CHINA ASSETS (HOLDINGS) LIMITED

(Stock Code: 170)

ANNUAL REPORT

2011

Contents

Corporate Information

Board of Directors

Executive Directors

Mr. Lo Yuen Yat *(Chairman)*
Mr. Chan Suit Khown
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. Fan Jia Yan
Mr. Lo Yuen Yat
Mr. Wu Ming Yu

Nomination 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, 2011. The Group's consolidated net loss for the year was US$1.83 million and consolidated net asset value as at 31 December, 2011 was US$168.59 million, representing US$2.20 per share.

Business Review

2011 was a difficult year for the world economy and financial markets due to significant slowdown in the pace of global recovery. The poor performance of financial markets was a reflection of investors lacking confidence in the economic outlook as well as several significant events unfolding during the year. These included Europe's escalating debt crisis hanging unresolved; Republicans and Democrats stubbornly engaged in a debt ceiling battle in the United States; nuclear disaster and tsunami rocking Japan and widespread flooding in Thailand both causing disruption to global supply chains; and uprisings against governments across Northern Africa and the Middle East. These uncertainties and developments have been pushing the global economy to the brink, with fears of another major downturn leading to a double dip recession. In August, US treasuries were downgraded by Standard and Poors following an increase in the US debt ceiling by some US$2.4 trillion, implying the US interest burden would be increased in the future. Together with other accumulated uncertainties, the downgrading triggered substantial falls in global stock markets, with US stocks falling over 15% in just a fortnight in September, their biggest loss since 2008.

In China, the continuing tight liquidity to suppress inflation and the property market bubble slowed the economy. But its GDP maintained a respectable 9.2% growth as inflation cooled to below 4.5% in the last month of the year. Despite the country's relatively better economic performance, China's stock market, however, was nearly the worst performer of global markets. Its Shanghai A share index dropped from 2,808 points at the beginning of the year to 2,199 points at the close, a 21.7% decline. The Hong Kong Hang Seng Index, tracking closely to the mainland market, closed down by nearly 20% at 18,434 points. The poor performance of these two markets inevitably adversely affected the performance of the Group's investment portfolio of listed securities.

The Group recorded a loss of US$1.83 million for 2011. The consolidated net asset value decreased by US$28.85 million to US$168.59 million as at 31 December 2011. The operating loss was mainly due to its share of the losses of its major associate First Shanghai Investments Limited ("FSIL"), and the unrealized loss arising from the decline of fair value on financial assets at fair value through profit or loss. The change of net asset value was mainly attributed to the material decline of the market value of its investment in Shandong Lukang Pharmaceutical Co. Ltd. ("Lukang").

FSIL reported a net loss of HK$28.72 million (approximately US$3.70 million) for 2011, compared to the 2010 profit of HK$114.37 million (approximately US$14.69 million). The result was mainly due to the significant loss incurred from its securities trading and investment business caused by the poorly performing and wildly gyrating stock markets in Hong Kong and mainland China. As a result of the decline in the stock market's overall turnover, the contribution from stock broking operations was reduced accordingly. The contributions from FSIL's hotel and property developments both improved mildly while operational contributions from other divisions were mixed and not significant.

Lukang announced in January that its 2011 profit would fall substantially, estimating the decline to be not less than 60% compared with 2010. The operation had markedly deteriorated in the last quarter as a result of various factors. The Chinese Government had implemented a policy to tighten the widespread use of antibiotics by hospitals, resulting in a decrease in overall demand of antibiotics which are Lukang's major products. Due to high inflation, the costs of raw materials and energy have increased significantly. Squeezed by the decline in demand, competition among industry players has intensified to the point of fierce, driving the overall selling price down and increasing inventory levels, resulting in an additional provision for slow moving stock. The market price of Lukang shares declined in 2011 by nearly 42.30% to RMB 4.91 at the end of the year, resulting in a decrease in the Group's net asset value by US$26.87 million.

In February 2011, the Company invested US$7.32 million for a 6.63% common equity in Ragentek Technology Group Limited ("Ragentek"), a China mobile handset design and development company. Ragentek was founded in 2006 by a group of experts from the TMT (technology, media, telecom) sector and mobile device manufacturing. It focuses mainly on R&D and ODM (original design manufacturer) manufacturing of mobile phone handsets with GSM/3G/WiFi capacity and smart phones with total solutions. Its major customers are top local brands or local telecommunication operators mainly servicing major developing countries, including China, India and Brazil as well as regions in the Middle East, Southeast Asia and Africa.

In April 2011, the Company entered into an agreement to invest US$5.5 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 first tranche of US$3.85 million was made in April and the second tranche of US$1.65 million will be invested subject to the satisfactory achievement of performance milestones. The founder and Series A shareholders of Goldeneye co-invest for a total additional US$1.5 million on the same terms and conditions as the Company.

In April 2011, the Group acquired a further 5% indirect interest in Shanghai International Medical Centre Investment Management Company Limited ("SIMC"), representing RMB2.5 million capital at a consideration of RMB2.75 million (approx. US$0.43 million). The Group now holds a 25% indirect interest in SIMC. During the year, the Group paid RMB37.5 million for the second and third round of capital calls and commits to paying a further RMB12.5 million in the future as the balance of the investment.

In March 2011, the Group paid its second subscription of RMB9 million (approx. US$1.37 million) to Red Stone Fund which is to invest in mineral, energy or related industries in the PRC. The Group commits to paying RMB6 million as the balance of the investment.

Economic Outlook

Although European Union leaders have agreed on tougher fiscal discipline to shore up market confidence, Europe might go through a long process of anemic economic growth due to new fiscal austerity moves. In the United States, the economy has struggled for many months with slow growth while the unemployment rate has remained high. Despite this grave economic situation, the United Nations said in a report that emerging economies, headed by China, Brazil and India, would continue to play a leading role in promoting world economic growth at a slower but stabilized rate.

China will still achieve relatively healthy economic growth in 2012 as inflation has peaked and moderated to a more comfortable level, allowing the Central Bank flexibility to fine-tune monetary conditions and supply the economy with modest additional credit. Stability is a prime concern of the Central Government, especially when there will be political transition to new leadership. A hard landing is expected to be avoided. Nonetheless, exports will be subdued due to the weak Eurozone economy which accounted for 20% of China's exports, industrial output growth will moderate further in 2012 but consumption appears to be taking up the slack and fiscal policy is set to be supportive. Overall, it is anticipated there will be a relatively modest slowing in growth in GDP to 7.50% — 8.00% in 2012, given that the sovereign debt crisis in the Eurozone appears to be finally contained and should not be worsen.

It is expected that equity markets will continue to fluctuate in response to unfolding events in the Eurozone debt crisis. In the United States, the Federal Reserve said it would keep interest rates near zero until 2014 and was prepared to step in should growth and unemployment weaken. This supportive policy has indirectly provided a cushion to the equity market in the United States, its contagion effect spilling over to other markets like Hong Kong when their performances have been positively correlated. There is no doubt that the market will continue to swing wildly, as has been common in recent years, but I believe it has already factored in major bad news and is priced reasonably at an overall price/earnings ratio commensurate with historic long-term averages. It is believed the downside risk to the market in Greater China region is limited and I am optimistic that our portfolio will have a meaningful rebound in 2012.

Chairman's Statement

Liquidity and Financial Resources

The financial position of the Group was healthy throughout the year. As at 31 December 2011, the Group had cash and cash equivalents of US$18.68 million (2010: US$30.25 million), of which US$16.7 million (2010: US$22.9 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 view of the economic and market uncertainties in 2011, the Group adopted a cautious investment strategy, particularly with respect to industries which had been highly subjected to policies implemented by the Central Government of China. However, as the economic climate has shown recent signs of warming, the Group will speed up its pace to identify new investment opportunities. The focus will be on companies providing products or service in line with market trends and preferences, with proven growth potential and a realistic business model.

Even though the Group has not restricted its areas of investing, it intends to shift major resources to industries which meet China's domestic consumption or services demand and which could survive any economic downturn. The performance of the Group's investments in start-ups and IT industries, our focus in past years, had been varied and erratic and as a result it will place less emphasis on them. The Group identifies the medical-related sector as a suitable direction to take and includes related investments as a major component of its drive for mid-term growth.

As announced previously, the Company has discussed and agreed to various changes in the arrangements with China Assets Investment Management Limited, the Company's investment manager, which will be put to shareholders for approval in due course.

Finally, I would like to take this opportunity to thank my fellow directors, shareholders, members of the investment committee and the investment manager for their valuable contributions and support.

