CHINA ASSETS (HOLDINGS) LIMITED

(Stock Code: 170)

INTERIM REPORT

2011

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

Solicitors

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

Registrars

Computershare Hong Kong Investor Services Limited
46th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

Registered Office

19th Floor, Wing On House
71 Des Voeux Road Central
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Stock Code

170

UNAUDITED INTERIM RESULTS

The Board of Directors of China Assets (Holdings) Limited (the "Company") has pleasure in reporting the following unaudited condensed consolidated financial results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2011:

Condensed Consolidated Income Statement

For the six months ended 30 June 2011

		Unaudited Six months ended 30 June	
		2011	2010
	Note	***US$***	*US$*
Income	*6*	**1,181,196**	568,631
Other (losses)/gains — net	*7*	**(306,788)**	1,718,764
Other income/(expenses) — net	*8*	**65,460**	(6,582,898)
Administrative expenses	*9*	**(1,260,677)**	(1,008,870)
Operating loss		**(320,809)**	(5,304,373)
Share of profits of associates		**112,086**	82,897
Loss before income tax		**(208,723)**	(5,221,476)
Income tax credit/(expense)	*10*	**5,031**	(212,435)
Loss for the period attributable to the equity holders of the Company		**(203,692)**	(5,433,911)
Losses per share attributable to the equity holders of the Company			
Basic	*11*	**(0.0027)**	(0.0710)
Diluted	*11*	**(0.0026)**	(0.0710)

The notes on pages 6 to 15 form an integral part of these condensed consolidated financial statements.

Dividend	*12*	**—**	—

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2011

	Unaudited Six months ended 30 June 2011 US$	2010 US$
Loss for the period	**(203,692)**	(5,433,911)
Other comprehensive income:		
Share of post-acquisition reserves of associates	**181,094**	(1,025,516)
Exchange differences arising on translation of associates and subsidiaries	**768,091**	(440,223)
Release of investment revaluation reserve upon disposal of available-for-sale financial assets	**(669,456)**	(1,705,338)
Fair value (losses)/gains of available-for-sale financial assets, net of deferred income tax	**(1,861,113)**	3,560,868
Other comprehensive (loss)/income for the period, net of tax	**(1,581,384)**	389,791
Total comprehensive loss for the period attributable to equity holders of the Company	**(1,785,076)**	(5,044,120)

The notes on pages 6 to 15 form an integral part of these condensed consolidated financial statements.

Condensed Consolidated Balance Sheet

As at 30 June 2011

	Note	Unaudited 30 June 2011 US$	Audited 31 December 2010 US$
ASSETS			
Non-current assets			
Investments in associates		**62,594,858**	57,948,485
Available-for-sale financial assets		**94,208,887**	100,112,754
Total non-current assets		**156,803,745**	158,061,239
Current assets			
Loans receivable	*13*	**7,152,742**	7,965,991
Other receivables, prepayments and deposits		**2,300,536**	1,560,035
Financial assets at fair value through profit or loss		**13,908,076**	8,674,035
Cash and cash equivalents	*14*	**24,190,081**	30,247,889
Total current assets		**47,551,435**	48,447,950
Total assets		**204,355,180**	206,509,189
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	*15*	**7,675,816**	7,655,816
Reserves		**188,051,670**	189,788,708
Total equity		**195,727,486**	197,444,524
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		**6,718,281**	6,937,960
Current liabilities			
Accounts payable		**107,245**	149,715
Accrued expenses		**16,000**	148,838
Amounts due to related companies	*17(c)*	**306,966**	308,045
Current income tax liabilities		**1,479,202**	1,520,107
Total current liabilities		**1,909,413**	2,126,705
Total liabilities		**8,627,694**	9,064,665
Total equity and liabilities		**204,355,180**	206,509,189
Net current assets		**45,642,022**	46,321,245
Total assets less current liabilities		**202,445,767**	204,382,484

The notes on pages 6 to 15 form an integral part of these condensed consolidated financial statements.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2011

	Unaudited Six months ended 30 June	
	2011	2010
	US$	*US$*
Cash flows used in operating activities	**(8,230,136)**	(4,254,860)
Cash flows from investing activities	**1,992,278**	879,290
Cash flows from financing activities	**68,038**	—
Net decrease in cash and cash equivalents	**(6,169,820)**	(3,375,570)
Currency translation differences	**112,012**	(45,534)
Cash and cash equivalents at beginning of the period	**30,247,889**	31,078,367
Cash and cash equivalents at end of the period	**24,190,081**	27,657,263

The notes on pages 6 to 15 form an integral part of these condensed consolidated financial statements.

