As at 31 December	**6,719,176**	439,023

The creation and release of provision for impairment on loans receivable have been included in 'other expenses — net' in the consolidated income statement (Note 9).

19. Other Receivables, Prepayments and Deposits

	Group		Company	
	2010	2009	**2010**	2009
	US$	*US$*	***US$***	*US$*
Other receivables	**4,362,624**	3,229,115	**1,190,686**	148,538
Prepayments	**23,297**	23,907	**23,297**	23,907
Deposits	**55**	55	**55**	55
	4,385,976	3,253,077	**1,214,038**	172,500
Provision of impairment on other receivables	**(2,825,941)**	(2,501,591)	**—**	—
	1,560,035	751,486	**1,214,038**	172,500

Other receivables and deposits are either repayable within one year or on demand. Accordingly, the fair values of the Group's and the Company's other receivables and deposits are approximately the same as the carrying amounts.

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

Movements in the Group's provision for impairment on other receivables are as follows:

	Group	
	2010	2009
	US$	*US$*
As at 1 January	**2,501,291**	2,501,291
Provision for impairment on other receivables	**381,104**	—
Reverse of impairment provision	**(323,840)**	—
Exchange difference	**267,386**	—
As at 31 December	**2,825,941**	2,501,291

The creation and release of provision for impairment on other receivables has been included in "other expenses — net" in the consolidated income statement (Note 9).

20. Financial Assets at Fair Value through Profit or Loss

	Group		Company	
	2010	2009	**2010**	2009
	US$	*US$*	***US$***	*US$*
Listed equity securities held for trading:				
— Hong Kong	**4,451,824**	3,931,780	**4,451,824**	3,931,780
— United States	**470,684**	822,535	**—**	—
Convertible note	**3,751,527**	2,339,628	**—**	—
	8,674,035	7,093,943	**4,451,824**	3,931,780
Market value of listed securities	**4,922,508**	4,754,315	**4,451,824**	3,931,780

Changes in fair values of these financial assets are recorded in "other gains — 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	
	2010	2009	**2010**	2009
	US$	*US$*	***US$***	*US$*
Cash at bank and on hand	**11,890,671**	6,616,419	**10,615,648**	6,005,812
Short-term bank deposits	**18,357,218**	24,461,948	**4,546,972**	11,221,713
	30,247,889	31,078,367	**15,162,620**	17,227,525
Maximum exposure to credit risk	**30,247,534**	31,077,092	**15,162,620**	17,227,525

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

	Group		Company	
	2010	2009	**2010**	2009
Short-term bank deposits	**0.01%-2.25%**	0.03%-1.71%	**0.01%-0.35%**	0.03%-0.39%

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

	Group		Company	
	2010	2009	**2010**	2009
	US$	*US$*	***US$***	*US$*
United States dollars	**5,036,750**	11,591,928	**4,855,907**	11,402,324
Hong Kong dollars	**2,307,590**	5,823,736	**2,307,590**	5,823,736
Renminbi	**22,903,549**	13,662,703	**7,999,123**	1,465
	30,247,889	31,078,367	**15,162,620**	17,227,525

Renminbi is not a freely convertible currency.

22. Share Capital and Premium

	Group and Company	
	2010	2009
	US$	*US$*
Authorised:		
160,000,000 shares of US$0.10 each	**16,000,000**	16,000,000

	Number of shares of US$0.10 each	Ordinary Shares	Share premium	Total
		US$	*US$*	*US$*
Issued and fully paid:				
As at 31 December 2009 and 31 December 2010	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.

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

	Average exercise price in HK$ per share	Options (thousands)
At 1 January 2009, 31 December 2009 and 2010	5.01	7,475

During the year, no share option was granted and exercised. The related weighted average share price at the time of exercise in 2010 was HK$5.01 per share.