By Order of the Board
Lo Yuen Yat
Chairman
Hong Kong, 23 March 2012

Investments

Major Long-term Investments as at 31 December 2011

Name	Nature of business	% of total issued capital %	Invested amount US$	Impairment loss US$	Carrying value US$	% of total asset value %	Dividend received US$
Investments in associates							
First Shanghai Investments Limited	Investment holding	17.71	13,770,330	0	55,345,629	31.69	318,266
Shanghai Medical International Centre	Provision of medical services	**25.00	7,983,794	0	7,947,762	4.55	0
Goldeneye Interactive Limited	Provision of online real estate information	22.37	3,850,000	0	3,565,617	2.04	0
Available-for-sale financial assets							
Shandong Lukang Pharmaceutical Co., Ltd.	Manufacture and sale of pharmaceutical products	9.98	8,750,181	0	45,285,167#	25.94	0
China Pacific Insurance (Group) Co., Ltd.	Provision of insurance service and management of insurance funds	0.02	5,427,472	0	4,234,591#	2.43	89,916
Red Stone Fund	Investment holding	**6.00	3,578,254	0	6,814,015#	3.90	0
PingAn Defeng Collective Fund Trust Plan	Investment fund	N/A	6,940,436	0	7,024,944#	4.02	0
China Alpha Fund	Investment fund	N/A	1,280,443	0	2,730,350#	1.56	0
Canton Property Investment Ltd.	Development and lease of commercial buildings	1.52	6,999,499	6,999,499	0	0	0
Total			**58,580,409**	**6,999,499**	**132,948,075**	**76.13**	**408,182**

** indirect interest

also represent their fair values

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$
Investments in associates							
First Shanghai Investments Limited	Investment holding	17.71	13,770,330	0	56,427,526	27.32	381,757
Shanghai Medical International Centre	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

Other Major Investments as at 31 December 2011

Name	Nature of business	Number of shares held	% of total issued capital	Cost	Market value	% of total asset value	Dividend received
			%	US$	US$	%	US$
Financial assets at fair value through profit and loss							
Ragentek Technology Group Limited	Manufacturer of original design mobile phone	1,276,943	6.63	7,317,557	7,317,557	4.19	0
Holygene Corporation	Provision of pharmaceutical research and development services	Convertible note	N/A	2,200,000	2,401,538	1.38	0
Total				**9,517,557**	**9,719,095**	**5.57**	**0**

Other Major Investments as at 31 December 2010

Name	Nature of business	Number of shares held	% of total issued capital	Cost	Market value	% of total asset value	Dividend received
			%	US$	US$	%	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**

Major Long-Term Investments

Investments in associates

First Shanghai Investments Limited ("FSIL")

FSIL reported a loss of HK$28.72 million (approximately US$3.70 million) for 2011, compared to the profit of HK$114.37million (approximately US$14.69 million) in 2010. The result was mainly due to the significant loss incurred from its securities trading and investment business, caused by the poorly performing and wildly gyrating stock markets in Hong Kong and mainland China. As a result of the decline in the overall turnover of the stock market, the contribution from the stock broking operation was reduced accordingly. The contributions from its hotel and property development both improved mildly while operational contributions from other divisions were mixed and not significant.

Shanghai International Medical Center 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 million (approx. US$7.6 million) by installments, collectively representing a 20% indirect interest in SIMC of which RMB10 million (approx. US$1.52 million) was paid.

On 26 April, 2011, a further 5.00% indirect interest in SIMC representing RMB2.5 million capital was acquired at a consideration of RMB2.75 million (approx. US$0.43 million). The Group now owns a 25% indirect interest in SIMC. During the year, the Group paid RMB37.5 million for the second and third round of capital calls and commits to paying a further RMB12.5 million in the future as the balance of its investment.

SIMC received government approvals and permits for construction in December 2011 and began piling for the main building. In parallel to the construction stage, SIMC, together with its contracted manager, Parkway (Shanghai) Hospital Management Ltd, has been in discussion with Shanghai Jiao-Tong University Medical School to explore the possible model for co-operation. The SIMC hospital is planned to be completed in 2013.

Goldeneye Interactive Limited ("Goldeneye")

The Company entered into an agreement to invest US$5.5 million in two tranches for an ultimate 28.48% Preferred B shares in Goldeneye, a vertical online search engine company specialized on the property market in mainland China. The first tranche of investment US$3.85 million was made in April and the second tranche US$1.65 million will be invested subject to the satisfactory achievement of the performance milestone. Founder and Series A shareholders of Goldeneye co-invest for a total additional US$1.5 million on the same terms and conditions. Goldeneye and its affiliated companies operate a portal — www.fangjia.com — founded in 2006 by a group of seasoned industry practitioners in Shanghai and received a Series A funding investment 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. The additional funding injected was planned to finance a major marketing campaign which would generate traffic flow and hence the revenue. The initial phase of the campaign did not show significant improvement to the traffic flow which was mainly due to the stagnant property market as a result of the ongoing government tightening policies. It is still anticipated businesses directly related to real estate under the current environment will have to go through a difficult period. Goldeneye has implemented measures on costs control by having downsized the headcount in early 2012, resulting its monthly expenditures reduced by 40%, concurrently, in addition to its existing business model CPC (cost per click) and CPL (cost per lead) to generate revenue, it is exploring the feasibilities of selling in-depth property data to banks and appraisal institutions by utilizing their strong data mining tools.

Available-for-sale financial assets

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

In March 2011, China's National Development and Reform Commission implemented a price cut of around 20% on various pharmaceutical products, including antibiotics, causing a dampening effect on overall revenue throughout the industry. Lukang was also affected by the continuing rise of costs of raw materials and energy. As a result of these major factors, the company reported a disappointing profit of RMB56.43 million (approx. US$7.25 million) for the first half year, representing a decrease of 31% over the same period of 2010.

In January 2012, Lukang announced that its 2011 profit would fall substantially, estimating the decline to be not less than 60% compared with 2010. The business had markedly deteriorated in the last quarter as new adverse factors further impacted on the operation. The Chinese Government had implemented a policy to tighten the widespread use of antibiotics by hospitals, resulting in a decrease in overall demand of the medicines which are Lukang's major products. It also instituted a bidding system at hospitals, decreeing that the purchase of all drugs had to be by tender, therefore stimulating increased competition among industry players. These policies have aggravated Lukang's pricing structures and turnover, driving down the overall selling price and increasing inventory levels. This has resulted in the need for an additional provision for slow moving stock.

Lukang's share price closed at RMB4.91 at the end of 2011 and the highest and lowest closing prices in 2011 were RMB10.64 and RMB4.63 respectively. As at 31 December 2011, the fair value of Lukang was calculated as US$45.29 million and the unrealized fair value loss (net) of US$26.87 million was transferred to the investment revaluation reserve.

Red Stone Fund ("RS Fund")

RS Fund was set up in Ganzhou, Jiangxi Province, in January 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 its size is RMB500 million.

In 2010, the Group committed to indirectly invest a total of RMB30 million in RS Fund. The first subscription of RMB15 million (approx. US$2.22 million) was paid in February 2010; the second subscription of RMB9 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 year.

In March 2011, RS Fund advanced an entrusted loan in the sum of RMB180 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 (scraper, belt machine). It has registered capital of RMB89.82 million of which 30% is owned by Taiyuan Heavy Machinery Group Coal Machine Co. Ltd ("THM"), a leading coal heavy machinery manufacturer with 80 years history in Tai Yuan, Shanxi, China. THM has 20% domestic market share for its coal mining machinery while its high-power electric haulage shearer is the industry leader with 60% 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 million to RMB180 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 conversion will be completed by March 2012.

Due to the surge of the prices of rare earths and minerals, the financial performance of its underlying investments improved strongly. In accordance with an independent valuation report, the fair value of the RS Fund was US$6.81 million, resulting a revaluation surplus of US$2.84 million being transferred directly to the investment revaluation reserve.

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

China Alpha II 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 significant drop of 13.68% and 9.92% respectively. As a result, unrealised fair value losses of US$1.20 million and US$0.3 million respectively were transferred to the investment revaluation reserve.

Ragentek Technology Group Limited ("Ragentek")

In February, 2011, the Company invested US$7.32 million for a 6.63% common equity in Ragentek, a China mobile handset design and development company which had remarkable operation result with solid growth prior to 2011. Ragentek was founded in 2006 by a group of experienced experts from TMT (Technology, Media, Telecom) industry and mobile device manufacturers, focusing mainly on R&D and manufacturing of mobile phone handsets ODM (Original Design Manufacturer) covering GSM/3G/WiFi and smart phone with total solutions. Its major customers are top local brands or local telecommunication operators mainly spanned over major developing countries including China, India and Brazil as well as regions covering Middle East, Southeast Asia and Africa.

In 2011, its sales and operating revenue have decreased due to disruptions to manufacturing supply chains caused by the Japan earthquake and Thailand severe flooding, as well as the political instability in Middle East and Africa which are its major markets. Ragentek expects its growth track will continue in 2012 despite the brief set back in 2011 as it has been shifting from 2G products to 3G smart-phone products and will launch its self-branded product lines in the first quarter, which is expected to be a big boost to both its revenue and operating profit.

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$2.2 million issued by Holygene in order to finance its EPO certification. In 2010, the fair value of the convertible note was US$3.75 million.

During the year, 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, a fair value loss of US$1.35 million on the convertible note was recorded in the consolidated income statement for the year in accordance with an independent valuation report.

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

In 2009, the Group subscribed 2,767,800 shares of China Pacific, a PRC general insurer, at HK$28.00 per share upon its IPO for a total consideration of HK$77.5 million (approx. US$10.09 million). During the year, the Company disposed 1,279,600 shares for a proceed of US$5.49 million, realizing a net profit of US$0.82 million. China Pacific closed at HK$22.10 per share at the end of the year, resulting a HK$14.88 million (US$1.92 million) unrealized loss transferred to investment revaluation for the year.