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2011

	Unaudited							
	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$
At 1 January 2011	7,655,816	69,059,844	8,025,425	1,157,405	1,927,373	53,067,674	56,550,987	197,444,524
Comprehensive loss								
Loss attributable to equity holders of the Company	–	–	–	–	–	–	(203,692)	(203,692)
Other comprehensive loss								
Share of post-acquisition reserves of associates	–	–	181,094	–	–	–	–	181,094
Exchange differences arising on translation of associates and subsidiaries	–	–	–	768,091	–	–	–	768,091
Release of investment revaluation reserve upon disposal of available-for-sale financial assets	–	–	–	–	–	(669,456)	–	(669,456)
Fair value losses of available-for-sale financial assets	–	–	–	–	–	(2,080,792)	–	(2,080,792)
Deferred income tax on fair value losses of available-for-sale financial assets	–	–	–	–	–	219,679	–	219,679
Total other comprehensive loss for the period, net of tax	–	–	181,094	768,091	–	(2,530,569)	–	(1,581,384)
Total comprehensive loss for the period ended 30 June 2011	–	–	181,094	768,091	–	(2,530,569)	(203,692)	(1,785,076)
Transaction with owners								
Employees share option scheme:								
— issue of new shares upon exercise of share options	20,000	48,038	–	–	–	–	–	68,038
— transfer of reserve upon lapse of share options	–	–	–	–	(100,998)	–	100,998	–
Total transactions with owners	20,000	48,038	–	–	(100,998)	–	100,998	68,038
At 30 June 2011	7,675,816	69,107,882	8,206,519	1,925,496	1,826,375	50,537,105	56,448,293	195,727,486
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
Comprehensive loss								
Loss attributable to equity holders of the Company	–	–	–	–	–	–	(5,433,911)	(5,433,911)
Other comprehensive income								
Share of post-acquisition reserves of associates	–	–	(1,025,516)	–	–	–	–	(1,025,516)
Exchange differences arising on translation of associates and subsidiaries	–	–	–	(440,223)	–	–	–	(440,223)
Release of investment revaluation reserve upon disposal of available-for-sale financial assets	–	–	–	–	–	(1,705,338)	–	(1,705,338)
Fair value gains of available-for-sale financial assets	–	–	–	–	–	4,969,759	–	4,969,759
Deferred income tax on fair value gains of available-for-sale financial assets	–	–	–	–	–	(1,408,891)	–	(1,408,891)
Total other comprehensive income for the period, net of tax	–	–	(1,025,516)	(440,223)	–	1,855,530	–	389,791
Total comprehensive loss for the period ended 30 June 2010	–	–	(1,025,516)	(440,223)	–	1,855,530	(5,433,911)	(5,044,120)
At 30 June 2010	7,655,816	69,059,844	7,278,813	258,352	1,927,373	45,235,756	47,018,632	178,434,586

The notes on pages 6 to 15 form an integral part of these condensed consolidated financial statements.

Notes to the Condensed 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 condensed consolidated interim financial information is presented in United States dollars ("US$"), unless otherwise stated. These condensed consolidated interim financial information was approved for issue by the Board of Directors on 26 August 2011. The condensed consolidated interim financial information has not been audited.

2. Basis of preparation

This condensed consolidated interim financial information for the six months ended 30 June 2011 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2010, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

3. Accounting policies

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2010, as described in those annual financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

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

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2011.

- Amendment to HKAS 34 "Interim financial reporting" is effective for annual periods beginning on or after 1 January 2011. It emphasises the existing disclosure principles in HKAS34 and adds further guidance to illustrate how to apply these principles. Greater emphasis has been placed on the disclosure principles for significant events and transactions. Additional requirements cover disclosure of changes to fair value measurement (if significant), and the need to update relevant information from the most recent annual report. The change in accounting policy only results in additional disclosures.

3. **Accounting policies** *(Continued)*

(b) Amendments and interpretations to existing standards effective in 2011 but not relevant to the Group:

- HKAS 24 (Revised), "Related party disclosures" is effective for annual period beginning on or after 1 January 2011. It introduces an exemption from all of the disclosure requirements of HKAS 24 for transactions among government related entities and the government. Those disclosures are replaced with a requirement to disclose:

  - The name of the government and the nature of their relationship;

  - The nature and amount of any individually significant transactions; and

  - The extent of any collectively-significant transactions qualitatively or quantitatively.

  It also clarifies and simplifies the definition of a related party.