23. Reserves

Group

	Share premium US$	Capital reserve US$	Exchange translation reserve US$	Share-based compensation reserve US$	Investment revaluation reserve US$	Retained earnings US$	Total US$
As at 1 January 2009	69,059,844	6,944,017	734,474	1,927,373	8,329,658	44,823,659	131,819,025
Profit attributable to equity holders of the Company	—	—	—	—	—	7,628,884	7,628,884
Share of post-acquisition reserves of associates	—	1,386,447	—	—	—	—	1,386,447
Exchange difference arising on translation of associates and subsidiaries	—	—	(35,899)	—	—	—	(35,899)
Release of capital reserve upon deemed disposal of partial interest in an associate	—	(26,135)	—	—	—	—	(26,135)
Release of investment revaluation reserve upon disposal of available-for-sale financial assets	—	—	—	—	(7,465)	—	(7,465)
Fair value gains of available-for-sale financial assets	—	—	—	—	37,371,500	—	37,371,500
Deferred income tax on fair value gains of available-for-sale financial assets	—	—	—	—	(2,313,467)	—	(2,313,467)
As at 31 December 2009	69,059,844	8,304,329	698,575	1,927,373	43,380,226	52,452,543	175,822,890

23. Reserves *(Continued)*

	Share premium	Capital reserve	Exchange translation reserve	Share-based compensation reserve	Investment revaluation reserve	Retained earnings	Total
	US$	*US$*	*US$*	*US$*	*US$*	*US$*	*US$*
As at 1 January 2010	69,059,844	8,304,329	698,575	1,927,373	43,380,226	52,452,543	175,822,890
Profit attributable to equity holders of the Company	–	–	–	–	–	4,098,444	4,098,444
Share of post-acquisition reserves of associates	–	(278,904)	–	–	–	–	(278,904)
Exchange difference arising on translation of associates and subsidiaries	–	–	458,830	–	–	–	458,830
Release of investment revaluation reserve upon disposal of available-for-sale financial assets	–	–	–	–	(5,695,386)	–	(5,695,386)
Fair value gains of available-for-sale financial assets	–	–	–	–	19,450,350	–	19,450,350
Deferred income tax on fair value gains of available-for-sale financial assets	–	–	–	–	(4,067,516)	–	(4,067,516)
As at 31 December 2010	69,059,844	8,025,425	1,157,405	1,927,373	53,067,674	56,550,987	189,788,708

23. Reserves *(Continued)*

Company

	Share premium	Exchange translation reserve	Share-based compensation reserve	Investment revaluation reserve	Retained earnings	Total
	US$	*US$*	*US$*	*US$*	*US$*	*US$*
As at 1 January 2009	69,059,844	—	1,927,373	20,927,971	3,485,733	95,400,921
Profit for the year	—	—	—	—	3,461,771	3,461,771
Release of investment revaluation reserve upon disposal of available-for-sale financial assets	—	—	—	(7,037)	—	(7,037)
Fair value gains of available-for-sale financial assets	—	—	—	34,267,234	—	34,267,234
Deferred income tax on fair value gains of available-for-sale financial assets	—	—	—	(1,985,516)	—	(1,985,516)
As at 31 December 2009	69,059,844	—	1,927,373	53,202,652	6,947,504	131,137,373
As at 1 January 2010	**69,059,844**	**—**	**1,927,373**	**53,202,652**	**6,947,504**	**131,137,373**
Loss for the year	**—**	**—**	**—**	**—**	**(2,140,438)**	**(2,140,438)**
Exchange difference arising on translation of subsidiaries	**—**	**865,173**	**—**	**—**	**—**	**865,173**
Release of investment revaluation reserve upon disposal of available-for-sale financial assets	**—**	**—**	**—**	**(5,695,386)**	**—**	**(5,695,386)**
Fair value gains of available-for-sale financial assets	**—**	**—**	**—**	**19,541,291**	**—**	**19,541,291**
Deferred income tax on fair value gains of available-for-sale financial assets	**—**	**—**	**—**	**(4,052,055)**	**—**	**(4,052,055)**
As at 31 December 2010	**69,059,844**	**865,173**	**1,927,373**	**62,996,502**	**4,807,066**	**139,655,958**

24. Deferred Income Tax Liabilities

The gross movement in the deferred income tax liabilities are as follows:

	Group		Company	
	2010	2009	**2010**	2009
	US$	*US$*	***US$***	*US$*
As at 1 January	**3,513,383**	1,206,198	**3,191,284**	1,206,198
Charged to investment revaluation reserve	**3,424,577**	2,307,185	**3,447,312**	1,985,086
As at 31 December	**6,937,960**	3,513,383	**6,638,596**	3,191,284

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 recognise deferred income tax assets of US$56,709 (2009: US$85,257) in respect of losses amounting to US$343,690 (2009: US$516,707) that can be carried forward against future taxable income. Such loss has no expiry date.

Deferred income tax liabilities of US$165,695 (2009: US$33,436) 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 2010, total unremitted earnings amounted to US$3,313,903 (2009: US$668,716).