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 million to Junhui to finance part of the construction cost of a dredging ship for dredging projects in China. The Group had from time to time advanced sums amounting to a total of RMB43 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. In July 2011, Junhui paid RMB5 million as payment for partial accrued interest. Discussion on the revised repayment schedule has been going on 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 secured by all the shares in Junhui and the personal guarantee of the sole shareholder of Junhui.

Investment for Which Full Provisions Had Been Made

Canton Property Investment Ltd. ("Canton Property")

A petition to wind up Canton Property was presented to the Court in April 2009. On 8 December 2011, a winding-up order was made against Canton Property by the order of the High Court on the same day. Liquidators were appointed in the first creditors meeting in January, 2012. It was noted that the major assets of Canton Property was auctioned by its major creditor bank through a public auction directed by the Peoples' Court in Yuexiu District, Guangdong Province of the PRC in November 2011. The liquidators have commenced discussion with the creditor bank on the latest development and agree to keep the Group informed of any progress.

During the year, the Company wrote off the investments in Smartbuy Group Holdings Limited and iMedia Holdings Limited, provision for both having been fully made in previous years. The Company also wrote off the loan receivable due from Unimedia Limited for which full provision was also provided in the previous year. These three companies have ceased operations entirely and residual recovery, if any, from the investment or the loan will be credited as other income.

Biographical Details of Directors

Mr. LO Yuen Yat, aged 66, 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 57, 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.

Ms. LAO Yuan Yuan, aged 33, has been a director since 2005. 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 49, 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 has extensive experiences in financial and business planning, budgeting and controlling, legal and statutory tax planning, risk management and investment feasibility studies and decision making. 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 50, has been a director since 1997. He is a director of various subsidiaries of the Company and also a shareholder 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 25 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 67, 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. He is an indirect shareholder of CAIML.

Mr. FAN Jia Yan, aged 65, 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 80, 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 honorary chairman of Creat Group Company Limited. 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. Mr. Wu resigned as independent non-executive director of Venturepharm Laboratories Limited on 27 December 2011.

Dr. David William Maguire, aged 59, 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 2011 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 particularly in the area of compliance with connected transaction rules where it has identified (and announced) failures to comply with those rules in connection with the renewal of investment management arrangements.

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 2011, the Company has complied with the code provisions in the CG Code. This report describes how the principles of the CG Code were applied.

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 fully complied with the standard laid down in the said rules during the year ended 31 December 2011.

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 the Company corporate governance principles and standard.

As disclosed below, the Board maintains a balanced composition of executive and non-executive directors. There is a strong independent element on the Board which can effectively bring independent judgment to the Company. In addition, the Board has a balance of skills and experience appropriate for the Company. Biographical details of the directors are set out on pages 15 to 16.

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 rules 3.10 (1) and (2) of the Listing Rules, the Company has 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 the majority of 2011, the Board composed of ten directors, of whom four were Executive Directors, three were Non-executive Directors and three were Independent Non-executive Directors. One Executive Director resigned in October and the Board composed of nine directors at the end of the year.

The members of the Board during the year ended 31 December 2011 and up to the date of this report are set out as follows:

Executive Directors:

Mr. Lo Yuen Yat, *Chairman*
Mr Chan Suit Khown
Ms. Lao Yuan Yuan
Mr. Xu Xiao Feng (resigned on 21 October 2011)

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 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.

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.

The Board held five board meetings during the year ended 31 December 2011. 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 in by the directors either in person or through other means of communication.

The individual attendance of each director at the five board meetings for the year ended 31 December 2011 is set out as follows:

Name of Director	Attendance
Mr. Lo Yuen Yat	5/5
Mr. Chan Suit Khown	5/5
Ms. Lao Yuan Yuan	5/5
Mr. Xu Xiao Feng	4/4
Mr. Jiang Wei	1/5
Mr. Yeung Wai Kin	4/5
Mr. Zhao Yu Qiao	3/5
Mr. Fan Jia Yan	5/5
Mr. Wu Ming Yu	4/5
Dr. David William Maguire	5/5

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 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 a coherent remuneration policy which:

(i) enables the Company to attract, retain and motivate directors and senior management who create value for shareholders;

(ii) fairly and responsibly rewards 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) complies with the provisions of the Listing Rules and 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 2011, the Remuneration Committee was composed of three members of whom one is an Executive Director, Mr. Lo Yuen Yat, and two are Independent Non-executive Directors, Mr. Fan Jia Yan and Mr. Wu Ming Yu. The Chairman of the Remuneration Committee was Mr. Lo Yuen Yat during the year and up to 14 March 2012. Mr. Fan Jia Yan has been appointed Chairman of the Remuneration Committee effective 15 March 2012.

The Remuneration Committee has not held any meeting to discuss the remuneration related matters for the year ended 31 December 2011.

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 are Independent Non-executive Directors, Mr. Fan Jia Yan and Mr. Wu Ming Yu, and one is a 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 an 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 2011. The individual attendance of each member at the committee meetings for the year ended 31 December 2011 is set out as follows:

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

Nomination Committee

A Nomination Committee with specific written terms of reference was established on 15 March 2012. The terms of reference are formulated based on the code provisions of the CG Code. The Nomination Committee is a committee of the Board. It performs the following duties:

(i) reviews the structure, size and composition (including the skills, knowledge and experience) of the board at least annually and make recommendations on any proposed changes to the board to complement the Company's corporate strategy;

Nomination Committee *(Continued)*

(ii) identifies individuals suitably qualified to become board members and select or make recommendations to the board on the selection of individuals nominated for directorships;

(iii) assesses the independence of independent non-executive directors; and

(iv) makes recommendations to the board on the appointment or re-appointment of directors and succession planning for directors, in particular the chairman and the chief executive.

The Nomination Committee is composed of three members of whom one is an Executive Director, Mr. Lo Yuen Yat and two are Independent Non-executive Directors, Mr. Fan Jia Yan and Mr. Wu Ming Yu. The Nomination Committee is chaired by Mr. Lo Yuen Yat.

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 2011.

	US$
Annual audit fee	148,763
Non-audit fee	1,931
	150,694

Internal Control

The directors acknowledge their responsibility 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 in March 2011, the Audit Committee was satisfied that the internal control system had been in place and functioned effectively. However in light of the non compliance with certain requirements of the Listing Rules that subsequently came to light, and the Company has disclosed, in respect of the arrangements with the Company's investment manager, China Assets Investment Management Limited, the Audit Committee has proposed and the board has adopted new internal controls relating to continuing connected transactions.

Directors' Responsibility for Preparing the Consolidated Financial Statements

The directors acknowledge their responsibility 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 31 and 32.

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 four members and all are also 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 2011.

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 14 and 15 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 6 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 33.

The directors do not recommend the payment of a dividend for the year ended 31 December 2011.

Reserves

Movements in the reserves of the Group and the Company during the year are set out in Note 22 to the consolidated financial statements.

Share Capital

Details of share capital of the Company are set out in Note 21 to the consolidated financial statements.

Distributable Reserves

Distributable reserves of the Company as at 31 December 2011 amount to US$6,505,140 (2010: US$4,807,066).

Report of the Directors

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 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
Ms. Lao Yuan Yuan
Mr. Xu Xiao Feng (resigned on 21 October 2011)
Mr. Jiang Wei
Mr. Yeung Wai Kin
Mr. Zhao Yu Qiao
* Mr. Fan Jia Yan
* Mr. Wu Ming Yu
* Dr. David William Maguire

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

In accordance with Articles 87B, 90 and 98 of the Company's Articles of Association, Ms. Lao Yuan Yuan, Mr. Zhao Yu Qiao and Mr. Wu Ming Yu will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Directors' Service Contracts

No director (whether or not he/she 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 15 and 16.

Amended Management Agreement

The Company entered into an agreement (the "Management Agreement") on 28 March 1991 with 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 (as from time to time amended, 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 complied 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.

On 15 September 2011, the Company and the Manager entered into a second supplemental agreement, supplemental to the Amended Management Agreement and conditional on shareholder approval, under which they agreed to extend the term of the Amended Investment Management Agreement so that it runs for a further three years from 1 January, 2011 to 31 December, 2013 and that the total annual remuneration payable to CAIML under the Amended Management Agreement for specified periods will not exceed certain maximum amounts.

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 a performance bonus based on a specified formula and the return on net assets and net capital gains of the Company.

CAIML was until August 2011 (but is no longer) 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 2011. On the other hand, the Company is a substantial shareholder of FSIL holding approximately 17.71% equity interests in FSIL as at 31 December 2011.

The directors of the Company confirm that none of them has any equity interest in CAIML or had at any material time any 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 shareholder of CAIML and was a former director of CAIML, and is a director and shareholder of FSIL; (c) Ms. Lao Yuan Yuan was a former director of CAIML and (d) Mr. Zhao Yu Qiao is an indirect shareholder of CAIML.