- Amendment to HKAS 32 "Classification of rights issues" is effective for annual periods beginning on or after 1 February 2010. This is not currently applicable to the Group, as it has not made any rights issue.

- Amendment to HK(IFRIC) — Int-14 "Prepayments of a minimum funding requirement" is effective for annual periods beginning on or after 1 January 2011. This is not currently relevant to the Group, as it does not have a minimum funding requirement.

- HK(IFRIC) — Int 19 "Extinguishing financial liabilities with equity instruments" is effective for annual periods beginning on or after 1 July 2010. This is not currently applicable to the Group, as it has no extinguishment of financial liabilities replaced with equity instruments currently.

- Third improvements to Hong Kong Financial Reporting Standards (2010) were issued in May 2010 by both IASB and the HKICPA, except for amendment to HKAS 34 'Interim financial reporting' as disclosed in Note 2(a) and the clarification to allow the presentation of an analysis of the components of other comprehensive income by item within the notes, all are not currently relevant to the Group. All improvements are effective in the financial year of 2011.

3. Accounting policies *(Continued)*

(c) The following new standards and amendments to standards have been issued but are not effective for the financial year beginning 1 January 2011 and have not been early adopted:

		Effective for accounting periods beginning on or after
HKAS 1 (Amendment)	Presentation of financial statements	1 July 2012
HKAS 12 (Amendment)	Deferred tax: Recovery of underlying assets	1 January 2012
HKAS 19 (Amendment)	Employee benefits	1 January 2013
HKFRS 1 (Amendment)	Disclosures — Severe hyperinflation and removal of fixed dates for first-time adopters	1 July 2011
HKFRS 7 (Amendment)	Disclosures — Transfers of financial assets	1 July 2011
HKFRS 9	Financial instruments	1 January 2013
HKFRS 10	Consolidated financial statements	1 January 2013
HKFRS 11	Joint arrangements	1 January 2013
HKFRS 12	Disclosure of interests in other entities	1 January 2013
HKFRS 13	Fair value measurements	1 January 2013

Management is in the process of making an assessment of the impact of these new standards, new interpretation, amendments and revision to standards and interpretation and is not yet in a position to state whether they would have a significant impact on the Group's results of operations and financial position.

4. Critical accounting estimates and judgements

The preparation of interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2010, with the exception of changes in estimates that are required in determining the provision for income taxes.

5. Financial risk management

5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The interim condensed consolidated financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2010.

There have been no changes in any risk management policies since year end.

5.2 Fair value estimation

The different levels of financial instruments carried at fair value by valuation method are 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).

The following table presents the Group's assets that are measured at fair value at 30 June 2011.

		Unaudited	
	Level 1	Level 3	Total
	US$	*US$*	*US$*
Financial assets at fair value through profit or loss			
— listed securities	**4,559,117**	**—**	**4,559,117**
— convertible bond	**—**	**2,031,402**	**2,031,402**
— unlisted securities	**—**	**7,317,557**	**7,317,557**
Available-for-sale financial assets			
— listed securities	**79,764,539**	**—**	**79,764,539**
— unlisted, quoted securities	**10,731,189**	**—**	**10,731,189**
— private investment fund	**—**	**3,713,159**	**3,713,159**
	95,054,845	**13,062,118**	**108,116,963**

5. **Financial risk management** *(Continued)*

5.2 *Fair value estimation* *(Continued)*

The following table presents the Group's assets that are measured at fair value at 31 December 2010.

	Audited		
	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

For the period ended 30 June 2011, there were no significant changes in the business or economic circumstances that affect the fair value of the Group's financial assets and financial liabilities.

For the period ended 30 June 2011, there were no reclassifications of financial assets.

6. **Income and segment information**

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

	Unaudited	
	Six months ended 30 June	
	2011	2010
	US$	*US$*
Income		
Bank interest income	**161,231**	116,981
Loan interest income	**879,215**	379,505
Dividend income from listed investments	**140,750**	72,145
	1,181,196	568,631

6. Income and segment information *(Continued)*

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 only one operating segment — investment holding. Accordingly, segment disclosures are not presented.