25. Cash Used in Operations

	2010	2009
	US$	US$
Profit before income tax	**4,888,652**	7,736,683
Adjustments for:		
Share of profit of associates	**(2,920,312)**	(3,973,587)
Loss on deemed disposal of partial interest in an associate	**—**	61,027
Gain on disposals of associates	**—**	(359,646)
Bank interest income	**(244,235)**	(234,318)
Loan interest income	**(1,060,532)**	(724,418)
Dividend income from listed investments	**(207,321)**	(208,870)
Net realised gains on disposal of available-for-sale financial assets	**(7,138,277)**	(5,431)
Net realised gains on disposal of financial assets at fair value through profit or loss	**(285,531)**	(2,803,263)
Net unrealised fair value gains on financial assets at fair value through profit or loss	**(1,082,344)**	(1,639,511)
Provision for impairment, net	**6,126,611**	29,300
Operating losses before working capital changes	**(1,923,289)**	(2,122,034)
Loans receivable	**(4,598,475)**	(1,664,006)
Other receivables, prepayments and deposits	**(865,813)**	(558,613)
Financial assets at fair value through profit or loss	**(212,217)**	2,280,473
Amounts due to related companies	**(1,553)**	(662)
Accounts payable	**8,069**	(40,259)
Accrued expenses	**7,083**	(14,404)
Cash used in operations	**(7,586,195)**	(2,119,505)

26. Capital Commitments

Capital commitments contracted for at the end of the reporting period but not yet incurred are as follows:

	Group		Company	
	2010	2009	**2010**	2009
	US$	*US$*	***US$***	*US$*
Investment in an associate	**6,083,835**	—	**—**	—
Available-for-sale financial asset	**2,281,439**	—	**2,281,439**	—
	8,365,274	—	**2,281,439**	—

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

	2010	2009
	US$	*US$*
Contracted but not provided for	**8,156,998**	4,742,452
Authorised but not contracted	**13,320,501**	25,340,996

27. Related Party Transactions

(a) Transactions with related parties

	2010	2009
	US$	*US$*
Management fee paid/payable to:		
CAIML	**1,660,253**	1,553,337

Note: CAIML is an associate of First Shanghai Investments limited ("FSIL") which is an associate of the Company. Mr. Lo Yuen Yat, 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. Lo and Mr. Yeung are the shareholders and directors of FSIL. Ms. Lao is the shareholder of FSIL.

27. Related Party Transactions *(Continued)*

(b) Key management compensation

	2010	2009
	US$	*US$*
Salaries and other short-term employee benefits	**160,440**	153,341
Pension costs — defined contribution plan	**1,324**	1,272
	161,764	154,613

(c) As at 31 December 2010, management fee payable to CAIML amounted to US$8,898 (2009: US$8,645). The balance is denominated in United States dollars, unsecured and interest-free.

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

	Group		**Company**	
	2010	2009	**2010**	2009
	US$	*US$*	***US$***	*US$*
Amounts due to related companies	**308,045**	309,598	**308,045**	309,598
Amounts due to subsidiaries	**—**	—	**499,290**	—
	308,045	309,598	**807,335**	309,598

28. Event After the Balance Sheet Date

On 21 February 2011, the Group acquired 6.6% of common equity in a China mobile handset design and development company. The consideration of US$7.3 million was settled in cash in February 2011.

Five Year Financial Summary

	2010	2009	2008	2007	2006
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Consolidated income statement					
Income	**1,512**	1,168	5,004	1,393	663
Profit/(loss) attributable to equity holders of the Company	**4,098**	7,629	(19,474)	9,422	3,586
Consolidated balance sheet					
Investments in associates	**57,948**	54,380	49,264	65,243	59,456
Available-for-sale financial assets	**100,113**	85,601	38,144	86,256	32,205
Other non-current assets	**—**	6,471	6,294	—	1,921
Current assets	**48,448**	41,889	48,359	58,305	46,444
	206,509	188,341	142,061	209,804	140,026
Current liabilities	**(2,126)**	(1,349)	(1,380)	(929)	(339)
Deferred income tax liabilities	**(6,938)**	(3,513)	(1,206)	(5,460)	—
	197,445	183,479	139,475	203,415	139,687
Financed by:					
Share capital	**7,656**	7,656	7,656	7,656	7,571
Reserves	**189,789**	175,823	131,819	195,759	132,116
	197,445	183,479	139,475	203,415	139,687