Further details of the above transaction are disclosed in Note 26(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 2011 are as follows:

	Options held at 1 January 2011	Options lapsed during the year	Options exercised during the year	Options held at 31 December 2011	Exercise price *HK$*	Closing price before the date of grant	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.

* Resigned on 21 October 2011.

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 2011, 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	155,000	0	155,000	0.20%
Yeung Wai Kin	100,000	0	100,000	0.13%
Fan Jia Yan	75,000	0	75,000	0.09%

Apart from the Amended Management Agreement and the Scheme stated above, at no time during the year had the Company, its subsidiaries, its associates, its fellow subsidiaries or its holding company a party to any arrangement to enable the directors and chief executives of the Company to hold any interests or short positions in the shares or underlying shares in, or debentures of, the Company or its associated corporation.

Directors' and Chief Executive's Interest and Short Positions in the Shares, Underlying Shares and Debentures of the Company and its Associated Corporations *(Continued)*

Apart from the above, as at 31 December 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 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 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 Beneficial owner	16,738,918 3,176,082	21.86% 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 2011.

Sufficiency of Public Float

Based on the information that is publicly available to the Company and within the knowledge of the directors, it is confirmed that there is sufficient public float of more than 25% of the Company's issued shares as at the date of this report.

Auditor

The consolidated financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Lo Yuen Yat

Chairman

Hong Kong, 23 March 2012

PRICEWATERHOUSECOOPERS

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TO THE SHAREHOLDERS OF CHINA ASSETS (HOLDINGS) LIMITED

(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of China Assets (Holdings) Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 33 to 89, which comprise the consolidated and company balance sheets as at 31 December 2011, 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 Ordinances, 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 2011, and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 23 March 2012

Consolidated Income Statement

For the Year Ended 31 December 2011

	Notes	2011 US$	2010 US$
Income	6	**2,420,614**	1,512,088
Other (losses)/gains — net	7	**(387,360)**	8,872,110
Other income/(expenses) — net	8	**65,460**	(6,126,611)
Administrative expenses	9	**(2,699,552)**	(2,289,247)
Operating (loss)/profit		**(600,838)**	1,968,340
Share of (losses)/profits of associates		**(1,096,055)**	2,920,312
(Loss)/profit before income tax		**(1,696,893)**	4,888,652
Income tax expense	11	**(132,989)**	(790,208)
(Loss)/profit for the year attributable to equity holders of the Company	12	**(1,829,882)**	4,098,444
(Losses)/earnings per share attributable to the equity holders of the Company during the year	13		
— Basic		**(0.024)**	0.054
— Diluted		**(0.024)**	0.053

The notes on pages 40 to 89 are an integral part of these consolidated financial statements.

Dividend	**—**	—

Consolidated Statement of Comprehensive Income

For the Year Ended 31 December 2011

	2011	2010
	US$	US$
(Loss)/profit for the year	**(1,829,882)**	4,098,444
Other comprehensive (loss)/income:		
Share of post-acquisition reserves of associates	**(468,949)**	(278,904)
Exchange differences arising on translation of associates and subsidiaries	**1,505,598**	458,830
Release of investment revaluation reserve upon disposal of available-for-sale financial assets	**(669,456)**	(5,695,386)
Fair value (losses)/gains of available-for-sale financial assets, net of deferred income tax	**(27,458,437)**	15,382,834
Other comprehensive (loss)/income for the year, net of tax	**(27,091,244)**	9,867,374
Total comprehensive (loss)/income for the year attributable to equity holders of the Company	**(28,921,126)**	13,965,818

The notes on pages 40 to 89 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

As at 31 December 2011

	Notes	2011 US$	2010 US$
ASSETS			
Non-current assets			
Investments in associates	15	**66,859,008**	57,948,485
Available-for-sale financial assets	16	**66,115,220**	100,112,754
Total non-current assets		**132,974,228**	158,061,239
Current assets			
Loans receivable	17	**7,331,903**	7,965,991
Other receivables, prepayments and deposits	18	**2,229,838**	1,560,035
Financial assets at fair value through profit or loss	19	**13,408,379**	8,674,035
Cash and cash equivalents	20	**18,681,992**	30,247,889
Total current assets		**41,652,112**	48,447,950
Total assets		**174,626,340**	206,509,189
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	21	**7,675,816**	7,655,816
Reserves	22	**160,915,620**	189,788,708
Total equity		**168,591,436**	197,444,524
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	23	**3,998,213**	6,937,960
Current liabilities			
Accounts payable		**144,683**	149,715
Accrued expenses		**155,700**	148,838
Amounts due to related companies	26(c)	**310,609**	308,045
Current income tax liabilities		**1,425,699**	1,520,107
Total current liabilities		**2,036,691**	2,126,705
Total liabilities		**6,034,904**	9,064,665
Total equity and liabilities		**174,626,340**	206,509,189
Net current assets		**39,615,421**	46,321,245
Total assets less current liabilities		**172,589,649**	204,382,484

Lo Yuen Yat — *Director*

Chan Suit Khown — *Director*

The notes on pages 40 to 89 are an integral part of these consolidated financial statements.

Balance Sheet

As at 31 December 2011

	Notes	2011 US$	2010 US$
ASSETS			
Non-current assets			
Investments in subsidiaries	14	**20,573,551**	21,655,887
Investments in associates	15	**17,620,330**	13,770,330
Available-for-sale financial assets	16	**59,090,276**	91,974,864
Total non-current assets		**97,284,157**	127,401,081
Current assets			
Loans receivable	17	**7,331,903**	7,540,123
Other receivables, prepayments and deposits	18	**2,166,152**	1,214,038
Financial assets at fair value through profit or loss	19	**11,006,841**	4,451,824
Cash and cash equivalents	20	**10,383,172**	15,162,620
Total current assets		**30,888,068**	28,368,605
Total assets		**128,172,225**	155,769,686
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	21	**7,675,816**	7,655,816
Reserves	22	**115,156,442**	139,655,958
Total equity		**122,832,258**	147,311,774
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	23	**3,977,086**	6,638,596
Current liabilities			
Accounts payable		**144,683**	149,672
Accrued expenses		**155,700**	148,481
Amounts due to subsidiaries and related companies	26(c)	**372,719**	807,335
Current income tax liabilities		**689,779**	713,828
Total current liabilities		**1,362,881**	1,819,316
Total liabilities		**5,339,967**	8,457,912
Total equity and liabilities		**128,172,225**	155,769,686
Net current assets		**29,525,187**	26,549,289
Total assets less current liabilities		**126,809,344**	153,950,370

Lo Yuen Yat
Director

Chan Suit Khown
Director

The notes on pages 40 to 89 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the Year Ended 31 December 2011

	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$
Balance as 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 for the year attributable to equity holders of the Company	—	—	—	—	—	—	(1,829,882)	(1,829,882)
Other comprehensive loss								
Share of post-acquisition reserves of associates	—	—	(468,949)	—	—	—	—	(468,949)
Exchange differences arising on translation of associates and subsidiaries	—	—	—	1,505,598	—	—	—	1,505,598
Release of capital reserve upon write-off of associates	—	—	(189,096)	—	—	—	189,096	—
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	—	—	—	—	—	(30,398,184)	—	(30,398,184)
Deferred income tax on fair value losses of available-for-sale financial assets	—	—	—	—	—	2,939,747	—	2,939,747
Total other comprehensive loss for the year, net of tax	—	—	(658,045)	1,505,598	—	(28,127,893)	189,096	(27,091,244)
Total comprehensive loss for the year ended 31 December 2011	—	—	(658,045)	1,505,598	—	(28,127,893)	(1,640,786)	(28,921,126)
Total contributions by and distributions to equity holders of the Company recognised directly in equity								
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 contributions by and distribution to equity holders of the Company	20,000	48,038	—	—	(100,998)	—	100,998	68,038
As at 31 December 2011	7,675,816	69,107,882	7,367,380	2,663,003	1,826,375	24,939,781	55,011,199	168,591,436

The notes on pages 40 to 89 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the Year Ended 31 December 2011

	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$
Balance 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
Comprehensive income								
Profit for the year attributable to equity holders of the Company	—	—	—	—	—	—	4,098,444	4,098,444
Other comprehensive income								
Share of post-acquisition reserves of associates	—	—	(278,904)	—	—	—	—	(278,904)
Exchange differences 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)
Total other comprehensive income for the year, net of tax	—	—	(278,904)	458,830	—	9,687,448	—	9,867,374
Total comprehensive income for the year ended 31 December 2010	—	—	(278,904)	458,830	—	9,687,448	4,098,444	13,965,818
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

The notes on pages 40 to 89 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the Year Ended 31 December 2011

		Year ended 31 December	
		2011	2010
	Notes	***US$***	*US$*
Cash flows from operating activities			
Cash used in operations	*24*	**(8,306,871)**	(7,586,195)
Hong Kong profits tax paid		**(183,204)**	(283)
Overseas profit tax paid		**(80,116)**	(56,378)
Net cash used in operating activities		**(8,570,191)**	(7,642,856)
Cash flows from investing activities			
Interest received		**2,202,384**	1,304,767
Dividend received from an associate		**318,266**	381,757
Dividends received from listed investments		**218,230**	207,321
Investments in associates		**(10,233,521)**	(1,520,959)
Purchase of available-for-sale financial assets		**(1,372,956)**	(2,205,299)
Net proceed from disposal of available-for-sale financial assets		**5,485,575**	7,982,299
Net cash (used in)/generated from investing activities		**(3,382,022)**	6,149,886
Cash flows from financing activities			
Proceed from issue of new shares upon exercise of share options		**68,038**	—
Net cash generated from financing activities		**68,038**	—
Net decrease in cash and cash equivalents		**(11,884,175)**	(1,492,970)
Cash and cash equivalents at beginning of year		**30,247,889**	31,078,367
Exchange gains on cash and cash equivalents		**318,278**	662,492
Cash and cash equivalents at end of year	*20*	**18,681,992**	30,247,889

The notes on pages 40 to 89 are an integral part of these consolidated financial statements.