7. Other (losses)/gains — net

	Unaudited	
	Six months ended 30 June	
	2011	2010
	US$	*US$*
Gains on disposal of available-for-sale financial assets	**818,868**	1,893,061
Net unrealized fair value losses on financial assets at fair value through profit or loss	**(1,612,832)**	(396,921)
Net realized gains on disposal of financial assets at fair value through profit or loss	**193,978**	—
Net exchange gains	**275,859**	215,756
Others	**17,339**	6,868
	(306,788)	1,718,764

8. Other income/(expenses) — net

	Unaudited Six months ended 30 June	
	2011	2010
	US$	*US$*
Impairment of loans and other receivables	**—**	(6,906,738)
Reversal of provision for impairment of other receivables	**—**	323,840
Reversal of provision for impairment of amount due from an associate	**65,460**	—
	65,460	(6,582,898)

9. Administrative expenses

Expense included in administrative expenses is analysed as follows:

	Unaudited Six months ended 30 June	
	2011	2010
	US$	*US$*
Investment management fee *(Note 17(a))*	**983,440**	812,266

10. Income tax credit/(expense)

Hong Kong profits tax has been provided for at the rate of 16.5% (2010: 16.5%) on the estimated assessable profit for the period. Income tax expense on overseas profits has been calculated on the estimated assessable profit for the period at the rates of income tax prevailing in the countries in which the Group operates.

The amount of income tax expense credited/(charged) to the condensed consolidated income statement represents:

	Unaudited Six months ended 30 June	
	2011	2010
	US$	*US$*
Overseas income tax:		
— Current income tax	**(15,050)**	(212,435)
— Overprovision in prior year	**20,081**	—
	5,031	(212,435)

11. Losses per share

The calculation of basic losses per share is based on the Group's loss attributable to the equity holders of the Company of US$203,692 (2010: loss of US$5,433,911) and the weighted average number of 76,687,994 (2010: 76,558,160) ordinary shares in issue during the period.

The Company has share options outstanding for the six months ended 30 June 2011 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 losses per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of 839,071 (2010: 300,894) dilutive potential ordinary shares.

12. Interim dividend

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2011 (2010: US$ Nil).

13. Loans receivable

Loans receivable are denominated in the following currencies:

	Unaudited 30 June 2011 ***US$***	Audited 31 December 2010 *US$*
Renminbi	**6,652,742**	13,685,167
US dollars	**500,000**	1,000,000
	7,152,742	14,685,167
Provision for impairment	**—**	(6,719,176)
Loans receivable — net	**7,152,742**	7,965,991

The carrying values of loans receivable approximate their fair values as at 30 June 2011. 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.

14. Cash and cash equivalents

Included in the cash and cash equivalents of the Group are Renminbi deposits and cash in the Mainland China of US$21,719,704 (31 December 2010: US$22,903,549). The conversion of the RMB denominated balances into foreign currencies and the remittance of foreign currencies denominated bank balances and cash out of the PRC are subject to relevant rules and regulations of foreign exchange control promulgated by the PRC government.

15. Share Capital

	Unaudited 30 June 2011 ***US$***	Audited 31 December 2010 *US$*
Authorised:		
160,000,000 shares of US$0.10 each	**16,000,000**	16,000,000

	Number of share US$0.10 each	**Ordinary share** *US$*
Issued and fully paid:		
At 1 January 2011	76,558,160	7,655,816
Issue of shares upon exercise of share options	200,000	20,000
At 30 June 2011	76,758,160	7,675,816

During the period, 200,000 new shares of US$0.01 each were issued upon exercise of options under the employee share option scheme adopted by the Company at an exercise price of HK$2.65 per share. The related weighted average share price at the time of exercise was HK$5.87 per share. These shares rank pari passu with the existing shares of the Company.

16. Capital commitments

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

	Unaudited 30 June 2011 ***US$***	Audited 31 December 2010 *US$*
Investments in associates	**9,385,747**	6,083,835
Available-for-sale financial asset	**928,290**	2,281,439
	10,314,037	8,365,274

16. Capital commitments *(Continued)*

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

	Unaudited 30 June 2011 *US$*	Audited 31 December 2010 *US$*
Contracted but not provided for	**8,157,940**	8,156,998
Authorised but not contracted	**13,108,821**	13,320,501

17. Related party transactions

The Company has appointed China Assets Investment Management Limited ("CAIML") as the investment manager for all investments. Mr. Lo Yuen Yat, the Chairman and an executive director of the Company, Mr. Xu Xiao Feng ("Mr. Xu") and Ms. Lao Yuan Yuan, executive directors of the Company, and Mr. Yeung Wai Kin ("Mr. Yeung"), an non-executive director of the Company, are also the directors of CAIML. Mr. Yeung and Mr. Xu are the shareholders of CAIML.

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

(a) During the period, the Company paid management fees totalling US$983,440 (2010: US$812,266) to CAIML under the management agreement signed between the Company and CAIML.