Notes to the 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 23 March 2012.

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.

(i) Changes in accounting policy and disclosures

(1) New and amended standards adopted by the Group

The following new and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2011 but not currently relevant to the Group (although they may affect the accounting for future transactions and events).

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

(a) Basis of preparation *(Continued)*

(i) Changes in accounting policy and disclosures *(Continued)*

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

- 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" 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.

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

(a) Basis of preparation *(Continued)*

(i) Changes in accounting policy and disclosures *(Continued)*

(2) New and amended 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
HKAS 27 (Amendment)	Separate financial statements	1 January 2013
HKAS 28 (Amendment)	Investments in associates and joint ventures	1 January 2013
HKAS 32 (Amendment)	Financial instruments: Presentation — Offsetting financial assets and financial liabilities	1 January 2014
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 7 (Amendment)	Disclosures — Offsetting financial assets and financial liabilities	1 January 2013
HKFRS 9	Financial instruments	1 January 2015
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 measurement	1 January 2013
HK(IFRIC)-Int 20	Stripping costs in the production phrase of a surface mine	1 January 2013

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

(a) Basis of preparation *(Continued)*

(i) Changes in accounting policy and disclosures *(Continued)*

(2) New and amended standards have been issued but are not effective for the financial year beginning 1 January 2011 and have not been early adopted. (Continued)

The Group has already commenced an assessment of the related impact of adopting the above new and amended standards to the Group. The Group is not yet in a position to state whether the above new and amended standards will result in substantial changes to the Group's accounting policies and presentation of the financial statements.

(b) Subsidiaries

(i) Consolidation

Subsidiaries are all entities (including special purpose 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.

Inter-company transactions, balances, income and expenses on transactions between Group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group applies the acquisition method 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 to the former owners of the acquiree 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. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

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

(b) Subsidiaries *(Continued)*

(i) Consolidation *(Continued)*

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

(ii) Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. 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.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary 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.

(c) 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. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition.

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

(c) Associates *(Continued)*

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognised in the consolidated income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to 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 legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the consolidated income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are 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.

(d) 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 steering committee that makes strategic decisions.

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

(e) 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 (US$), 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, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

All foreign exchange gains and losses are presented in the consolidated income statement within "other (losses)/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.

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.

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

(e) Foreign currency translation *(Continued)*

(iii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a 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.

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. Exchange differences arising are recognised in equity.

(f) Impairment of non-financial assets

Assets that have an indefinite useful life — for example, goodwill or intangible assets not ready to use — are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation 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.

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

(g) 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 consolidated balance sheet (Notes 2(i) and 2(j)).

(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.

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

(g) Financial assets *(Continued)*

Recognition and measurement

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

Interest on available-for-sale securities calculated using the effective interest method is recognised in the consolidated income statement as part of other income. Dividends on available-for-sale equity instruments are recognised in the consolidated income statement as part of other income when the Group's right to receive payments is established.

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

(h) 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 a group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisations, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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 or held-to-maturity investment 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)*

(h) 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 profit or loss. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the 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 consolidated income statement.

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

(i) 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.

(j) 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.

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

(k) 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.

(l) 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 subsequent measured at amortised cost using the effective interest method.

(m) 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. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(i) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's 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.

(ii) Deferred income tax

Inside basis differences

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 tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

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

(ii) Deferred income tax *(Continued)*

Inside basis differences (Continued)

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.

Outside basis differences

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.

(iii) Offsetting

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.

(n) Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

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

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

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

(o) 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 expenses 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 a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

— including any market performance conditions (for example, an entity's share price);

— excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and

— including the impact of any non-vesting conditions (for example, the requirement for employees to save).

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

(o) Employee benefits *(Continued)*

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

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date. At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

When the options are exercised, the company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

(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.

(p) Income recognition

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

Interest income is recognised using the effective interest method. When loans and other receivables are impaired, the Group reduces the carrying amounts to their recoverable amounts, 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 other receivables are recognised using the original effective interest rate.

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

(q) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

(r) Exceptional items

Exceptional items are disclosed and described separately in the financial statements where it is necessary to do so to provide further understanding of the financial performance of the Group. They are material items of income or expense that have been shown separately due to the significance of their nature or amount.

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%.

3. Financial Risk Management *(Continued)*

(a) Financial risk factors *(Continued)*

(i) Market risk *(Continued)*

(2) Price risk

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

If the securities price of the respective investments held by the Group as available-for-sale financial assets and financial assets at fair value through profit or loss were higher or lower by 15% as at 31 December 2011 (2010: 15%), the Group's investment revaluation reserve would increase or decrease by approximately US$9,917,000 (2010: US$15,017,000) and "other (losses)/gains" in the consolidated income statement for the year ended 31 December 2011 would increase or decrease by US$2,011,000 (2010: US$1,301,000) 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 2011 was the amount for the whole year, if the interest rate was 20 (2010: 20) basis points higher or lower and all other variables were held constant, the Group's profit or loss would increase or decrease by approximately US$9,000 (2010: US$37,000).

(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 2010 and 2011, all the bank deposits are deposited with major banks in Hong Kong and the 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) 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 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, taking into account current and future activities within a time frame.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as 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 2010 and 2011, the Group had no bank borrowings and, accordingly, the gearing ratio for both years is 0%.

3. Financial Risk Management *(Continued)*

(c) 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).

— 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 31 December 2011.

	Level 1	**Level 3**	**Total**
	US$	*US$*	*US$*
Financial assets at fair value through profit or loss			
— listed securities	3,689,284	—	3,689,284
— convertible bond	—	2,401,538	2,401,538
— unlisted securities	—	7,317,557	7,317,557
Available-for-sale financial assets			
— listed securities	49,545,911	—	49,545,911
— unlisted, quoted securities	9,755,294	—	9,755,294
— private investment fund	—	6,814,015	6,814,015
	62,990,489	16,533,110	79,523,599

3. Financial Risk Management *(Continued)*

(c) 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 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)*

(c) Fair value estimation *(Continued)*

The following table presents the changes in level 3 instruments for the year ended 31 December 2011.

	Private investment fund	Unlisted securities	Convertible bond	Total
	US$	*US$*	*US$*	*US$*
Opening balance	2,281,439	—	3,751,527	6,032,966
Addition	1,372,956	7,317,557	—	8,690,513
Losses recognised in the consolidated income statement	—	—	(1,349,989)	(1,349,989)
Gains recognised in investment revaluation reserve	3,159,620	—	—	3,159,620
Closing balance	6,814,015	7,317,557	2,401,538	16,533,110

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 the consolidated 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

4. Critical Accounting Estimates and Judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

(a) Estimated impairment of loans and other receivables

Provision for impairment of loans and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. In determining whether any of the loans and other receivables is impaired, significant judgement is required. In making this judgement, the Group evaluates, among other factors, the duration and extent by all means to which the amount will be recovered. Based on the management's estimation, adequate impairment provision has been made on loans and other receivables. 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 and other receivables in the period in which such determination is made.

(b) Estimated impairment of investments in associates

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

(c) 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 end of the reporting period.

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 the end of each reporting period.

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

(d) Income taxes

The Group is subject to income taxes in various jurisdictions, mainly in Hong Kong and the Mainland China. Significant judgement is required in determining the amount of the provision for income taxes and the timing of the related payments. There are many transactions and calculations for which the ultimate tax determination is uncertain. 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 current and deferred income tax liabilities in the period in which such determination is made.

(e) 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.

5. Investment Management Fee

Pursuant to a management agreement ("Management Agreement") dated 28 March 1991 and subsequently amended on 8 April 1992, 11 October 1994 and 15 September 2011, China Assets Investment Management Limited ("CAIML") (Note 26(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 2011 amounted to US$1,969,435 (2010: US$1,660,253).

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 2011 (2010: Nil).