(b) As at 30 June 2011, management fee payable to CAIML amounted to US$8,337 (31 December 2010: US$8,898). The balance is denominated in United States dollar, unsecured, interest-free and will be settled in the third quarter of 2011.

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

(d) Key management compensation

	Unaudited Six months ended 30 June	
	2011 *US$*	2010 *US$*
Salaries and other short-term employee benefits	**19,259**	12,761
Pension costs — defined contribution plan	**725**	666
	19,984	13,427

Net Asset Value

The unaudited consolidated net asset value per share of the Group at 30 June 2011 was US$2.5499 (31 December 2010: US$2.5790).

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

As at 30 June 2011, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, were as follows:

Shares in the Company

	Number of shares held			% of the
Name of director	Personal interests	Corporate interests	Total	issued share capital
Lo Yuen Yat	100,000	0	100,000	0.13%
Yeung Wai Kin	100,000	0	100,000	0.13%
Fan Jia Yan	75,000	0	75,000	0.10%

Options in respect of shares in the Company

Details of the share options granted under the share option scheme approved on 19 May 2004 (the "Scheme") remain outstanding as at 30 June 2011 are as follows:

	Options held at 1 January 2011	Options lapsed during the period	Options exercised during the period	Options held at 30 June 2011	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	–	(100,000)[1]	400,000	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]	–	2.65	2.50	21/05/2004	25/05/2004-23/05/2014
	1,400,000	(300,000)[3]	–	1,100,000	5.74	5.62	25/04/2007	25/04/2007-24/04/2017
	7,475,000	(300,000)	(200,000)	6,975,000				

1. The weighted average closing price before the dates of exercise was HK$5.81.
2. The weighted average closing price before the dates of exercise was HK$5.60.
3. Pursuant to the terms of the Scheme, the options lapsed six months after the resignation of the employee.

Apart from the above, as at 30 June 2011, none of the Directors or the chief executive of the Company had or was deemed to have any interests and short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules.

Substantial shareholders' interests and short positions in the shares, Underlying Shares and Debentures of the Company and its associated corporations

The register of substantial shareholders' interests maintained under section 336 of the SFO reveals that as at 30 June 2011, 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, Underlying Shares and Debentures 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 30 June 2011.

Purchase, Sale or Redemption of Shares

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

Code on Corporate Governance Practices

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

During the six months ended 30 June 2011, the Company has complied with the code provisions in the CG Code.

Audit Committee

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

Model Code for Securities Transactions by the Directors

The Company has adopted Appendix 10 of the Listing Rules "Model Code for Securities Transactions by Directors of Listed Issuers" as rules for securities transactions initiated by the directors of the Company. Following specific enquiry by the Company, all directors have confirmed that they fully complied with the standard laid down in the said rules at any time during the period ended 30 June 2011.

Investment Review

China Assets (Holdings) Limited (the "Company") and its subsidiaries (together, the "Group") reported a loss of approximately US$0.20 million for the six months ended 30 June 2011, compared with a loss of US$5.43 million for the same period in 2010. The loss was mainly due to the fair value loss of US$1.72 million on a convertible bond while the loss in the corresponding period in 2010 was due to a major provision of US$6.91 million on loan and interest receivable from UniMedia Limited.

Adversely affected by the declining selling prices of its major antibiotics products as a result of price reduction measures implemented in March 2011, by the National Development and Reform Commission, and the rapid increase of costs of raw materials including soybean oil and starch, Shandong Lukang Pharmaceutical Co. Ltd. ("Lukang") reported a 2011 interim profit of RMB56.43 million (approx. US$8.73 million), a decline of 31.05% compared with profit of RMB81.84 million (approx. US$12.09 million) in the same period last year.

The Company's major associate, First Shanghai Investment Limited, reported a net profit of HK$11.97 million (approx. US$1.54 million) for the six months ended 30 June 2011, compared to a net loss of HK$10.67 million (approx. US$1.37 million) for the period ended 30 June 2010, which improvement in result was mainly due to increased contribution from the development and operation of property projects.

In February 2011, the Company invested US$7.32 million for a 6.63% common equity in a China mobile handset design and development company which had reported remarkable operational results from solid growth in the past few years.

In April 2011, the Company entered into an agreement to invest US$5.50 million in two tranches for an ultimate 28.48% Preferred B shares stake in Goldeneye Interactive Limited ("Goldeneye"), a vertical online search engine company specializing in the property market in mainland China. The US$3.85 million first tranche of investment was made in April 2011 and the US$1.65 million second tranche will be invested subject to the satisfactory achievement of performance milestones. The Founder and Series A shareholders of Goldeneye co-invested a total additional US$1.50 million on the same terms and conditions as the Company in the current round of Goldeneye financing.

During the period, the Company wrote off investments in Smartbuy Group Holdings Limited, iMedia Holdings Limited, full provision for both having been made in previous years. The Company also wrote off the loan receivable due from UniMedia Limited for which full provision was made last year. All the above companies ceased operation entirely and residual recovery, if any, from the investment or the loan, will be credited as other income.

As at 30 June 2011, the consolidated net asset value of the Group was US$195.73 million, representing a 0.87% decrease from US$197.44 million as at 31 December 2010. Apart from factors mentioned above, unrealized fair value losses on available-for-sale financial assets of approximately US$2.08 million was also included in the consolidated balance sheet, mainly resulting from the decline of Lukang's share price.

For the first half of 2011, the share market in China fluctuated widely and the Shanghai Composite A index settled marginally down by 1.64%, from 2,808 points at 31 December 2010, to 2,762 points at 30 June 2011. The disappointing performance of the China A share market for the first half-year was mainly due to continuing policy tightening by the Central Government which implemented a series of incremental hikes in the bank reserve ratio to the current 21.50% and lifted interest rates to the current 6.56%, thus decelerating the growth of money supply and squeezing liquidity in the credit market. At the same time, share performance in the property sector was adversely affected by various restrictive measures aimed at slowing the rapid rise in property prices. Due to its high correlation with the China market, the Hong Kong stock market also declined slightly, with the Hang Seng Index down by 2.77%. Global financial markets had a bumpy ride with sentiment primarily driven by worries about the European debt crisis, and concerns about U.S. growth and a Chinese economic slowdown. They were further punctuated by the impact of Japan's earthquake and tsunami. It was consequential that the performance of listed investments held by the Company in China and Hong Kong was not satisfactory.

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

Major Long-Term Investments

Investments in associates

First Shanghai Investments Limited ("FSIL")

FSIL reported a net profit of HK$11.97 million (approx. US$1.54 million) for the six months ended 30 June 2011, compared to the net loss of HK$10.67million (approx. US$1.37million) for the period ended 30 June 2010, which improvement in result was mainly due to increased contribution from the development and operation of property projects.

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

SIMC was founded by Shanghai International Medical Zone Group Company Limited, a wholly-owned local government entity, to establish a 500-bed class-A hospital in Shanghai International Medical Zone to provide high-end medical services to foreign expatriates in Shanghai and adjacent regions and also to local high income residents. The zone has been specifically reserved for development of all medical related services in Pudong New Area.

In 2010, the Group entered into an agreement to make a capital investment of RMB50.00 million (approx. US$7.60 million) by installments, collectively representing a 20.00% indirect interest in SIMC of which RMB10.00 million (approx. US$1.52 million) was paid.

On 26 April 2011, a further 5.00% indirect interest in SIMC, representing RMB2.50 million capital, was acquired at a consideration of RMB2.75 million (approx. US$0.43 million). The Group now owns a 25.00% indirect interest in SIMC. Subsequent to 30 June 2011, the Group paid RMB25.00 million as the second installment of the capital call and commits to paying a further RMB25.00 million in the future as the balance of its investment.

The SIMC hospital is planned to be completed in 2013. The project is currently undergoing various governmental approval procedures and design work is in progress. Construction work is expected to commence before the end of 2011.

Major Long-Term Investments *(Continued)*

Investments in associates *(Continued)*

Goldeneye Interactive Limited ("Goldeneye")

The Company entered into an agreement to invest US$5.50 million in two tranches for an ultimate 28.48% Preferred B share holding in Goldeneye. The first tranche of US$3.85 million was made in April 2011, and the second tranche of US$1.65 million will be invested upon the satisfactory achievement of agreed performance milestones. Goldeneye and its affiliated companies operate a web portal — www.fangjia.com — founded in 2006 by a group of seasoned industry practitioners in Shanghai and which received a round of Series A funding investment of US$2.80 million in 2008. www.fangjia.com is a vertical search engine specializing in online real estate information in the secondary market via data mining and sophisticated analysis through its self-developed and patented technology. As a tech-driven online real estate information service provider, www.fangjia.com covers 26 major cities in China with a database of 62,000 residential complexes and more than 4 million properties. It has already built up close co-op relationships with leading and mainstream institutional real estate agents and established a database of 5000+ real estate agents. The revenue model of www.fangjia.com is basically CPC (cost per click) and CPL (cost per lead) which is a typical and classical search engine model that other leading search portals also apply. It plans to expand its business to 60+ cities nationwide in 2011 and achieve daily traffic of more than 1 million UVs (unique visits) in 2012.