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 year is as follows:

	2011 US$	2010 US$
Income		
Bank interest income	**353,411**	244,235
Loan interest income	**1,848,973**	1,060,532
Dividend income from listed investments	**218,230**	207,321
	2,420,614	1,512,088

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:

	2011 US$	2010 US$
Income		
Hong Kong	**2,156,575**	1,244,967
Mainland China	**264,039**	267,121
	2,420,614	1,512,088

6. 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:

	2011	2010
	US$	US$
Non-current assets, other than available-for-sale financial assets		
Hong Kong	**55,345,629**	56,427,526
Mainland China	**11,513,379**	1,520,959
	66,859,008	57,948,485

7. Other (losses)/gains — Net

	2011	2010
	US$	US$
Gains on disposal of available-for-sale financial assets	**818,868**	7,138,277
Net realised gains on disposal of financial assets at fair value through profit or loss	**193,978**	285,531
Net unrealised fair value (losses)/gains on financial assets at fair value through profit or loss	**(2,112,529)**	1,082,344
Net exchange gains	**712,323**	365,958
	(387,360)	8,872,110

8. Other income/(expenses) — Net

	2011	2010
	US$	US$
Impairment of loans and other receivables	**—**	(6,906,738)
Reverse of provision for impairment on loans and other receivables	**—**	780,127
Reverse of provision for impairment of an amount due from an associate	**65,460**	—
	65,460	(6,126,611)

9. Administrative Expenses

Expenses included in administrative expenses are analysed as follows:

	2011	2010
	US$	*US$*
Investment management fee *(Note 5)*	**1,969,435**	1,660,253
Employee benefit expenses (including directors' remuneration) *(Note 10)*	**180,554**	161,764
Auditor's remuneration	**148,763**	158,170
Other expenses	**400,800**	309,060
	2,699,552	2,289,247

10. Employee Benefit Expenses (Including Directors' Remuneration)

	2011	2010
	US$	*US$*
Wages and salaries	**179,057**	160,440
Pension costs — defined contribution plan	**1,497**	1,324
	180,554	161,764

10. 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 2011 and 2010 is set out below:

	2011	2010
	Directors' fee	Directors' fee
	HK$	*HK$*
Executive directors		
Mr. Lo Yuen Yat	**84,000**	84,000
Mr. Xu Xiao Feng	**48,904**	84,000
Mr. Chan Suit Khown	**84,000**	—
Mr. Lao Yuan Yuan	**84,000**	84,000
Non-executive directors		
Mr. Jiang Wei	**84,000**	84,000
Mr. Yeung Wai Kin	**138,600**	138,600
Mr. Zhao Yu Qiao	**84,000**	84,000
Independent non-executive directors		
Mr. Fan Jia Yan	**194,250**	194,250
Mr. Wu Ming Yu	**159,600**	159,600
Dr. David William Maguire	**105,000**	105,000
	1,066,354	1,017,450
Equivalent to United States dollars	**137,296**	130,722

10. 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 (2010: four) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (2010: one) individual during the year are as follows:

	2011	2010
	US$	*US$*
Basic salaries, housing allowances, other allowances and benefits in kind	**41,760**	29,718
Pension costs — defined contribution plan	**1,497**	1,324
	43,257	31,042

The emoluments payable to the remaining employee in 2011 and 2010 fell within the band of HK$nil to HK$1,000,000.

11. Income Tax 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 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.

	2011	2010
	US$	*US$*
Current tax:		
— Current tax on profits for the year	**153,448**	789,925
— Adjustments in respect of prior years	**(20,459)**	283
Total current tax	**132,989**	790,208
Income tax expense	**132,989**	790,208

11. Income Tax Expense *(Continued)*

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

	2011	2010
	US$	*US$*
(Loss)/profit before tax	**(1,696,893)**	4,888,652
Less: share of loss/(profit) of associates	**1,096,055**	(2,920,312)
	(600,838)	1,968,340
Calculated at income tax rate of 16.5% (2010: 16.5%)	**(99,138)**	324,776
Effect of different income tax rates in other countries	**18,309**	19,026
Income not subject to tax	**(220,554)**	(2,061,182)
Expenses not deductible for tax purposes	**454,831**	1,836,898
Utilisation of previously unrecognised tax loss	**—**	(43,421)
Adjustments in respect of prior years	**(20,459)**	283
Corporate withholding income tax	**—**	713,828
Tax charge	**132,989**	790,208

12. Profit/(Loss) for the Year Attributable to Equity Holders of the Company

The profit for the year attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of US$1,597,076 (2010: loss of US$2,140,438).

13. (Losses)/Earnings Per Share

The basic losses per share is calculated by dividing the Group's loss for the year attributable to equity holders of the Company of US$1,829,882 (2010: profit of US$4,098,444) by the weighted average number of 76,723,635 (2010: 76,558,160) ordinary shares in issue during the year.

For the year ended 31 December 2010, the Company had share options outstanding which were dilutive potential ordinary shares. Calculation was done 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 was calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of 765,602 dilutive potential ordinary shares.

For the year ended 31 December 2011, the conversion of all potential ordinary shares from the share options granted by the Company would have an anti-dilutive effect on the losses per share.

14. Investments in Subsidiaries

	Company	
	2011	2010
	US$	*US$*
Unlisted shares, at cost *(Note c)*	**140,151**	140,151
Amounts due from subsidiaries *(Note a)*	**33,192,669**	34,275,005
Less: provision for doubtful debts *(Note b)*	**(12,759,269)**	(12,759,269)
	20,433,400	21,515,736
	20,573,551	21,655,887

(a) The amounts due from subsidiaries are unsecured, interest-free, quasi-equity in nature and denominated in the following currencies:

	2011	2010
	US$	*US$*
Renminbi	**18,234,700**	19,317,036
US Dollars	**14,957,969**	14,957,969
	33,192,669	34,275,005

(b) The amounts due from subsidiaries were past due and were fully provided in 2007 and 2008.

14. Investments in Subsidiaries *(Continued)*

(c) The following is a list of subsidiaries held directly by the Company at 31 December 2011:

Name	Place of incorporation	Principal activities	Particulars of issued share capital	Interest held 2011	Interest held 2010
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.

15. Investments in Associates

	Group 2011 US$	Group 2010 US$
As at 1 January	**65,992,038**	62,423,070
Increase in investment in an associate	**10,233,521**	1,520,959
Share of associates' (losses)/profits	**(1,096,055)**	2,920,312
Share of associates' reserves	**(468,949)**	(278,904)
Write off on interest in a fully impaired associate	**(8,043,553)**	—
Dividend received	**(318,266)**	(381,757)
Exchange differences	**560,272**	(211,642)
As at 31 December	**66,859,008**	65,992,038
Provision for impairment loss	**—**	(8,043,553)
	66,859,008	57,948,485
Amount due from an associate *(Note)*	**—**	1,977,246
Provision for impairment loss	**—**	(1,977,246)
	66,859,008	57,948,485

	Company 2011 US$	Company 2010 US$
Shares listed in Hong Kong, at cost	**13,770,330**	13,770,330
Unlisted investments, at cost	**4,585,627**	735,627
	18,355,957	14,505,957
Provision for impairment loss	**(735,627)**	(735,627)
	17,620,330	13,770,330

Note: As at 31 December 2010, the amount due from an associate was 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 provided in 2010.

During the year, provision for impairment loss of US$65,460 is reversed and recognised in "other income/(expenses)-net" in the consolidated income statement. The remaining provision is fully written off during the year.

15. Investments in Associates *(Continued)*

(a) The following is a list of associates held directly/indirectly by the Company at 31 December 2011:

Name	Particulars of issued shares held	Place of incorporation	Principal activities	Interest held	
				2011	2010
First Shanghai Investments Limited ("FSIL") *(see note i below)*	Ordinary shares of 247,674,500 of HK$0.2 each	Hong Kong	Investment holding	**17.705%**	17.705%
iMedia Holdings Limited ("iMedia") *(see note ii below)*	Series A Preferred shares of 3,259,215 of US$0.001 each	Cayman Islands	Provision of multi-media content and digital magazines	**N/A**	40%*
Smartbuy Group Holdings Limited ("Smartbuy") *(see note 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	**N/A**	17.65%*
Hong Kong Strong Profit Limited ("HKSP") *(See note 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 v below)*	RMB 50,000,000	People's Republic of China	Provision of medical service	**25%***	20%*
Goldeneye Interactive Limited ("Goldeneye") *(See note vi below)*	Series B Preferred share of 9,574,330 of US$0.001 each	Cayman Islands	Provision of online real estate information	**22.37%**	—

* Held indirectly by the Company

15. Investments in Associates *(Continued)*

(a) The following is a list of associates held directly/indirectly by the Company at 31 December 2011: *(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 (2010: 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 operations and management decisions. The market value of the listed security as at 31 December 2011 was approximately US$19,133,000 (2010: US$36,913,000).

(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, and was fully written off during the year.

(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. Full provision for impairment losses was made against this investment in 2008, and was fully written off during the year.

(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.

(vi) Goldeneye is a company registered in the Cayman Islands with total authorised capital of US$80,000 divided into 54,428,862 ordinary shares, 8,163,265 Series A preferred shares and 17,407,873 Series B preferred shares of a par value of US$0.001 each.

The above investments of Notes (i), (iv), (v) and (vi) are regarded by the directors as associates as the Company is able to exercise significant influence over these investments.