Available-for-sale financial assets

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

In March 2011, the National Development and Reform Commission implemented a price cut of around 20% on various pharmaceutical products, including antibiotics, causing a dampening effect on revenue throughout the industry during the period. The half-year performance was also adversely affected by the increase in production costs mainly due to the rapid increase in cost of raw materials. During the period, Lukang reported a profit of RMB56.43 million (approx. US$8.73 million), representing a decrease of 31.05% over the same period of 2010. In response to the changing conditions, Lukang has implemented energy conservation measures and streamlined production facilities to enhance cost control. Construction of a bio-pharmaceutical industrial park in Zhoucheng has been progressing smoothly and it is anticipated that completion of the project in the second half will improve Lukang's operational performance.

Major Long-Term Investments *(Continued)*

Available-for-sale financial assets *(Continued)*

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

Lukang's share price closed at RMB8.19 for the period ended 30 June 2011. Its highest and lowest closing prices for the period were RMB10.64 and RMB7.25 respectively.

As at 30 June 2011, the fair value of Lukang was stated as US$73.56 million and the unrealised fair value loss of US$1.58 million was transferred to the investment revaluation reserve.

China Pacific Insurance (Group) Co., Ltd. ("China Pacific")

In 2009, the Group subscribed to 2,767,800 shares in PRC general insurer China Pacific at HK$28.00 per share on its IPO at a total cost of HK$77.50 million (approx. US$10.09 million). During the period, the Company disposed of 1,279,600 shares for US$5.49 million, realizing a net profit of US$0.82 million.

Red Stone Fund ("RS Fund")

RS Fund was set up in Ganzhou, Jiangxi Province, in February 2010 as a limited partnership 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 it is capitalised at RMB500.00 million.

In 2010, the Group committed to indirectly invest a total of RMB30.00 million in RS Fund. The first subscription of RMB15.00 million (approx. US$2.21 million) was paid in February 2010; the second subscription of RMB9.00 million (approx. US$1.37 million) was paid in March 2011.

In 2010, RS Fund made investments respectively of 14.40% in equity in Ganxian Shirui New Material Company Limited and 12.50% in equity in Ganzhou Chenguang Rare Earths New Material Company Limited which reported satisfactory operational results for the period under review.

Major Long-Term Investments *(Continued)*

Available-for-sale financial assets *(Continued)*

Red Stone Fund ("RS Fund") (Continued)

In March 2011, RS Fund advanced an entrusted loan in the sum of RMB180.00 million to 太重煤機有限公司 (Tai Chong Coal Machinery Limited Company, "TCC") whose main businesses are the manufacture and sale of coal washing equipment, coking coal equipment and coal devices (scrapers, belt machines). It has registered capital of RMB 89.82 million of which 30.00% is owned by Taiyuan Heavy Machinery Group Coal Machine Co. Ltd ("THM"), a leading coal heavy machinery manufacturer with an 80-year history in Taiyuan, in northern China's Shanxi Province. THM has 20.00% domestic market share for its coal mining machinery while its high-power electric haulage shearer is the industry leader with 60.00% domestic market share. TCC is undergoing asset reorganization and THM is in the process of injecting its various major operating assets into TCC for its further expansion. Upon completion of the reorganization, TCC will be wholly-owned by THM at which time RS Fund has the option to convert all, or a portion, of the entrusted loan in the range of RMB150.00 million to RMB180.00 million for 11.2%-14.07% equity in TCC. The conversion will be based on the appraised value of TCC's net assets upon completion of the reorganization. It is anticipated the reorganization will be completed in October 2011.

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

The Group invested approximately US$6.94 million and US$1.28 million in PingAn Trust and China Alpha in 2007 respectively. Affected by the poor performance of the stock market in China, the market prices of PingAn Trust and China Alpha recorded a slight drop of 4.67% and 6.32% respectively. As a result, unrealised fair value losses of US$0.39 million and US$0.19 million respectively were transferred to the investment revaluation.