15. Investments in Associates *(Continued)*

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

	Assets	Liabilities	Revenue	(Loss)/ profit before income tax
	US$'000	*US$'000*	*US$'000*	*US$'000*
Year 2011				
FSIL	**376,611**	**23,391**	**36,747**	**(1,422)**
SIMC	**31,628**	**6**	**—**	**(154)**
Goldeneye	**3,413**	**18**	**200**	**(1,899)**
Year 2010				
FSIL	608,107	238,118	37,504	21,250
SIMC	7,605	405	—	—

16. Available-for-sale Financial Assets

	Group		Company	
	2011	2010	**2011**	2010
	US$	*US$*	***US$***	*US$*
As at 1 January	**100,112,754**	85,601,256	**91,974,864**	77,372,425
Additions	**1,372,956**	2,205,299	**1,372,956**	2,205,299
Disposals	**(5,336,163)**	(7,144,151)	**(5,336,163)**	(7,144,151)
Fair value change transfer to other comprehensive income	**(30,398,184)**	19,135,955	**(28,921,381)**	19,541,291
Exchange differences	**363,857**	314,395	**—**	—
As at 31 December	**66,115,220**	100,112,754	**59,090,276**	91,974,864

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

Available-for-sale financial assets include the following:

	Group		Company	
	2011	2010	**2011**	2010
	US$	*US$*	***US$***	*US$*
Listed equity securities				
— Canada	**26,153**	40,176	**26,153**	40,176
— Mainland China	**49,519,758**	86,622,151	**49,519,758**	86,622,151
Unlisted equity securities	**9,755,294**	11,168,988	**2,730,350**	3,031,098
Private investment fund	**6,814,015**	2,281,439	**6,814,015**	2,281,439
	66,115,220	100,112,754	**59,090,276**	91,974,864
Market value of listed securities	**49,519,758**	86,662,327	**49,519,758**	86,662,327

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

	Group		Company	
	2011	2010	**2011**	2010
	US$	*US$*	***US$***	*US$*
Canadian dollars	**26,153**	40,176	**26,153**	40,176
Hong Kong dollars	**6,964,940**	14,517,222	**6,964,940**	14,517,222
Renminbi	**59,124,127**	85,555,356	**52,099,183**	77,417,466
	66,115,220	100,112,754	**59,090,276**	91,974,864

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

Movements in the provision for impairment of available-for-sale financial assets are as follows:

	Group and Company	
	2011	2010
	US$	*US$*
As at 1 January	**9,700,528**	9,644,996
Written off during the year as unrecoverable	**(1,710,000)**	—
Exchange difference	**(23,327)**	55,532
As at 31 December	**7,967,201**	9,700,528

At 31 December 2011, the carrying amount of interest in the following company exceeded 10% of total assets of the Company and the Group.

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

Name	Place of incorporation	Principal activities	Particulars of issued share capital held	Interest held 2011	Interest held 2010
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%**	9.98%

\# As at 31 December 2011 and 2010, 52,548,544 shares were floating shares and 5,501,322 were non-floating shares, of which disposal were restricted.

17. Loans receivable

Loans receivable are denominated in the following currencies:

	Group 2011 US$	Group 2010 US$	Company 2011 US$	Company 2010 US$
Renminbi	**6,831,903**	13,685,167	**6,831,903**	6,540,123
US dollars	**500,000**	1,000,000	**500,000**	1,000,000
Loans receivable — gross	**7,331,903**	14,685,167	**7,331,903**	7,540,123
Provision for impairment on a loan receivable	**—**	(6,719,176)	**—**	—
Loans receivable — net	**7,331,903**	7,965,991	**7,331,903**	7,540,123

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

	Group 2011 RMB	Group 2011 US$	Group 2010 RMB	Group 2010 US$	Company 2011 RMB	Company 2011 US$	Company 2010 RMB	Company 2010 US$
Loans receivable	**23.00%**	**7.42%**	13.56%	7.05%	**23.00%**	**7.42%**	24.03%	7.05%

The carrying amounts of loans receivable approximate to their fair values as at 31 December 2011. The maximum exposure to credit risk at the reporting date is the fair values (i.e. their carrying amounts) of the loans receivable. The loans receivable are secured by certain assets of the borrowers as stipulated in the respective loan agreements.

17. Loans Receivable *(Continued)*

As at 31 December 2011 and 2010, the ageing analysis of the loans receivable was as follows:

	Group		Company	
	2011	2010	**2011**	2010
	US$	*US$*	***US$***	*US$*
Current	**500,000**	14,685,167	**500,000**	7,540,123
Past due over 6 months	**6,831,903**	—	**6,831,903**	—
	7,331,903	14,685,167	**7,331,903**	7,540,123

As at 31 December 2011, loan receivable of US$6,831,903 was past due but not impaired. This relates to a loan secured by an asset of which its market value is sufficient to cover the past due balance.

Movements in the provision for impairment of loans receivable are as follows:

	Group	
	2011	2010
	US$	*US$*
As at 1 January	**6,719,176**	439,023
Provision for impairment of loans receivable	**—**	6,525,634
Reverse of impairment provision	**—**	(456,287)
Written off during the year as uncollectible	**(6,834,879)**	—
Exchange difference	**115,703**	210,806
As at 31 December	**—**	6,719,176

The charge and release of provision for impairment of loans receivable have been included in "other income/(expenses) — net" and in the consolidated income statement (Note 8).

18. Other Receivables, Prepayments and Deposits

	Group		Company	
	2011	2010	**2011**	2010
	US$	*US$*	***US$***	*US$*
Other receivables	**4,766,465**	4,362,624	**2,160,675**	1,190,686
Prepayments	**5,422**	23,297	**5,422**	23,297
Deposits	**55**	55	**55**	55
	4,771,942	4,385,976	**2,166,152**	1,214,038
Provision of impairment of other receivables	**(2,542,104)**	(2,825,941)	**—**	—
	2,229,838	1,560,035	**2,166,152**	1,214,038

Other receivables and deposits are interest-free, except for interest receivable of US$2,137,000 (2010: US$1,052,000) bearing effective interest rate of 23% (2010: Nil) per annum. The balances 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 approximate to their carrying amounts.

Other receivables, prepayments and deposits are denominated in the following currencies:

	Group		Company	
	2011	2010	**2011**	2010
	US$	*US$*	***US$***	*US$*
Renminbi	**4,742,949**	4,223,775	**2,137,159**	1,051,837
HK dollars	**8,808**	139,186	**8,808**	139,186
US dollars	**20,185**	23,015	**20,185**	23,015
	4,771,942	4,385,976	**2,166,152**	1,214,038

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

	Group	
	2011	2010
	US$	*US$*
As at 1 January	**2,825,941**	2,501,291
Provision for doubtful debt	**—**	381,104
Reverse of impairment provision	**—**	(323,840)
Written off during the year as uncollectible	**(399,165)**	—
Exchange difference	**115,328**	267,386
As at 31 December	**2,542,104**	2,825,941

The charge and release of provision for impairment of other receivables have been included in "other income/(expenses) — net" in the consolidated income statement (Note 8).

19. Financial Assets at Fair Value through Profit or Loss

	Group		Company	
	2011	2010	**2011**	2010
	US$	*US$*	***US$***	*US$*
Listed equity securities held for trading:				
— Hong Kong	**3,689,284**	4,451,824	**3,689,284**	4,451,824
— United States	**—**	470,684	**—**	—
Convertible note	**2,401,538**	3,751,527	**—**	—
Unlisted securities	**7,317,557**	—	**7,317,557**	—
	13,408,379	8,674,035	**11,006,841**	4,451,824
Market value of listed securities	**3,689,284**	4,922,508	**3,689,284**	4,451,824

Changes in fair values of these financial assets are recorded in "other (losses)/gains — net" in the consolidated income statement (Note 7).

Financial assets at fair value through profit or loss are presented within the section on "operating activities" as part of working capital changes in the statement of cash flows (Note 24).

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

20. Cash and Cash Equivalents

	Group		Company	
	2011	2010	**2011**	2010
	US$	*US$*	***US$***	*US$*
Cash at bank and on hand	**14,035,213**	12,383,628	**8,962,487**	11,108,605
Short-term bank deposits	**4,646,779**	17,864,261	**1,420,685**	4,054,015
	18,681,992	30,247,889	**10,383,172**	15,162,620
Maximum exposure to credit risk	**18,681,820**	30,247,534	**10,383,172**	15,162,620

20. Cash and Cash Equivalents *(Continued)*

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

	Group		Company	
	2011	2010	**2011**	2010
Short-term bank deposits	**0.29%-3.10%**	0.29%-2.25%	**0.29%-0.70%**	0.29%-0.35%

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

	Group		Company	
	2011	2010	**2011**	2010
	US$	*US$*	***US$***	*US$*
US dollars	**178,334**	5,036,750	**6,961**	4,855,907
HK dollars	**1,805,814**	2,307,590	**1,805,814**	2,307,590
Renminbi	**16,697,844**	22,903,549	**8,570,397**	7,999,123
	18,681,992	30,247,889	**10,383,172**	15,162,620

Renminbi is not a freely convertible currency.