Major Long-Term Investments *(Continued)*

Financial assets at fair value through profit or loss

Mobile Handset Company

The Company invested US$7.32 million in February 2011 for 6.63% common equity, with an option to dispose to the founder shareholder under specified conditions, in a China mobile handset design and development company (the "Mobile Handset Company") which was established in 2006 by a group of experts from the TMT (Technology, Media, Telecom) industry and mobile device manufacturers. The Mobile Handset Company focuses on the production of ODM (Original Design Manufacturer) mobile phone handsets, offering feature phones and smart phones with total solutions for customers throughout China, India, Southeast Asia and other developing countries. The Mobile Handset Company has an R&D team of more than 200 engineers and a factory employing more than 500 workers on 6 production lines in Shanghai, plus subcontractors located in other parts of China. In the previous three financial years, it has reported annual growth rates of not less than 75.00% in output, revenue and net profit.

Holygene Corporation ("Holygene")

The Group owns a convertible note of US$2.20 million issued by Holygene to finance its EPO certification.

During the period, Holygene continued its application process for EPO certification. Positive results were received from comparable studies but the whole application schedule had been delayed due to production delays from its contractor.

As a result of the projected certification delay, the Group recorded a fair value loss of US$1.72 million on the convertible note for the period in accordance with an independent valuation report included in the consolidated income statement for the period.

Other investments

Loan receivable

Junhui International Holdings Limited ("Junhui")

In September 2009, the Group entered into a set of secured loan and warrant agreements with Junhui, pursuant to which the Group committed to provide a total of RMB50.00 million to Junhui to finance part of the construction cost of a dredging ship for dredging projects in China. Up to August 2010, the Group had, from time to time, advanced sums amounting to a total of RMB43.00 million to Junhui for its interim payments to the shipyard. Around July 2010, Junhui informed the Group that it was exploring the opportunity of a dredging project in Indonesia and intended to move the dredging ship, upon its completion, to operate in Indonesia. Having considered the political and business factors involved, both the Group and Junhui agreed all principal and interest be prepaid, irrespective of the scheduled repayment dates. Discussion on the revised repayment schedule has been ongoing and it is anticipated the loan and interest will be fully repaid no later than 2012. The Group considers there is no impairment to the loan receivable as it is fully secured by all the assets of Junhui and the personal guarantee of the sole shareholder of Junhui.

Investment For Which Full Provision Had Been Made

Canton Property Investment Ltd. ("Canton Property")

During the period, the Company continued to follow up with the provisional liquidator on latest developments concerning Canton Property. No significant progress was reported but the Company intends to try alternative strategies to recover any remaining assets from Canton Property.

Liquidity and Financial Resources

The financial position of the Group remained stable during the period. As at 30 June 2011, the Group had cash and cash equivalents of US$24.19 million (31 December 2010: US$30.25 million), of which US$21.72 million (31 December 2010: US$22.90 million) was held in the RMB equivalent in PRC bank deposits in Mainland China. The Group had no debt. Most of the Group's investments are located in Mainland China. RMB is not a freely convertible currency and the RMB exchange rate against the US dollar remained stable during the period.

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.

Prospects

China's economy continued to grow for the first half of 2011, reporting a GDP growth of 9.6%, supported by the expansion of fixed asset investments, domestic consumption and exports. The growth helped to dispel fears of a hard landing for the economy amid tightening policies to curb high inflation. Continuing industrialization and urbanization will keep GDP growth solid and enable policy-makers to steer expansion to a more manageable level. Nonetheless, as the consumer price index (CPI) rose 5.4% in the first half-year and hit 6.5% in July, it is anticipated China will continue to treat managing inflation as a top priority in the second half and the Central Bank may need to raise the bank reserve ratio and interest rates to tame any price jumps. This uncertainly on rate increases will exert constraint on China financial markets. The business environment of tighter credit, surging production costs and weaker export growth due to the European downturn and the possibility of a double-dip recession in the United States will be a drag on corporate profitability in the remainder of the year. There is consensus that China's economy will slow at a very gradual pace but a hard landing can be avoided. Globally, financial markets have fluctuated wildly recently in response to the unfolding events of the euro zone sovereign-debt crisis, the possible launch of QE3, the impact of the credit rating downgrade of government debt in the United States and fluctuating global commodity prices due to unstable political situations in the Middle East and North Africa. Nonetheless, as these intriguing factors become clearer towards the 4th quarter, financial markets are expected to stabilize, if not perform better, towards the end of 2011 in the absence of these uncertainties.

The Company will continue to make every effort to identify promising new investment projects with a primary focus on those related to domestic consumption or medical-related industries where it believes growth will be stable given supportive policies promulgated by the Central Government of China.

By Order of the Board
Lo Yuen Yat
Chairman