21. Share Capital and Premium

	Group and Company	
	2011	2010
	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 1 January 2010 and 31 December 2010	76,558,160	7,655,816	69,059,844	76,715,660
Issue of shares upon exercise of share options	200,000	20,000	48,038	68,038
As at 31 December 2011	76,758,160	7,675,816	69,107,882	76,783,698

21. Share Capital and Premium *(Continued)*

Share options

Share options were granted to certain directors of the Company and employees of CAIML as incentives and rewards for their contributions 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)
As at 1 January 2010 and 31 December 2010	5.01	7,475
Options lapsed during the year	5.74	(300)
Options exercised during the year	2.65	(200)
As at 31 December 2011	5.05	6,975

During the year, 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. The related weighted average share price at the time of exercise in 2010 was HK$5.01 per share.

22. 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 2010	69,059,844	8,304,329	698,575	1,927,373	43,380,226	52,452,543	175,822,890
Comprehensive income							
Profit for the year attributable to equity holders of the Company	—	—	—	—	—	4,098,444	4,098,444
Other comprehensive income							
Share of post-acquisition reserves of associates	—	(278,904)	—	—	—	—	(278,904)
Exchange differences 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)
Total other comprehensive income for the year, net of tax	—	(278,904)	458,830	—	9,687,448	—	9,867,374
Total comprehensive income for the year ended 31 December 2010	—	(278,904)	458,830	—	9,687,448	4,098,444	13,965,818
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

22. Reserves *(Continued)*

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 2011	69,059,844	8,025,425	1,157,405	1,927,373	53,067,674	56,550,987	189,788,708
Comprehensive loss							
Loss for the year attributable to equity holders of the Company	—	—	—	—	—	(1,829,882)	(1,829,882)
Other comprehensive loss							
Share of post-acquisition reserves of associates	—	(468,949)	—	—	—	—	(468,949)
Exchange differences arising on translation of associates and subsidiaries	—	—	1,505,598	—	—	—	1,505,598
Release of capital reserve upon write-off of associates	—	(189,096)	—	—	—	189,096	—
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	—	—	—	—	(30,398,184)	—	(30,398,184)
Deferred income tax on fair value losses of available-for-sale financial assets	—	—	—	—	2,939,747	—	2,939,747
Total other comprehensive loss for the year, net of tax	—	(658,045)	1,505,598	—	(28,127,893)	189,096	(27,091,244)
Total comprehensive loss for the year ended 31 December 2011	—	(658,045)	1,505,598	—	(28,127,893)	(1,640,786)	(28,921,126)
Total contributions by and distributions to equity holders of the Company recognised directly in equity							
Employees share option scheme:							
— issue of new shares upon exercise of share options	48,038	—	—	—	—	—	48,038
— transfer of reserve upon lapse of share options	—	—	—	(100,998)	—	100,998	—
Total contributions by and distribution to equity holders of the Company	48,038	—	—	(100,998)	—	100,998	48,038
As at 31 December 2011	69,107,882	7,367,380	2,663,003	1,826,375	24,939,781	55,011,199	160,915,620

22. Reserves *(Continued)*

Company

	Share premium US$	Exchange translation reserves US$	Share-based compensation reserve US$	Investment revaluation reserve US$	Retained earnings US$	Total US$
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
As at 1 January 2011	**69,059,844**	**865,173**	**1,927,373**	**62,996,502**	**4,807,066**	**139,655,958**
Profit for the year	**—**	**—**	**—**	**—**	**1,597,076**	**1,597,076**
Exchange difference arising on translation of subsidiaries	**—**	**784,696**	**—**	**—**	**—**	**784,696**
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	**—**	**—**	**—**	**(28,921,381)**	**—**	**(28,921,381)**
Deferred income tax on fair value losses of available-for-sale financial assets	**—**	**—**	**—**	**2,661,511**	**—**	**2,661,511**
Employees share option scheme:						
— issue of new shares upon exercise of share options	**48,038**	**—**	**—**	**—**	**—**	**48,038**
— transfer of reserve upon lapse of share options	**—**	**—**	**(100,998)**	**—**	**100,998**	**—**
As at 31 December 2011	**69,107,882**	**1,649,869**	**1,826,375**	**36,067,176**	**6,505,140**	**115,156,442**

23. Deferred Income Tax Liabilities

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

	Group		Company	
	2011	2010	**2011**	2010
	US$	*US$*	***US$***	*US$*
As at 1 January	**6,937,960**	3,513,383	**6,638,596**	3,191,284
(Credited)/charged to investment revaluation reserve	**(2,939,747)**	3,424,577	**(2,661,510)**	3,447,312
As at 31 December	**3,998,213**	6,937,960	**3,977,086**	6,638,596

Deferred income tax liabilities represent 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. As at 31 December 2010, the Group did not recognise deferred income tax assets of US$56,709 in respect of losses amounting to US$343,690 that can be carried forward against future taxable income. Such loss has no expiry date. As at 31 December 2011, the Group has no tax losses carry forwards.

Deferred income tax liabilities of US$52,285 (2010: US$43,426) 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 2011, total unremitted earnings amounted to US$1,045,691 (2010: US$868,524).

24. Cash Used in Operations

	2011	2010
	US$	*US$*
(Loss)/profit before income tax	**(1,696,893)**	4,888,652
Adjustments for:		
Share of losses/(profits) of associates	**1,096,055**	(2,920,312)
Bank interest income	**(353,411)**	(244,235)
Loan interest income	**(1,848,973)**	(1,060,532)
Dividend income from listed investments	**(218,230)**	(207,321)
Net realised gain on disposal of available-for-sale financial assets	**(818,868)**	(7,138,277)
Net realised gains on disposal of financial assets at fair value through profit or loss	**(193,978)**	(285,531)
Net unrealised fair value losses/(gains) on financial assets at fair value through profit or loss	**2,112,529**	(1,082,344)
(Reversal of provision)/provision for impairment, net	**(65,460)**	6,126,611
Changes in working capital:		
Amount due from an associate	**65,460**	—
Loans receivable	**933,202**	(4,598,475)
Other receivables, prepayments and deposits	**(669,803)**	(865,813)
Financial assets at fair value through profit or loss	**(6,652,895)**	(212,217)
Accounts payable	**(5,032)**	8,069
Accrued expenses	**6,862**	7,083
Amounts due to related companies	**2,564**	(1,553)
Cash used in operations	**(8,306,871)**	(7,586,195)

25. Capital commitments

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

	Group		Company	
	2011	2010	**2011**	2010
	US$	*US$*	***US$***	*US$*
Investments in associates	**4,374,817**	6,083,835	**2,388,799**	—
Available-for-sale financial asset	**953,289**	2,281,439	**953,289**	2,281,438
	5,328,106	8,365,274	**3,342,088**	2,281,438

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

	2011	2010
	US$	*US$*
Contracted but not provided for	**7,813,084**	8,156,998
Authorised but not contracted	**13,076,757**	13,320,501

26. Related Party Transactions

(a) Transactions with related parties

	2011	2010
	US$	*US$*
Management fee paid/payable to:		
China Assets Investment Management Limited ("CAIML")	**1,969,435**	1,660,253

Note: The Company has appointed CAIML as the investment manager for all investments. Lo Yuen Yat, the Chairman and an executive director of the Company, is a director of CAIML. Xu Xiao Feng, an executive director until 21 October, 2011, is a director and shareholder of CAIML. Ms. Lao Yuan Yuan, an executive director, was a director of CAIML until 21 October, 2011. Yeung Wai Kin, an non-executive director, is a shareholder and was a director of CAIML until 21 October, 2011. Mr. Zhao Yu Qiao, an non-executive director, is an indirect shareholder of CAIML.

26. Related Party Transactions *(Continued)*

(b) Key management compensation

	2011	2010
	US$	*US$*
Salaries and other short-term employee benefits	**179,057**	160,440
Pension costs — defined contribution plan	**1,497**	1,324
	180,554	161,764

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

	Group		**Company**	
	2011	2010	**2011**	2010
	US$	*US$*	***US$***	*US$*
Amount due to an associate	**298,276**	299,147	**298,276**	299,147
Amount due to a related company	**12,333**	8,898	**12,333**	8,898
Amounts due to related companies	**310,609**	308,045	**310,609**	308,045
Amounts due to subsidiaries	**—**	—	**62,110**	499,290
	310,609	308,045	**372,719**	807,335

The amount due to a related company represents a management fee payable to CAIML.

Five Year Financial Summary

	2011	2010	2009	2008	2007
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Consolidated income statement					
Income	**2,421**	1,512	1,168	5,004	1,393
(Loss)/profit for the year attributable to equity holders of the Company	**(1,830)**	4,098	7,629	(19,474)	9,422
Consolidated balance sheet					
Investments in associates	**66,859**	57,948	54,380	49,264	65,243
Available-for-sale financial assets	**66,115**	100,113	85,601	38,144	86,256
Other non-current assets	**—**	—	6,471	6,294	—
Current assets	**41,652**	48,448	41,889	48,359	58,305
	174,626	206,509	188,341	142,061	209,804
Current liabilities	**(2,037)**	(2,126)	(1,349)	(1,380)	(929)
Deferred income tax liabilities	**(3,998)**	(6,938)	(3,513)	(1,206)	(5,460)
	168,591	197,445	183,479	139,475	203,415
Financed by:					
Share capital	**7,676**	7,656	7,656	7,656	7,656
Reserves	**160,915**	189,789	175,823	131,819	195,759
	168,591	197,445	183,479	139,475	203,415